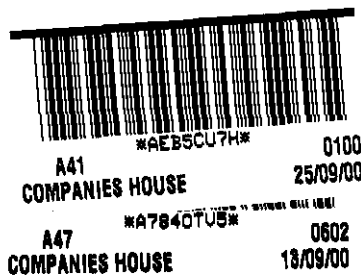


Registered Number: 1416463

**EAGLE STAR HOLDINGS LIMITED  
CONSOLIDATED REPORT AND ACCOUNTS  
31 DECEMBER 1999**



**RE-SCAN**

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# EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)

## Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 1999.

### Principal activity

The principal activity of the Company is that of an investment holding company. Its main subsidiary undertakings are Eagle Star Life Assurance Company Limited and Eagle Star Insurance Company Limited. These companies and their subsidiary undertakings carry on all classes of insurance business, except industrial life assurance, in the United Kingdom and overseas. Complementary to these activities, the Group engages in the provision of other financial services.

Pursuant to a written resolution dated 11<sup>th</sup> November 1999, the company re-registered and changed its name from Eagle Star Holdings p.l.c. To Eagle Star Holdings Limited.

### Business changes

During the year, the Group disposed of its interest in Eagle Star Reinsurance Company Limited and full details are included in note 2 to the accounts. The external borrowing facilities of the Company and its parent were restructured and borrowings, other than overdrafts with banks, were transferred to the parent company, Zurich Financial Services (UKISA) Limited.

### Summary of Group Profit/Loss

A summary of the Group profit/(loss) for the year is as follows:

	1999	1998
	£m	£m
General business technical result	(237.5)	(582.1)
Pre-tax profit on long-term business	129.8	95.4
Investment return	276.1	425.9
Other income	16.6	23.3
Other charges	(13.0)	(10.0)
Restructuring costs	(46.1)	(77.9)
Profit/(loss) before taxation	125.9	(125.4)

The directors expect that the present level of activity of the long-term insurance operations will continue for the foreseeable future. The allocation of general insurance business between that undertaken by the Group and that undertaken by the UK branch of Zurich Insurance Company, a fellow subsidiary of the Company's ultimate parent, is subject to review and this may result in a change in the future new business volumes written by the Group.

# **EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)**

## **Directors' Report (continued)**

### **Dividends**

No interim ordinary dividends were paid in 1999 (1998: £67.6m). The Directors do not recommend a final dividend (1998: nil).

No dividends (1998: US \$12.5m) in respect of the 'A' preference shares and the 'B' preference shares were declared and paid for the period. The dividends applicable to the 'A' and 'B' preference shares for quarters subsequent to 30<sup>th</sup> June 1998 have not been declared nor paid and are in arrears, but as these are of a cumulative nature the full amount of the dividend is recognised in the profit and loss account (see note 11).

### **Directors**

The Directors who held office during the year unless otherwise shown were:

A P Leitch	
P H O'Sullivan	
B M Thomas	(appointed 1 <sup>st</sup> February 1999)
P V S Manduca	(resigned 22 <sup>nd</sup> February 1999)

### **Directors' Interests**

The Company is a subsidiary of Zurich Financial Services, a company incorporated in Switzerland, which is owned 57% by Zurich Allied AG, incorporated in Switzerland, and 43% by Allied Zurich p.l.c. incorporated in England and Wales.

Neither Zurich Allied AG nor Allied Zurich p.l.c. falls within the definition of a holding company in Section 736, Companies Act 1985. None of the directors is interested in any shares or debentures of Zurich Financial Services.

### **Employee Involvement**

During 1999, the Group continued to implement 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 the performance of the Group. 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 grown considerably throughout the year.

The Group issues business unit specific monthly employee magazines and operates a PC based news information service. The more extensive use of Chief Executive roadshows where staff have the opportunity to meet and discuss matters of general importance with senior management has also been a feature of the communication and consultation process across the Group during 1999.

The Group operates bonus schemes based on the performance of the various businesses as well as rewarding individual contribution.

### **Employee share schemes**

The Board recognises the importance of the involvement of employees through employee share schemes which encourage awareness of the Group's financial performance and participation in the success of the Group.

# **EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)**

## **Directors' Report (continued)**

In 1999, the Group launched its Sharesave Option Scheme under which employees can save up to £250 a month over a three and/or five year period which they then use to acquire shares in Allied Zurich p.l.c. In February 1999, the option price of 690.8p was set at a 20% discount to the market price of Allied Zurich p.l.c. shares.

A Share Participation Scheme based on UK business unit performance was launched in January 2000.

### **Employment of Disabled Staff in the United Kingdom**

The Group's 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.

The Group's Training Division is 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 1999. The Group's existing workforce is regularly assessed to establish the number of disabled employees currently employed and the nature of their disability. In addition, processes have been established to monitor recruitment and promotion to continue to ensure that the Group attracts applications from both disabled and able-bodied persons and decisions concerning who is offered employment are taken solely on the individual's capability to do a job. We remain satisfied that policy and practice in relation to the recruitment, development and promotion of disabled employees exceeds statutory requirements.

In the event of an existing employee becoming disabled, the Group's policy remains that every effort is made to ensure they remain in employment, to find them suitable alternative employment or, where this is not possible, financial provision is made for such employees through the operation of a permanent health insurance scheme.

### **Creditor payment policy**

In respect of all of its suppliers, it is the Group's policy to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction.
- ensure that those suppliers are made aware of the terms of payment.
- abide by the terms of payment.

The Group's average creditor payment period, calculated by reference to the ratio of trade creditors at 31 December 1999 to amounts invoiced by suppliers during the year was 4 days (1998: 3 days).

### **Year 2000**

In 1996, the Group started a programme to ensure that the Year 2000 date change did not disrupt operations. During 1999, the programme continued in line with expectations. The programme was based on a detailed risk assessment that included such areas as health and safety and continuity planning as well as individual computer systems. As a result of this programme, the Year 2000 date change did not disrupt any of the Group's operations.

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

# **EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)**

## **Directors' Report (continued)**

### **Donations**

During the year, the Group made no political or charitable donations.

### **Auditors**

A resolution to reappoint PricewaterhouseCoopers as the Company's auditors will be proposed at the Annual General Meeting.

### **By order of the Board**



D R Woodward  
Secretary

22 Arlington Street  
London  
SW1A 1RW  
7 September 2000

## **EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)**

### **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 page 6, 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 accounting policies and 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; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

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

The directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

# EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)

## Auditor's Report

### To the Members of Eagle Star Holdings Limited

We have audited the financial statements on pages 7 to 41.

#### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 5 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. 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 misstatement or material inconsistencies with the financial statements.

#### Basis of audit opinion

We conducted our audit in accordance with the 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 and the Group's circumstances, consistently applied and adequately disclosed.

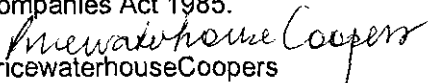
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 requirements for insurance companies to maintain equalisation reserves. The nature of the equalisation reserves, the amount set aside at 31 December 1999, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in note 24.

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1999 and of the result of the Group for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.

  
PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
London

8 September 2000



**EAGLE STAR HOLDINGS LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*For the year ended 31st December*

£m		Notes	1999	1998
<b>TECHNICAL ACCOUNT - GENERAL BUSINESS</b>				
<b>Earned premiums, net of reinsurance</b>				
Gross premiums written	- continuing business	1	1,344.7	1,613.0
Reinsurance assumed	- discontinued business	2	188.5	278.5
		1	1,533.2	1,891.5
Outward reinsurance premiums			(223.8)	(148.7)
Net premiums written			1,309.4	1,742.8
Change in the provision for unearned premiums	- gross		(72.5)	67.8
	- reinsurers' share		21.3	(1.9)
	- net		(51.2)	65.9
<b>Total technical income</b>			<b>1,258.2</b>	<b>1,808.7</b>
<b>Claims incurred, net of reinsurance</b>				
Claims paid	- gross		(1,409.7)	(1,738.6)
	- reinsurers' share		227.5	119.1
	- net		(1,182.2)	(1,619.5)
Change in the provision for claims outstanding	- gross		(2.9)	(709.6)
	- reinsurers' share		79.4	580.2
	- net		76.5	(129.4)
Claims incurred net of reinsurance			(1,105.7)	(1,748.9)
Change in other technical provisions, net of reinsurance			(31.5)	(15.5)
Net operating expenses		5	(342.3)	(624.5)
Change in the equalisation provision			(16.2)	(1.9)
<b>Total technical charges</b>			<b>(1,495.7)</b>	<b>(2,390.8)</b>
<b>Balance on the technical account for general business</b>				
	- continuing business		(228.3)	(551.2)
	- discontinued business	2	(9.2)	(30.9)
			(237.5)	(582.1)

**EAGLE STAR HOLDINGS LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
(continued)

*For the year ended 31st December*

£m	Notes	1999	1998
<b>TECHNICAL ACCOUNT - LONG TERM BUSINESS</b>			
<b>- CONTINUING BUSINESS</b>			
<b>Earned premiums, net of reinsurance</b>			
- gross premiums written	1	1,601.6	1,308.2
- outward reinsurance premiums		(22.7)	(170.1)
- net		1,578.9	1,138.1
Investment income	12	1,009.1	924.5
Unrealised gains on investments		192.9	873.9
Other technical income		15.3	15.8
<b>Total technical income</b>		<b>2,796.2</b>	<b>2,952.3</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
- gross amount		(956.1)	(935.6)
- reinsurers' share		36.6	32.3
- net		(919.5)	(903.3)
Change in the provision for claims outstanding			
- gross amount		(25.4)	(5.1)
- reinsurers' share		4.6	2.5
- net		(20.8)	(2.6)
<b>Claims incurred, net of reinsurance</b>		<b>(940.3)</b>	<b>(905.9)</b>
<b>Change in other technical provisions, net of reinsurance</b>			
Long term business provision			
- gross amount		(410.0)	(1,732.3)
- reinsurers' share		41.6	150.4
- net	25	(368.4)	(1,581.9)
Technical provisions for linked liabilities	25	(876.5)	(565.4)
<b>Change in other technical provisions, net of reinsurance</b>		<b>(1,244.9)</b>	<b>(2,147.3)</b>
Net operating expenses	5	(257.5)	(229.8)
Investment expenses and charges		(43.6)	(54.3)
Tax attributable to long term business	9	(52.8)	(57.2)
Allocated investment return transferred to the non-technical account		-	-
Transfers (to)/from the fund for future appropriations	25	(156.4)	506.2
<b>Total technical charges</b>		<b>(2,695.5)</b>	<b>(2,888.3)</b>
<b>Balance on the long term business technical account</b>		<b>100.7</b>	<b>64.0</b>

**EAGLE STAR HOLDINGS LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
(continued)

*For the year ended 31st December*

£m	Notes	1999	1998
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the general business technical account		(237.5)	(582.1)
Balance on the long term business technical account		100.7	64.0
Tax credit attributable to shareholders' profits on long term business	9	29.1	31.4
<b>Pre-tax profit arising on long term business</b>		<b>129.8</b>	<b>95.4</b>
Investment income	12	267.9	510.4
Unrealised gains on investments		13.9	-
Investment expenses and charges		(7.6)	(17.7)
Unrealised losses on investments		-	(18.2)
Other income		16.6	23.3
Other charges		(13.0)	(10.0)
<b>Profit/(loss) on ordinary activities before tax and exceptional items</b>		<b>170.1</b>	<b>1.1</b>
Profits/(losses) on the sale of operations	3	1.9	(48.6)
Costs of fundamental restructuring	3	(46.1)	(77.9)
<b>Profit/(loss) on ordinary activities before tax</b>		<b>125.9</b>	<b>(125.4)</b>
Tax on profit/(loss) on ordinary activities	9	(7.1)	(31.8)
<b>Profit/(loss) on ordinary activities after tax</b>		<b>118.8</b>	<b>(157.2)</b>
Equity minority interests		(17.2)	6.3
<b>Profit/(loss) attributable to shareholders for the financial year</b>		<b>101.6</b>	<b>(150.9)</b>
Dividends	11	(15.5)	(82.7)
<b>Retained profit/(loss) for the financial year</b>		<b>86.1</b>	<b>(233.6)</b>
<b>Profit/(loss) on ordinary activities before tax and exceptional items</b>			
- continuing business		190.7	(52.9)
- discontinued business	2	(20.6)	54.0
		<b>170.1</b>	<b>1.1</b>

**EAGLE STAR HOLDINGS LIMITED**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

*For the year ended 31st December*

£m	Notes	1999	1998
Profit/(loss) attributable to shareholders		101.6	(150.9)
Exchange loss on translation of overseas subsidiaries		(32.1)	(8.1)
Total recognised gains/(losses) relating to the year		69.5	(159.0)

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

*For the year ended 31st December*

**Group**

£m	Notes	Share Capital	Share Premium Account	P&L Account	Total 1999	Total 1998
Profit attributable to shareholders		-	-	101.6	101.6	(150.9)
Dividends		-	-	(15.5)	(15.5)	(82.7)
Reversal of preference dividends in arrears		-	-	15.5	15.5	7.7
Exchange loss on translation of overseas subsidiaries		-	-	(32.1)	(32.1)	(8.1)
Share issue		-	-	-	-	67.6
Exchange on share capital		6.9	-	-	6.9	(1.1)
Goodwill written back		-	-	-	-	84.1
Net movement in shareholders' funds		6.9	-	69.5	76.4	(83.4)
Shareholders' funds B/F		772.4	1.6	223.9	997.9	1,081.3
<b>Shareholders' funds C/F</b>		<b>779.3</b>	<b>1.6</b>	<b>293.4</b>	<b>1,074.3</b>	<b>997.9</b>

**EAGLE STAR HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEET**

*As at 31st December*

£m	Notes	1999	1998
<b>ASSETS</b>			
<b>Investments</b>			
Land and buildings	13	819.0	765.7
Investment in group undertakings and participating interests	14	-	27.6
Other financial investments	15	12,599.9	12,840.0
Deposits with ceding undertakings		-	13.2
		<u>13,418.9</u>	<u>13,646.5</u>
<b>Assets held to cover linked liabilities</b>			
	17	<u>3,292.1</u>	<u>2,461.8</u>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	24	28.2	53.6
Long term business provision	25	278.8	239.3
Claims outstanding	24	1,199.4	1,038.5
Technical provisions for linked liabilities	25	32.3	45.7
		<u>1,538.7</u>	<u>1,377.1</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations			
- Policyholders		174.6	174.0
- Intermediaries		446.4	482.3
		<u>621.0</u>	<u>656.3</u>
Debtors arising out of reinsurance operations			
Other debtors	18	21.8	224.5
		<u>753.3</u>	<u>410.5</u>
		<u>1,396.1</u>	<u>1,291.3</u>
<b>Other assets</b>			
Tangible assets	19	45.5	58.4
Cash at bank and in hand		186.1	294.9
Other assets	20	8.1	4.7
		<u>239.7</u>	<u>358.0</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		151.4	179.4
Deferred acquisition costs	22	290.3	364.7
Other prepayments and accrued income		118.6	104.4
		<u>560.3</u>	<u>648.5</u>
<b>Total assets</b>		<u>20,445.8</u>	<u>19,783.2</u>

**EAGLE STAR HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
(continued)

As at 31st December

£m	Notes	1999	1998
<b>LIABILITIES</b>			
<b>Shareholders' Funds</b>			
<i>Non-equity interests</i>			
Called up share capital	23	247.2	240.3
Cumulative dividends not yet declared		23.2	7.7
		<u>270.4</u>	<u>248.0</u>
<i>Equity interests</i>			
Called up share capital	23	532.1	532.1
Share premium account		1.6	1.6
Profit and loss account		293.4	223.9
Cumulative dividends due to non-equity shareholders		(23.2)	(7.7)
		<u>803.9</u>	<u>749.9</u>
<b>Total shareholders' funds</b>		<b>1,074.3</b>	<b>997.9</b>
<b>Equity minority interests</b>		<b>65.9</b>	<b>50.5</b>
		<u>1,140.2</u>	<u>1,048.4</u>
<b>Fund for future appropriations</b>	25	<b>675.8</b>	<b>538.9</b>
<b>Technical provisions - gross</b>			
Provision for unearned premiums	24	654.4	898.1
Long term business provision	25	9,663.1	9,369.8
Claims outstanding	24	3,523.6	3,889.6
Equalisation provision	24	34.1	30.0
Other technical provisions	24	48.0	18.9
		<u>13,923.2</u>	<u>14,206.4</u>
<b>Technical provisions for linked liabilities</b>	25	<b>3,242.5</b>	<b>2,473.6</b>
<b>Technical provisions gross</b>		<b>17,165.7</b>	<b>16,680.0</b>
<b>Provisions for other risks and charges</b>	26	<b>193.1</b>	<b>205.4</b>
<b>Deposits received from reinsurers</b>		<b>48.6</b>	<b>64.3</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		214.9	234.8
Creditors arising out of reinsurance operations		3.6	109.8
Amounts owed to credit institutions	27	320.4	242.8
Other creditors including taxation and social security	28	651.1	644.2
		<u>1,190.0</u>	<u>1,231.6</u>
<b>Accruals and deferred income</b>	29	<b>32.4</b>	<b>14.6</b>
<b>Total liabilities</b>		<b>20,445.8</b>	<b>19,783.2</b>

**EAGLE STAR HOLDINGS LIMITED**  
**PARENT COMPANY BALANCE SHEET**

As at 31st December

Amounts in £m	Notes	1999	1998
<b>FIXED ASSETS</b>			
<b>Investments:</b>			
Shares in group undertakings	14	1,544.7	1,203.9
Interest in associated companies	14	-	-
Amounts due from Zurich Financial Services' group undertakings		100.0	100.0
Amounts due from long term funds of subsidiary undertaking		150.0	150.0
		<u>1,794.7</u>	<u>1,453.9</u>
<b>CURRENT ASSETS</b>			
<b>Debtors:</b>			
Amounts due from Zurich Financial Services' group undertakings		209.4	159.0
Amounts due from subsidiary undertakings		238.8	278.6
Amounts due from long term funds of subsidiary undertaking		4.0	3.7
Other debtors	18	3.4	12.9
Other assets		15.5	23.5
Cash at bank and in hand		10.5	-
		<u>481.6</u>	<u>477.7</u>
<b>Creditors: amounts falling due within 1 year:</b>			
Amounts due to Zurich Financial Services' group undertakings		95.5	-
Amounts due to subsidiary undertakings		606.6	448.3
Other borrowings	27	11.3	238.1
Other creditors		-	0.7
		<u>713.4</u>	<u>687.1</u>
<b>NET CURRENT LIABILITIES</b>		<b>(231.8)</b>	<b>(209.4)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,562.9</b>	<b>1,244.5</b>
<b>Creditors: amounts falling due after more than 1 year:</b>			
Amounts due to long term funds of subsidiary undertaking		200.0	200.0
Amounts due to Zurich Financial Services' group undertakings		95.0	95.0
		<u>1,267.9</u>	<u>949.5</u>
<b>Shareholders' funds</b>			
<i>Non-equity interests</i>			
Called up share capital	23	247.2	240.3
Cumulative dividends not yet declared		23.2	7.7
		<u>270.4</u>	<u>248.0</u>
<i>Equity interests</i>			
Called up share capital	23	532.1	532.1
Share premium account		1.6	1.6
Revaluation reserve		576.9	238.7
Profit and loss account		(89.9)	(63.2)
Cumulative dividends due to non-equity shareholders		(23.2)	(7.7)
		<u>997.5</u>	<u>701.5</u>
		<u>1,267.9</u>	<u>949.5</u>

The financial statements on page 7 to 41 were approved by the Board on 7 September 2000 and signed on its behalf by

*Brian Jones*

Director

The notes on pages 14 to 41 form an integral part of the accounts.

# **EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)**

## **Accounting Policies**

### **Basis of Preparation**

The consolidated financial statements have been prepared in compliance with Section 255A 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 December 1998. The balance sheet of the Company has been prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985.

The financial statements have been prepared in accordance with applicable accounting standards. Compliance with Statement of Standard Accounting Practice (SSAP) 19 "Accounting for Investment Properties" requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in the accounting policy note relating to land and buildings below.

As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the parent company is presented. The Group has also taken advantage of the exemption in FRS 1 (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.

As the Group has adopted FRS16 – Current Taxation – dividends no longer include attributable tax credits. Comparative figures have been restated accordingly.

### **Basis of consolidation**

The consolidated financial statements incorporate the assets and liabilities of the Company and its subsidiary undertakings at 31 December 1999 and the results for the year ended on that date. The results of subsidiary undertakings acquired or disposed of are included from the date of acquisition or to the date of disposal.

Goodwill arising on consolidation is capitalised in the balance sheet at cost and amortised through the profit and loss account over its useful economic life on a straight-line basis. The gain or loss on any subsequent disposal of subsidiary undertakings will include any attributable unamortised goodwill.

Prior to 1998, the accounting policy of the Group was to eliminate goodwill against reserves. As permitted under the transitional arrangements of FRS 10 such amounts previously written off to reserves have not been reinstated as an asset, but will be charged to the profit and loss account on disposal of the business to which they relate.

The Group accounts include the Group's share of the results of associated companies which comprise companies in which the Group has a participating interest and over whose operations and financial policy the Group is in a position to exercise influence. The principal associated companies and the Group's interest in their equity voting capital are shown in the notes to the financial statements.

The Group's interests in associated undertakings which are not significant in the context of the consolidated financial statements, are dealt with as investments and carried at net asset value.

The results of subsidiary undertakings attributable to unit linked and other long term business funds are included in the technical account for long term business.



# **EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)**

## **Accounting Policies (continued)**

### **Premiums**

General insurance premiums written reflect business incepted during the year and include estimates for "pipeline" premiums, being premiums for business written up to the year end but not yet booked, less an allowance for cancellations.

All long-term business premiums are accounted for when due other than those in respect of unit linked policies which are accounted for in the same period as the policy liabilities resulting from those premiums are created.

New regular premiums reflect the total premiums receivable in a full year and include recurrent single premium contracts including DSS rebates and increments under group pension schemes.

Where products are substituted by the policyholder, or pension contracts are vested, these transactions are reflected as new business only to the extent that they have been exercised under an 'open market' option and/or they give rise to any incremental new premiums.

### **Unearned premiums**

For general insurance business, unearned premiums comprise the part of premiums written which relate to cover provided in the following or subsequent financial years and are calculated on the 24ths or similar basis.

### **Unexpired risks**

The total of unearned premiums and related investment return in future years is compared with the aggregate estimated future claims and expenses in respect of the business in force at the year end. A provision for unexpired risks is created to meet any anticipated deficiency for each grouping of business which is managed together.

### **Acquisition costs**

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

General insurance business acquisition costs are charged to the accounting period in which the related premiums are earned.

Long term business acquisition costs are deferred to the extent that they are recoverable out of future revenue margins. Such deferred costs are included in the balance sheet as an asset and are determined explicitly. Deferred acquisition costs are amortised over a period which is consistent with a prudent assessment of the expected pattern of receipt of future revenue margins by product type.

### **Claims incurred**

General insurance claims incurred include 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, including claims incurred but not reported, net of salvage and subrogation recoveries.

The UK claims provisions for employers' and public liability and certain lines of excess of loss and facultative business are discounted at rates appropriate to income earned on matching assets. Total net claims provisions before discounting are shown in the notes to the accounts.

# **EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)**

## **Accounting Policies (continued)**

Long-term business claims are accounted for when due, except for death and disability claims (which are accounted for when notified) and surrenders which are accounted for when paid. Claims incurred on unit linked business are recognised when the policy ceases to participate in the relevant investment fund. Claims incurred include related internal and external claims handling costs as well as reversionary and terminal bonuses payable during the year and bonuses in reduction of premiums.

### **Reassurance**

Reassurance premiums and related commissions and expenses and reassurance claims recoveries are included in the long-term business technical account as they become payable/receivable.

### **Equalisation provisions**

Movements in equalisation provisions comprise amounts set aside in accordance with the Insurance Companies (Reserves) Regulations 1996 with the intention of mitigating exceptional loss experience in future years for classes of business displaying a high degree of claims volatility. These reserves, which are in addition to the provisions required to meet the anticipated ultimate costs of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet, although there is no liability for these amounts at the balance sheet date. The effect during the year of the movement in equalisation reserves on the general business technical result is shown in the profit and loss account.

### **Fund for future appropriations**

The fund for future appropriations incorporates amounts which have yet to be allocated to either participating policyholders or shareholders. Transfers to, or from, the fund reflect the excess or deficiency of revenues over expenditure to the extent that the allocation to participating policyholders, by way of reversionary or terminal bonus, or to shareholders has not yet been determined.

### **Long term business provision**

The long term business provision is computed by each company's Appointed Actuary following the annual investigation of the long term business fund and is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Insurance Companies Act 1982. The calculation uses a net premium valuation method in respect of non-unit linked business, and as such includes explicit provision for vested bonuses (including those vested following the current valuation). The valuation is then adjusted to remove Zillmerisation and certain reserves. No explicit provision is made for future reversionary or terminal bonuses. The provision also includes future death risk and operating expenses associated with unit linked business in accordance with regulatory requirements.

### **Technical provisions for linked liabilities**

Technical provisions for linked liabilities are determined by reference to the value of assets held to provide linked benefits to the relevant policyholders.

# **EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)**

## **Accounting Policies (continued)**

### **Land and buildings**

Land and buildings are stated at open market value as determined by qualified surveyors. Depreciation is not provided in respect of freehold and leasehold investment properties although the requirement of the Companies Act 1985 is to depreciate all properties. That requirement conflicts with SSAP 19 which states that investment properties should not be subject to depreciation. The directors consider it is necessary to adopt SSAP 19 in order to give a true and fair view and in their opinion depreciation would not be significant on the basis of expected future residual values.

Depreciation is not provided in respect of freehold properties occupied by the Group as these are maintained in a continual state of sound repair. The directors consider that the lives of these assets and their residual values are such that their depreciation is immaterial.

### **Other investments**

Listed investments are stated at mid market value on the balance sheet date, or on the last stock exchange trading day before the balance sheet date. Unlisted investments for which a market exists are valued at the average price at which they were traded on the balance sheet date. Other unlisted investments are valued by the directors on a prudent basis having regard to their likely realisable value.

Debt securities and other fixed income securities, shares (other than shares in subsidiary undertakings) and other variable yield securities, held as assets to cover linked liabilities, are valued at the lowest offered dealing price in compliance with the Group's policy conditions.

In the accounts of the Company, investments in subsidiaries are valued at net asset value.

### **Investment return**

Investment income is grossed up to include withholding tax, where relevant. The investment income and gains relating to investments which are directly connected with the carrying on of long term business is recorded in the long term business technical account. All other investment income and gains are recorded in the non-technical account.

Realised gains and losses on investments represent the difference between net sales proceeds and purchase price.

### **Present value of acquired in-force business**

On acquisition of a portfolio of long term insurance contracts, either directly or through the acquisition of a subsidiary undertaking, the net present value of the shareholders' interest in the expected after tax cash flows of the in-force business is capitalised in the balance sheet as an asset. The part of the shareholders' interest which will be recognised as profit over the lifetime of the in force policies is amortised and the discount unwound on a systematic basis over the anticipated lives of the related contracts.

The carrying value for the asset is assessed annually using current assumptions in order to determine whether there has been any impairment to the amortised acquired value.

Any amortisation or impairment charge is recorded in the long term business technical account in other technical charges.

# **EAGLE STAR HOLDINGS LIMITED (CONSOLIDATED)**

## **Accounting Policies (continued)**

### **Tangible assets**

Tangible assets comprise plant and machinery, fixtures, fittings and equipment. Tangible assets are included at cost and are depreciated as follows:

- plant and machinery, fixtures, fittings and equipment over a maximum of five years.
- other office furniture included in fixtures, fittings and equipment, four to five years.
- specially designed computer facilities included in plant and machinery, twenty years.

The depreciation charge is included in administration expenses.

### **Operating leases**

Lease rental costs relating to operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

### **Foreign currencies**

The results of overseas subsidiaries are translated to sterling at the average rates of exchange for the period. Assets and liabilities in foreign currencies are translated at rates of exchange ruling on 31 December. Differences arising on translation are taken to shareholders' reserves or the long-term business technical account, as appropriate.

### **Taxation**

The taxation charge in the non-technical account is based on the taxable profits in the year. The balance on the long-term business technical account is computed on an after tax basis reflecting the taxation applicable to long term business operations. In the non-technical account, the balance transferred from the long-term business technical account is grossed-up by the taxation attributable to shareholders' profits from long term business at the effective rate of corporation tax.

Provision for deferred taxation is made on timing differences using the liability method to the extent that it is probable the liability will crystallise.

### **Pension costs**

The Group operates defined benefit and defined contribution schemes covering the majority of employees and contributions are made on a going concern basis as recommended by independent consulting actuaries. Defined benefit schemes are fully funded on a discontinuance actuarial valuation basis. The pension costs, which are included in expenses, are calculated on actuarial valuation methods and are charged to the profit and loss account on a systematic basis with surpluses and deficits arising allocated over the expected remaining service lives of current employees.

## NOTES TO THE ACCOUNTS

### 1 SEGMENTAL ANALYSIS

A The Group's gross premium income for the year by major class of business was as follows:

#### GENERAL BUSINESS

£m	1999	1998
Direct insurance (continuing)	1,344.7	1,613.0
Reinsurance acceptances (discontinued)	188.5	278.5
<b>Total</b>	<b>1,533.2</b>	<b>1,891.5</b>

#### LONG-TERM BUSINESS

£m	Total premiums written		New business			
			Annualised regular		Single premiums	
	1999	1998	1999	1998	1999	1998
Life-individual contracts						
- non-linked	657.9	524.1	55.1	50.2	303.2	190.9
- linked	393.3	312.2	52.2	43.2	244.8	189.6
Life-group contracts						
- non-linked	6.2	5.6	2.9	5.1	-	-
- linked	-	-	-	-	-	-
Annuity contracts						
- non-linked	27.8	31.1	-	0.3	12.0	22.7
- linked	38.0	38.7	-	-	27.0	33.6
Individual pensions						
- non-linked	85.1	91.1	5.9	6.1	39.6	26.9
- linked	222.7	144.1	16.9	15.5	169.8	119.5
Group pensions						
- non-linked	110.1	107.9	10.3	6.5	60.6	75.9
- linked	48.7	40.7	7.2	11.2	22.0	8.2
Health and accident	11.8	12.7	0.6	0.3	-	-
<b>Total</b>	<b>1,601.6</b>	<b>1,308.2</b>	<b>151.1</b>	<b>138.4</b>	<b>879.0</b>	<b>667.3</b>

B Group premium income for the year was written in the following geographical areas:

£m	General business		Long-term business	
	1999	1998	1999	1998
United Kingdom	1,234.0	1,486.1	892.6	700.3
Europe	114.9	198.7	556.1	414.8
Africa	156.6	161.8	-	-
Asia	27.7	44.9	152.9	193.1
<b>Total</b>	<b>1,533.2</b>	<b>1,891.5</b>	<b>1,601.6</b>	<b>1,308.2</b>

Premiums by destination are considered to be not materially different.

## NOTES TO THE ACCOUNTS

### 1 SEGMENTAL ANALYSIS

(continued)

C The Group profit before taxation and minority interests was earned in the following geographical areas:

	General business	Long-term business	Other	Total	General business	Long-term business	Other	Total
£m	1999	1999	1999	1999	1998	1998	1998	1998
United Kingdom	(246.5)	73.4	233.6	60.5	(568.2)	80.1	361.3	(126.8)
Europe	(10.4)	53.8	-	43.4	15.5	15.3	-	30.8
Africa	42.6	-	-	42.6	(0.7)	-	-	(0.7)
Asia	(23.2)	2.6	-	(20.6)	(28.7)	-	-	(28.7)
<b>Total</b>	<b>(237.5)</b>	<b>129.8</b>	<b>233.6</b>	<b>125.9</b>	<b>(582.1)</b>	<b>95.4</b>	<b>361.3</b>	<b>(125.4)</b>

'Other' includes all items in the non-technical account other than the balances in the long-term business technical and general business technical accounts, such as financing costs and Gresham Trust's results.

D The net assets of the Group were situated within the following geographical areas:

	General business	Long-term business	Other	Total	General business	Long-term business	Other	Total
£m	1999	1999	1999	1999	1998	1998	1998	1998
United Kingdom	873.1	758.8	(1,028.3)	603.6	801.8	624.0	(1,007.5)	418.3
Europe	82.9	42.7	-	125.6	135.9	112.1	-	248.0
Africa	165.0	-	-	165.0	127.6	-	-	127.6
Asia	(19.9)	265.9	-	246.0	6.3	248.2	-	254.5
<b>Total</b>	<b>1,101.1</b>	<b>1,067.4</b>	<b>(1,028.3)</b>	<b>1,140.2</b>	<b>1,071.6</b>	<b>984.3</b>	<b>(1,007.5)</b>	<b>1,048.4</b>

'Other' includes borrowings and consolidation adjustments, such as the elimination of the share capital of Group companies.

## NOTES TO THE ACCOUNTS

(continued)

### 2 DISCONTINUED BUSINESS

On 9 October 1998 agreement was reached with Employers Re Corporation (UK) Limited for the sale to it of the whole of the issued share capital of Eagle Star Reinsurance Company Limited together with the transfer of certain business assets. Also included in the sale was the retrocession by Eagle Star Insurance Company Limited of substantially the whole of the reinsurance business of Eagle Star Reinsurance Company Limited entered into prior to 1 January 1993.

The consolidated results of Eagle Star Reinsurance Company Limited and its subsidiary undertakings for the two months until the date of sale on 4th March 1999 are included in the consolidated profit and loss of the Group.

£m	1999	1998
<b>Technical Account - general business</b>		
Gross premiums written	188.5	278.5
Outward reinsurance premiums	(42.6)	(51.6)
Net	145.9	226.9
Net change in the provision for unearned premiums	(113.7)	4.1
Earned premiums, net of reinsurance	32.2	231.0
<b>Total technical income</b>	<b>32.2</b>	<b>231.0</b>
Net claims paid	(19.9)	(289.8)
Net change in the provision for claims outstanding	(5.5)	101.0
Claims incurred, net of reinsurance	(25.4)	(188.8)
Net operating expenses	(12.0)	(71.6)
Change in the equalisation provision	(4.0)	(1.5)
<b>Total technical charges</b>	<b>(41.4)</b>	<b>(261.9)</b>
<b>Balance on the technical account for general business</b>	<b>(9.2)</b>	<b>(30.9)</b>
<b>Non-Technical Account</b>		
Balance on the technical account for general business	(9.2)	(30.9)
Investment income	5.5	100.3
Investment expenses and charges	(0.4)	(0.2)
Net unrealised losses on investments	(16.5)	(15.2)
<b>Profit on ordinary activities before tax</b>	<b>(20.6)</b>	<b>54.0</b>

The final sales consideration will be adjusted by an amount dependent on the net asset value of Eagle Star Reinsurance Company Limited at the date of completion and at the time of preparing the accounts this amount had not been agreed with Employers Re Corporation (UK) Limited.

## NOTES TO THE ACCOUNTS

(continued)

### 3 EXCEPTIONAL ITEMS

Exceptional items include:

i Restructuring cost of £46.1 m (1998: £77.9m) relating to a continuing programme to integrate the UK General business of the Company and Zurich Insurance (UK Branch) following the merger of the financial services businesses of BAT Industries plc with Zurich Insurance Company. The costs relate to redundancy and other costs of integrating the business; and

ii Profit on the disposal of Group Undertakings of £1.9m (1998: £48.6m loss).

On 1st January 1999, the Group exchanged its holding in shares of Eagle Star Seguros Generales for 11.1% holding in Zurich Espana.

On 4th March 1999, the Group sold Eagle Star Reinsurance Company to Employers Re Corporation (UK) Limited for an initial cash consideration of £207m and a further amount based on the change in net asset value between 31st December 1997 and the date of completion.

On 13th July 1999, the Group sold its 50% interest in Eagle Star President General Insurance Company for a consideration of £20.1m.

### 4 DISCOUNTED GENERAL BUSINESS CLAIMS

The claims of certain classes of UK business have been discounted as follows:

Class of business	Discount rates		Mean term of gross liabilities	
	1999	1998	1999	1998
Liability	5.0%	5.0%	7.3 years	7.2 years

The period that is estimated to elapse before claims are settled is determined using an analysis of historical settlement patterns.

The effect of discounting claims provisions is as follows:

£m	1999	1998
Total claims provisions net of reinsurance before discounting	2,600.0	3,255.9
<b>Net assets:</b>		
- Decrease in outstanding claims	205.0	304.7
- Increase in taxation - current	(62.0)	(94.5)
	143.0	210.2
<b>Profit after taxation:</b>		
- Increase in claims incurred due to discounting	(62.2)	(23.3)
- Decrease in taxation charge	18.8	7.2
	(43.4)	(16.1)

Included in the non-technical account was investment income of £120.9m (1998: £98.2m) which offset the effect of discounting on opening claims.



**NOTES TO THE ACCOUNTS**  
(continued)

**5 NET OPERATING EXPENSES**

Net operating expenses comprised:

<b>£m</b>	<b>General business</b>		<b>Long term business</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Acquisition costs	<b>223.6</b>	418.6	<b>152.7</b>	139.9
Change in deferred acquisition costs	<b>21.1</b>	11.8	<b>2.0</b>	(41.2)
Administrative expenses	<b>135.3</b>	222.0	<b>102.8</b>	131.1
Reinsurance commissions and profit participation	<b>(37.7)</b>	(27.9)	-	-
<b>Total</b>	<b>342.3</b>	624.5	<b>257.5</b>	229.8

Commissions payable (excluding payments to the Group's employees) were included within acquisition costs as follows:

<b>£m</b>	<b>General business</b>		<b>Long-term business</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Commissions	<b>214.4</b>	306.9	<b>67.5</b>	94.4

**6 AUDITORS' REMUNERATION**

The remuneration of the auditors of the Group for audit services for 1999 was £1.2m (1998: £1.3m).  
In addition, the remuneration of the auditors for non-audit services in the UK was £1.0m (1998: £1.2m).

**NOTES TO THE ACCOUNTS**  
(continued)

**7 EMPLOYEE INFORMATION**

Staff costs comprised:

£m	Notes	1999	1998
Wages and salaries		277.0	306.9
Social security costs		19.6	24.2
Pension costs	31	(40.9)	(1.8)
<b>Total</b>		<b>255.7</b>	<b>329.3</b>

The average number of employees of the Group during the year was as follows:

	1999	1998
Administration and finance	4,582	5,468
Underwriting	1,602	1,897
Claims	2,709	3,208
Sales	1,085	1,720
<b>Total</b>	<b>9,978</b>	<b>12,293</b>

**8 DIRECTORS' EMOLUMENTS**

One director received emoluments in his capacity as a Director of the parent company, Zurich Financial Services (UKISA) Limited and the fellow subsidiary, Allied Dunbar Assurance plc and his emoluments are disclosed in those companies' accounts.

One director received emoluments in his capacity as a Director of the parent company, Zurich Financial Services (UKISA) Limited, and the fellow subsidiary, Threadneedle Asset Management Limited (in members' voluntary liquidation) and his emoluments are disclosed in the parent company's accounts.

Although two directors are also Directors of the company's subsidiaries, they receive emoluments in their capacity as Directors of the parent company, Zurich Financial Services (UKISA) Limited and their emoluments are disclosed in the parent company's accounts.

As a result, none of the directors received any emoluments in respect of their services to the Eagle Star Holdings Group (1998: £81,241).

No directors exercised share options during the year (1998: one).

**NOTES TO THE ACCOUNTS**  
(continued)

**9 TAXATION**

Taxation in the consolidated profit and loss account was as follows:

£m	Technical account Long term business		Non-technical account	
	1999	1998	1999	1998
United Kingdom taxation:				
- UK corporation tax at 30.25% (1998: 31.0%)	22.3	49.0	24.4	45.6
- Double tax relief	-	-	-	(0.6)
- Adjustments in respect of prior years	-	(6.5)	(1.4)	(12.1)
- Deferred tax	30.5	(4.1)	(26.6)	(7.0)
	52.8	38.4	(3.6)	25.9
Overseas tax	-	18.8	10.7	5.9
<b>Total</b>	<b>52.8</b>	<b>57.2</b>	<b>7.1</b>	<b>31.8</b>

In addition, the non-technical account contains an item "tax credit attributable to shareholders' profits on long term business". This represents the grossing up, at the effective rate of corporation tax, of the balance transferred from the long term business technical account.

**10 PROFIT/(LOSS) OF THE HOLDING COMPANY**

A separate profit and loss account for the Company has not been presented as permitted by section 230 of the Companies Act 1985.

**11 DIVIDENDS**

£m	1999	1998
Equity shares		
- interim dividends proposed/paid of nil p (1998: 13.6 p) per share	-	67.6
Preference shares		
- dividends proposed and paid (see directors' report)	-	7.4
- dividends undeclared	15.5	7.7
<b>Total</b>	<b>15.5</b>	<b>82.7</b>

**NOTES TO THE ACCOUNTS**  
(continued)

**12 INVESTMENT INCOME**

<b>£m</b>	<b>Technical account Long term business</b>		<b>Non-technical account Shareholders</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Income from other investments:				
- land and buildings	43.5	35.1	8.1	7.7
- other	575.1	595.8	157.0	187.6
	<b>618.6</b>	<b>630.9</b>	<b>165.1</b>	<b>195.3</b>
Net gains on realisation of investments	390.5	293.6	102.8	315.1
<b>Investment income</b>	<b>1,009.1</b>	<b>924.5</b>	<b>267.9</b>	<b>510.4</b>

**NOTES TO THE ACCOUNTS**  
(continued)

**13 LAND AND BUILDINGS**

**Market Value**

<b>£m</b>	<b>1999</b>	<b>1998</b>
Investment properties	773.5	681.7
Owner-occupied properties	45.5	84.0
<b>Total</b>	<b>819.0</b>	<b>765.7</b>

**Cost**

<b>£m</b>	<b>1999</b>	<b>1998</b>
Investment properties	799.3	771.0
Owner-occupied properties	102.6	135.4
<b>Total</b>	<b>901.9</b>	<b>906.4</b>

**Land and buildings comprised the following:**

<b>£m</b>	<b>1999</b>	<b>1998</b>
Freehold	714.6	639.5
Short leasehold	3.4	1.9
Long leasehold	101.0	124.3
<b>Total</b>	<b>819.0</b>	<b>765.7</b>

Land and buildings have been valued by Jones Laing Wootton and by Richard Ellis St. Quintin who are both independent firms of chartered surveyors.

# NOTES TO THE ACCOUNTS

(continued)

## 14 INVESTMENT IN PARTICIPATING INTERESTS

£m	Group share of net asset value		Company share of net asset value	
	1999	1998	1999	1998
Shares in Group undertakings				
- net asset value at 1st January	-	-	1,203.9	1,205.9
- exchange on translation	-	-	2.6	(0.5)
- additions	-	-	-	162.6
- revaluations	-	-	338.2	(164.1)
Associated companies				
- net asset value at 1st January	27.6	76.0	-	6.0
- exchange on translation	-	6.1	-	-
- disposals	(27.6)	(54.5)	-	(6.0)
<b>Total</b>	<b>-</b>	<b>27.6</b>	<b>1,544.7</b>	<b>1,203.9</b>

The amounts in respect of associated undertakings above in 1998 relate to Towers Perrin Eagle Star Share Plan Services Limited, a Company incorporated in England and Wales, and Eagle Star President General Insurance Company and Eagle Star President Life Insurance Company, both registered in Taiwan. The Group held 49%, 50% and 50% of the equity of these companies respectively. On 13th July 1999 the Group disposed of its holdings in Eagle Star President General Insurance Company and Eagle Star President Life Insurance Company.

The directors have considered the value of each of the Company's investments in subsidiary undertakings as at 31 December 1999 and are satisfied that the value of each investment is not less than the amount at which it is stated in the balance sheet. Where the valuation of a subsidiary is considered to have had an impairment, it is stated in the balance sheet after providing for that impairment.

## NOTES TO THE ACCOUNTS

(continued)

### 15 OTHER FINANCIAL INVESTMENTS

£m	Market Value		Book Cost	
	1999	1998	1999	1998
<b>Listed investments:</b>				
Shares and other variable yield securities	4,092.9	3,458.4	2,608.0	2,396.7
Debt and other fixed income securities	7,039.2	7,480.6	6,623.4	6,511.8
	<b>11,132.1</b>	<b>10,939.0</b>	<b>9,231.4</b>	<b>8,908.5</b>
<b>Unlisted investments:</b>				
Shares and other variable yield securities	199.9	252.6	143.6	172.0
Debt and other fixed income securities	233.6	384.1	186.9	306.3
Loans secured by mortgages	348.2	440.2	300.6	356.8
Other loans	64.4	91.6	64.4	91.6
Deposits with credit institutions	529.8	640.7	529.8	640.8
Other investments	91.9	91.8	117.7	105.6
	<b>1,467.8</b>	<b>1,901.0</b>	<b>1,343.0</b>	<b>1,673.1</b>
	<b>12,599.9</b>	<b>12,840.0</b>	<b>10,574.4</b>	<b>10,581.6</b>

Other loans in respect of long term business include loans secured on policies of £53.6m (1998: £49.4m).

### 16 PRESENT VALUE OF ACQUIRED IN-FORCE BUSINESS

£m	1999	1998
<b>Cost</b>		
At 1 January	57.8	57.8
<b>Amortisation</b>		
At 1 January	57.8	-
Net amortisation during year	-	(57.8)
At 31 December	57.8	(57.8)
<b>Net book value at 31 December</b>	<b>57.8</b>	<b>(57.8)</b>

## NOTES TO THE ACCOUNTS

(continued)

### 17 ASSETS HELD TO COVER LINKED LIABILITIES

£m	Market value		Cost	
	1999	1998	1999	1998
Assets held to cover linked liabilities	3,292.1	2,461.8	2,311.2	1,865.8

Included above are investments in Open Ended Investment Companies (OEICs) managed by a fellow subsidiary company of Zurich Financial Services (UKISA) Limited £921.7m (1998: £639.6m).

### 18 OTHER DEBTORS

£m	Group		Company	
	1999	1998	1999	1998
Amounts due from:				
Associated companies	1.1	-	-	-
Taxation recoverable (note 21)	104.6	70.8	2.7	11.9
Other debtors	647.6	339.7	0.7	1.0
	753.3	410.5	3.4	12.9



## NOTES TO THE ACCOUNTS

(continued)

### 19 TANGIBLE ASSETS

£m	Group	
	1999	1998
<b>Book cost:</b>		
At 1st January	181.1	174.2
Additions	38.3	29.4
Disposals	(48.3)	(22.5)
At 31st December	171.1	181.1
<b>Depreciation:</b>		
At 1st January	(122.7)	(113.7)
Charge for the year	(24.5)	(23.0)
Eliminations in respect of disposals	21.6	14.0
At 31st December	(125.6)	(122.7)
<b>Net book value at 31st December:</b>		
Plant and machinery	4.6	6.1
Fixtures, fittings, tools & equipment	40.9	52.3
<b>Total</b>	<b>45.5</b>	<b>58.4</b>
Net value of assets held under finance leases	0.2	2.4

Tangible assets include where appropriate the capitalised value of finance leases.

### 20 OTHER ASSETS

£m	Group	
	1999	1998
Deferred expenditure	7.0	4.7
Other assets	1.1	-
<b>Total</b>	<b>8.1</b>	<b>4.7</b>

# NOTES TO THE ACCOUNTS

(continued)

## 21 TAXATION

A Taxation in the notes and balance sheets was as follows:

£m	Group		Company	
	1999	1998	1999	1998
<b>Recoverable:</b>				
<b>United Kingdom</b>				
Current	98.8	69.9	2.7	11.9
Deferred	-	-	-	-
<b>Overseas</b>				
Current	5.8	0.9	-	-
Deferred	-	-	-	-
	<b>104.6</b>	<b>70.8</b>	<b>2.7</b>	<b>11.9</b>
<b>Payable:</b>				
<b>United Kingdom</b>				
Current	82.1	113.2	-	-
Deferred	115.3	110.3	-	-
<b>Overseas</b>				
Current	10.7	1.6	-	-
Deferred	-	2.6	-	-
	<b>208.1</b>	<b>227.7</b>	<b>-</b>	<b>-</b>

B The provisions for deferred taxation comprised:

£m	Group	
	1999	1998
Unrealised gains on investments	119.8	118.0
Other short-term timing differences	(4.5)	(5.1)
	<b>115.3</b>	<b>112.9</b>

C The potential deferred taxation liability for which provision has not been made in the accounts comprises:

£m	Group	
	1999	1998
Unrealised gains on investments	28.1	55.5
Other timing differences	(7.2)	(6.3)
	<b>20.9</b>	<b>49.2</b>

**NOTES TO THE ACCOUNTS**  
(continued)

**22 DEFERRED ACQUISITION COSTS**

Deferred acquisition costs in the balance sheets comprised:

£m	Gross amount		Reinsurance amount	
	1999	1998	1999	1998
General business	125.1	193.9	(5.9)	(10.1)
Long term business	165.2	170.8	-	-
<b>Total</b>	<b>290.3</b>	<b>364.7</b>	<b>(5.9)</b>	<b>(10.1)</b>

**23 SHARE CAPITAL**

The authorised and issued share capital were as follows:

£m	1999	1998
Authorised:		
515,418,749 ordinary shares of £1 each	515.4	515.4
138,325,004 deferred shares of 25p each	34.6	34.6
	<b>550.0</b>	<b>550.0</b>
175,000,000 'A' cumulative redeemable convertible preference shares of US \$1 each	108.2	105.1
225,000,000 'B' cumulative redeemable convertible preference shares of US \$1 each	139.0	135.2
	<b>247.2</b>	<b>240.3</b>
	<b>797.2</b>	<b>790.3</b>
Issued and fully paid:		
497,516,251 ordinary shares of £1 each	497.5	497.5
138,325,004 deferred shares of 25p each	34.6	34.6
	<b>532.1</b>	<b>532.1</b>
175,000,000 'A' cumulative redeemable convertible preference shares of US \$1 each	108.2	105.1
225,000,000 'B' cumulative redeemable convertible preference shares of US \$1 each	139.0	135.2
	<b>247.2</b>	<b>240.3</b>
	<b>779.3</b>	<b>772.4</b>

The Company may at its election redeem all or any of the preference shares at any time between the following dates:

'A' 1st March 1994 – 30th December 2007.

All outstanding 'A' shares must be redeemed on 31st December 2007.

'B' 1st January 1997 – 30th December 2007.

All outstanding 'B' shares must be redeemed on 31st December 2007.

The Company will pay in respect of each share to be redeemed the sum of US \$1 (together with a sum equal to any arrears of dividend).

On a return of assets on liquidation, the assets of the Company remaining after payment of its liabilities should be applied in priority to the holders of the preference shares the sum of US \$1 per share together with a sum equal to any arrears of dividend.

After making these payments, the balance of assets remaining should be paid to the holders of the ordinary shares. Holders of 'A' and 'B' shares are entitled to receive notice of general meetings but are not entitled to attend or vote at such meetings. The holders of the deferred shares have no right to receive notice of or to attend and vote at any general meeting.

The rate of dividend on each of the 'A' and 'B' shares is 6 ¼ cents per annum per share. The holders of the deferred shares have no right to receive any dividend or other distribution.

**NOTES TO THE ACCOUNTS**  
(continued)

**24 TECHNICAL PROVISIONS (GENERAL BUSINESS)**

<b>£m</b>	<b>Provision for unearned premiums</b>	<b>Claims outstanding</b>	<b>Other technical provisions</b>
<b>1999</b>			
Gross	654.4	3,462.7	48.0
Reinsurance	(28.2)	(1,189.1)	-
<b>Net</b>	<b>626.2</b>	<b>2,273.6</b>	<b>48.0</b>
<b>1998</b>			
Gross	898.1	3,852.9	18.9
Reinsurance	(53.6)	(1,034.0)	-
<b>Net</b>	<b>844.5</b>	<b>2,818.9</b>	<b>18.9</b>

An equalisation reserve has been included within technical provisions in the balance sheet. This has had the effect of reducing shareholders' funds by £34.1m (1998: £30.0m). The movement in the equalisation reserve during the year resulted in a decrease to the general business technical account result and the profit before taxation of £16.2 m (1998: £2.0m).

There were no material differences between the outstanding claims provision, net of reinsurance, at the beginning of the year and the claims settlement or amount provided at the end of the year. Claims provisions include amounts in respect of environmental claims which are not expected to be settled for many years and there is considerable uncertainty as to the amounts at which they will be settled.

**NOTES TO THE ACCOUNTS**  
(continued)

**25 TECHNICAL PROVISIONS (LONG TERM BUSINESS)**

£m	Long term business provision	Technical provision for linked liabilities	Fund for future appropriations
Balance 1 January	9,130.5	2,427.9	538.9
Exchange	(114.7)	(94.2)	(21.8)
Movement in technical provisions	368.4	876.5	-
Write back of goodwill	-	-	2.3
Transfer to fund for future appropriations	-	-	156.4
<b>Balance 31 December 1999</b>	<b>9,384.2</b>	<b>3,210.2</b>	<b>675.8</b>
Gross	9,663.1	3,242.5	675.8
Reinsurance	(278.8)	(32.3)	-
<b>Balance 31 December 1999</b>	<b>9,384.3</b>	<b>3,210.2</b>	<b>675.8</b>

The long term business and unit linked provisions are determined by adjustment to the actuarial liabilities calculated for inclusion in the annual returns to the Financial Services Authority (FSA). The adjustments comprise:-

1. The exclusion of Zillmerisation, and
2. The removal of certain items deemed to be reserves in accordance with ABI guidance. A provision for future reversionary and terminal bonuses is implicit in the following bases.

Explicit provision is made only for vested bonuses including those declared as a result of the current valuation. A provision for future reversionary and terminal bonuses is implicit in the following bases.

The principal assumptions used to calculate the long term business provision, prior to the adjustments referred to above, are as follows:-

	Interest rate %		Mortality rate	
	1999	1998	1999/1998	
Life – without profit	3.75	3.25	85% AM80/95% AF80	
Life – with profit	2.75	2.5	85% AM80/95% AF80	
Pension – without profit	4.75	4.25	PMA80 (c = 2010 – 4)/PFA80 (c = 2010 – 2)	
Pension – with profit	3.5	3.25	PMA80 (c = 2010 – 4)/PFA80 (c = 2010 – 2)	
Annuities In Payment	5.75	4.75	PMA80 (c = 2010 – 2)/PFA80 (c = 2010)	

An additional provision of £70.0m (1998: £60.0m) is held for anticipated annuitant mortality improvements over these bases.

A number of with profit and non profit pensions contracts contain an option to convert a cash sum into an annuity on guaranteed terms. The long term business provision makes appropriate allowance for the mortality and interest rate risks implicit in these guarantees. In 1998, Eagle Star Life Assurance Company Limited entered into a reinsurance contract with Zurich Life Insurance Company, Switzerland, which substantially mitigates the cost to the company of providing these guarantees. There have been no other significant changes to the bases or assumptions adopted for the calculation of the long term business provision during the year.

# NOTES TO THE ACCOUNTS

(continued)

## 26 PROVISIONS FOR OTHER RISKS AND CHARGES

£m	Deferred tax	Post retirement benefits provision	Restructuring provision	Vacant property provision	Expenses of FSA pensions review	Other	Total
1 January 1999	112.9	10.5	38.7	29.2	10.6	3.5	205.4
Utilised in year	(19.9)	(3.4)	(42.9)	(14.3)	(2.6)	(2.2)	(85.3)
Provided in year	22.3	-	46.1	-	2.1	2.5	73.0
31 December 1999	115.3	7.1	41.9	14.9	10.1	3.8	193.1

The provision for the expenses of the Financial Services Authority (FSA) pensions review is in respect of the estimated cost of carrying out the Group's review of pensions transfers and opt outs. FSA guidance dictates that the review must be complete by the middle of 2002. The vacant property provision is to cover the future committed costs until the estimated dates of disposal in respect of buildings no longer occupied by the group.

Restructuring costs relate to redundancy and integration costs in connection with the merger of the former financial services businesses of B.A.T. Industries p.l.c. with Zurich Insurance Company.

## NOTES TO THE ACCOUNTS

(continued)

### 27 AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts owed to credit institutions shown in the balance sheets were as follows:

£m	Group		Company	
	1999	1998	1999	1998
<b>Up to one year:</b>				
Sundry loans and advances	100.0	229.6	0.3	205.0
Advances from bankers	17.0	13.2	11.0	33.1
Total borrowings	117.0	242.8	11.3	238.1
Amounts due on gilt sale and repurchase agreements	203.4	-	-	-
<b>Total</b>	<b>320.4</b>	<b>242.8</b>	<b>11.3</b>	<b>238.1</b>

Amounts due on gilt sale and repurchase agreements relate to the liability arising from the sale of British Government securities which the Group is under obligation to repurchase. These British Government securities continue to be recognised as assets in the balance sheet. There were no such transactions in 1998.

### 28 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

£m	1999	1998
Current taxation payable (note 21)	92.8	114.8
Amounts due to:		
Fellow subsidiaries	-	-
Zurich Financial Services group undertakings	192.6	108.6
Other creditors	365.7	420.8
<b>Total</b>	<b>651.1</b>	<b>644.2</b>

All creditors fall due within 1 year, with the exception of £95m payable to Zurich Financial Services Group undertakings which is payable within 2 years.

**NOTES TO THE ACCOUNTS**  
(continued)

**29 ACCRUALS AND DEFERRED INCOME**

£m	1999	1998
Deferred acquisition costs - reinsurers' share	5.9	10.1
Other	26.5	4.5
<b>Total</b>	<b>32.4</b>	<b>14.6</b>

**30 CAPITAL COMMITMENTS**

**A** At 31st December the Group had expenditure contracted for but not provided as follows:

£m	1999	1998
Investments	-	0.7
Fixed assets	-	2.1
<b>Total</b>	<b>-</b>	<b>2.8</b>

**B** Annual commitments under operating leases were:

£m	1999	1998
<i>Land and buildings</i>		
Expiring within 1 year	1.3	2.1
Expiring within 2 to 5 years	8.7	9.4
Expiring after 5 years	16.0	20.3
	<b>26.0</b>	<b>31.8</b>



**NOTES TO THE ACCOUNTS**  
(continued)

**31 PENSIONS AND POST-RETIREMENT BENEFITS**

Employees of the Group are members of ten retirement benefit arrangements operated by subsidiary undertakings. The schemes cover 8,562 employees world-wide or 89% of the workforce. The majority of employees belong to defined benefit schemes, funded externally, with appropriate contributions paid to trustees. The remainder are in defined contribution schemes providing benefits which depend solely on the contributions, the accumulated investment returns and immediate annuity rates.

Pension commitments are financed according to accepted current practice in each territory. Defined benefit scheme costs are determined following valuations by qualified actuaries, who generally use the projected unit method.

The total market value of the assets of the externally funded defined benefit schemes, each assessed at its own actuarial valuation date, was £1,703m which was not less than the corresponding value of accrued benefits. The total of the relevant actuarial values of the assets was £1,360m which was not less than the total of the corresponding long term values of the accrued projected benefits, which are based on ultimate, rather than current pay.

The two largest individual schemes represent over 99% of the value of the externally funded defined benefit schemes, including over 92% for the principal scheme. The assumptions which have the most significant effect on the results of the valuations are those relating to the return on investments and the rates of increase in salaries and pensions. The assumptions for the principal scheme, which was last actuarially valued as at 30th June 1998, are that investment returns will be 8.5% per annum, salary increases will be 6.5% per annum, and pension increases will be 4.5% per annum. The employer's standard contribution rate for the principal scheme is 21.1% of pensionable salaries.

The surplus identified at the last valuation of the principal scheme is being eliminated by reduced company contributions and is being amortised over 10 years, which is the expected remaining service lives of current employees in the scheme.

The pension costs for these schemes were as follows:

£m	1999	1998
UK Schemes:		
- Regular cost	25.5	43.4
- Variation from regular cost	(71.2)	(48.0)
Overseas schemes	4.8	2.8
<b>Credit to operating profit</b>	<b>(40.9)</b>	<b>(1.8)</b>

The Group also operates a plan which provides UK employees with post-retirement healthcare benefits. The liabilities in respect of these benefits, which have been assessed by qualified actuaries, are shown in note 26.

## **NOTES TO THE ACCOUNTS**

(continued)

### **32 CONTINGENT LIABILITIES**

In December 1993, the FSA instigated a review of personal pension transfer and opt-out sales across the insurance industry to establish whether clients had been disadvantaged and are entitled to redress. Certain priority groups were identified for review and these reviews have been completed in line with the plan agreed by the regulator.

The FSA has now set dates of 30th June 2002 for completion of Phase 2, and 31st March 2000 was the last date on which a client could request that his case be considered within the Review. Although the number of clients to be reviewed is now known quite accurately, the basis of review depends both on their own detailed circumstances, and on the economic factors for the Review which the FSA sets each quarter. However, whilst some uncertainty therefore remains, the Group has set its provisions using a prudent view of the likely outcome.

### **33 RELATED PARTY TRANSACTIONS**

The ultimate holding company at 31st December 1999 was Zurich Financial Services which is incorporated and registered in Switzerland. Copies of the financial statements for Zurich Financial Services can be obtained from Mythenquai 2, 8022 Zurich, Switzerland.

In these accounts the term holding company refers to Eagle Star Holdings Limited.

The Group has taken advantage of an exemption from FRS 8 not to disclose transactions with Zurich Financial Services group undertakings. Balances with Zurich Financial Services group undertakings are shown in note 14 Investment in Participating Interests, note 18 Other Debtors, and note 28 Other Creditors.

There were no material transactions with any other related parties.

## NOTES TO THE ACCOUNTS

(continued)

### 34 PRINCIPAL SUBSIDIARY UNDERTAKINGS

Company and country of registration or incorporation	Share class by the company	Percentage of nominal value held by subsidiary undertakings
<b>England and Wales</b>		
Eagle Star Group Services Limited	ordinary	100
Eagle Star Insurance Company Limited	ordinary	100
Eagle Star Life Assurance Company Limited	ordinary	100
	redeemable preference	100
	redeemable ordinary	100
Eagle Star Securities Limited	ordinary	100
Eagle Star Unit Managers	ordinary	100
Gresham Trust p.l.c.	ordinary	100
Home & Overseas Insurance Company Limited	ordinary	100
	redeemable ordinary	100
Navigators & General Insurance Company Limited	ordinary	100
Preferred Assurance Company Limited	ordinary	100
<b>Bahamas</b>		
Sceptre Trust Limited	ordinary	100
<b>France</b>		
Eagle Star Vie SA	ordinary	100
<b>Isle of Man</b>		
Eagle Star (International Life) Limited	ordinary	100
<b>Portugal</b>		
Companhia de Seguros Eagle Star Vida, S.A.	ordinary	100
<b>Republic of Ireland</b>		
Eagle Star Insurance Company (Ireland) Limited	ordinary	100
Eagle Star Life Assurance Company of Ireland Limited	ordinary	100
Eagle Star International Services (Ireland ) Limited	ordinary	100
Irish National Insurance Company Plc	ordinary	100
<b>Republic of South Africa</b>		
South African Eagle Insurance Company Limited	ordinary	59

The principal country in which each of the above named subsidiary undertakings operates is its country of registration or incorporation. A complete list of investments in subsidiary and associated undertakings will be attached to the Company's Annual Return made to the Registrar of Companies.