

ZURICH INSURANCE IRELAND LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2005

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 COMPANIES HOUSE

ZURICH INSURANCE IRELAND LIMITED
BOARD OF DIRECTORS AND OTHER INFORMATION

Managing Director R. H. Rheel

Other Directors T. Bouts
 M. Hongler
 P. Manley
 M. Thornburgh, F.C.I.I.
 E. Ward, B.Comm., F.C.A.
 D. Wemmer

Secretary J. O'Connor, B.B.S., A.C.M.A.

Registered Office/
Head Office Eagle Star House, Ballsbridge Park, Dublin 4.

Branch Offices

Domestic

55 South Mall, Cork.
33 Peter Street, Drogheda.
30 Eyre Street, Galway.
11 The Crescent, Limerick.
Shell House, Wine Street, Sligo.
Unit A1, Edward Court, Tralee.
35 Michael Street, Waterford.

International

Zurich Insurance Ireland Limited, UK Branch,
The Zurich Building, 90 Fenchurch Street, London EC3M 4JX.
Zurich Insurance Ireland Limited, succursale pour la France,
96 rue Edouard Vaillant, 92309 Levallois-Peret Cedex, France
Zurich Insurance Ireland Limited, Filial Sverige,
Zürich-Huset, Linnegatan 5, SE 102 42 Stockholm, Sweden
Zurich Insurance Ireland Limited, Suomen sivuliike,
Tammasaarenkatu 1 D, 00180 Helsinki, Finland

ZURICH INSURANCE IRELAND LIMITED

REPORT OF THE DIRECTORS

The Directors submit their Annual Report together with the Financial Statements of the Company for the year ended 31st December, 2005.

1 Review of the Business and future developments

The activities of the Company consist of the underwriting of general insurance business for personal and commercial customers. On 13th May 2005 the company changed its name from Eagle Star Insurance Company (Ireland) Limited to Zurich Insurance Ireland Limited. It continues to trade in Ireland as Eagle Star. During the year, the Company was chosen by the Zurich group to become an EU underwriter for Global Corporate business in Europe and was authorised to operate in the European Union through a network of branches. As part of this process the company also sought and obtained a credit rating from Standard & Poor's. The company is rated A+/Negative by Standard & Pools.

In addition the legal ownership of the company also changed during the year. The company has now become a subsidiary of Zurich Holdings Ireland Limited which is a direct subsidiary of Zurich Insurance Company. It was previously a subsidiary of Eagle Star Life Assurance Company of Ireland which was itself formerly a subsidiary of a Zurich entity in the UK.

As a first step, the company established a branch office, Zurich Insurance Ireland Limited UK Branch, in London. The branch became operative from 24th May 2005 to underwrite insurance cover for the non-UK domiciled business for Zurich Global Corporate UK's customers.

During 2006 the company will continue to expand its European Branch network with branches opened and approved in France, Sweden, Finland.

In December 2005 the company purchased the entire share capital of Zurich International (France) Compagnies d'Assurances S.A. from related group parties as part of the creation of the branch network. On 1 January 2006 the assets and liabilities of this company were transferred into the company's French branch.

The Company generated gross premium income of €493.7m, compared to €344.1m in 2004. The Zurich Insurance Ireland UK Branch contributed €185.8m to this gross premium income. Gross premium income in Ireland fell by 10.5% to €307.9m and continues to be affected by significant market rate reductions across all classes of business. The Company produced a pre-tax profit on ordinary activities of €103.4m compared to the 2004 profit of €137.2m. The reduction in profits compared to 2004 in the existing business was due the impact of reduced premiums that was offset to some extent by a better than expected improvement in the claims environment. This improved claims environment generated a significant benefit to the company from the favourable settlement of claims during the year.

Total assets at year end amounted to €1,727.5m. (2004: 1,175.3m), an increase of 47% on 2004. Shareholders' funds amounted to €328.0m. (2004: €242.1m.), an increase of 35% for the year. The growth in shareholders' funds was primarily a result of the strong operating performance of the Company.

The Company maintained a significant surplus on its solvency position in 2005.

The level of profitability achieved by the Company in 2005 was satisfactory. The profits achieved are at least to some extent due to the changed market conditions noted in last year's Annual Report. Although it is too early to make unequivocal statements, these conditions appear to be introducing a level of predictability into ultimate claims costs which hitherto did not exist in the general insurance market in Ireland.

Should this prove to be the case in the longer term, the benefits will be felt by consumers and companies alike. Pricing decisions are more likely to be more accurate and companies should be able to achieve adequate returns on capital at premium levels which may tend to be generally lower than the highs reached in the past.

The reductions in premium which have been evident on almost all lines of business over the past two years and which are continuing, albeit at generally less extreme rates as at the time of writing will produce some issues for the Company at least in the short term. Total market premiums declined in 2005 and are likely to do so again in 2006. In the absence of a major increase in market share, it is therefore unlikely that the current levels of profitability can continue into the future. Nonetheless, the company is well positioned to continue to trade profitably for the foreseeable future and the Directors are satisfied both with current performance and with the short to medium term outlook for the Company's financial position.

2 Financial Risk Management

The company is exposed to financial risk through its financial assets, financial liabilities reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are interest rate risk, liquidity risk, operational risk and currency risk.

ZURICH INSURANCE IRELAND LIMITED

REPORT OF THE DIRECTORS - Contd.

2 Financial Risk Management - contd

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. Interest rate risk is minimised primarily through investing in securities with maturities of less than 10 years.

Liquidity risk

It is the Company's policy to ensure that resources are available at all times to meet insurance liabilities as and when they fall due. The day to day management of liquidity is the responsibility of the Company's Finance department.

Operational risk

Operational risk represents the risk that independent processes, systems or people, or exposure to external events could result in unexpected losses.

The Company has risk identification, assessment and monitoring systems in place to manage this risk. These systems are implemented by accountable members of management. Potential risks are assessed and appropriate controls are put in place to manage the risks.

Currency risk

The Company is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Euro. The most significant currency to which the Company is exposed is the US Dollar. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

3 Directors

The names of the persons who were Directors at any time during the year ended 31st December 2005 are set out below. Except where indicated, they served for the entire year.

R. H. Rheel	
T. Bouts	appointed 11th October 2005
M. J. Brennan	resigned 26th July 2005
A. N. Grace	resigned 2nd November 2005
M. Hongler	appointed 27th June 2005, resigned 9th February 2006
P. Manley	
M. Thornburgh	
E. Ward	
D. Wemmer	appointed 26th January 2005

4 Directors' and Secretary's Interests

The beneficial interests of the Directors and Secretary in office at 31st December, 2005 in the share capital of the Company's parent company, Zurich Financial Services, were as follows:

	Holdings as at 31/12/2005	Holdings as at 31/12/2004
R. H. Rheel	301	64
T. Bouts	-	-
M. Hongler	934	-
P. Manley	165	115
J. O'Connor	123	123
M. Thornburgh	1,315	877
E. Ward	1,891	992
D. Wemmer	2,717	1,382

The Directors and Secretary did not have any interest in the share capital of the Company or any other group companies (other than those noted above) during the year ended 31st December 2005.

ZURICH INSURANCE IRELAND LIMITED

REPORT OF THE DIRECTORS - Contd.

5 Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable Irish Law and Generally Accepted Accounting Practice in Ireland, including the accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland.

Irish company law requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the Financial Statements are prepared in accordance with accounting standards generally accepted in Ireland and with Irish statute comprising the Companies Acts, 1963 to 2005, and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996. 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.

6. Books of Account

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and the employment of competent persons. The books of account are kept at Eagle Star House, Ballsbridge Park, Dublin 4.

6 Company Name

As part of the initiative for Ireland to become EU underwriter for Global Corporate Business in Europe, the name of the legal entity was changed from Eagle Star Insurance Company (Ireland) Limited to Zurich Insurance Ireland Limited. The Company continues to trade in Ireland as Eagle Star.

7 Political Donations

The Company did not make any political donations during the year.

8 Events since year end

On 1st February 2006 the pension schemes operated by the company were amalgamated into a single scheme with the same benefits as under their existing scheme.

9 Ultimate Holding Company

The ultimate holding company at the 31st December, 2005 was Zurich Financial Services, a company incorporated in Switzerland.

10 Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with the provisions of Section 160 of the Companies Act, 1963.

On behalf of the Board



R. H. Rheel, Managing Director



E. Ward, Director

PricewaterhouseCoopers
George's Quay
Dublin 2
Telephone +353 (0) 1 678 9999
Facsimile +353 (0) 1 704 8600
I.D.E. Box No. 1283
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Independent auditors' report to the members of Zurich Insurance Ireland Limited

We have audited the financial statements on pages 8 to 27. These financial statements have been prepared under the accounting policies set out in the statement of accounting policies on pages 13 to 15.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable Irish law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (generally accepted accounting practice in Ireland) are set out in the statement of directors' responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with generally accepted accounting practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2005 and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to convene an extraordinary general meeting; such a financial situation may exist if the net assets of the company, as stated in the balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Independent auditors' report to the members of Zurich Insurance Ireland Limited - continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

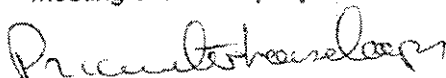
In our opinion the financial statements:

- give a true and fair view, in accordance with generally accepted accounting practice in Ireland, of the state of affairs of the company as at 31 December 2005 and of the profit of the company for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2005 and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors' report on pages 3 to 5 is consistent with the financial statements.

The net assets of the company as stated in the balance sheet on pages 10 and 11 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2005 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin

27 April 2006

ZURICH INSURANCE IRELAND LIMITED
PROFIT AND LOSS ACCOUNT

Year ended 31st December, 2005

	2005	2004
	€'000	Restated €'000
Technical Account: Non-Life Insurance		
Earned premiums, net of reinsurance		
Gross premiums written - Existing (Note 1)	307,868	344,118
- Acquired (Note 1)	<u>185,791</u>	<u>-</u>
	493,659	344,118
Outward reinsurance premiums	<u>(167,531)</u>	<u>(32,656)</u>
Net premiums written	<u>326,128</u>	<u>311,462</u>
Change in the provision for unearned premiums		
- gross amount	(106,668)	11,357
- reinsurers' share	<u>89,023</u>	<u>2,996</u>
- net	<u>(17,645)</u>	<u>14,353</u>
Earned premiums, net of reinsurance	<u>308,483</u>	325,815
- Existing	<u>298,308</u>	-
- Acquired (Note 5)	<u>10,175</u>	-
Allocated investment return transferred from the non-technical account (Notes 1 and 4)	24,204	22,209
Other Income (Note 1)	<u>1,630</u>	<u>1,948</u>
Total Technical Income	<u>334,317</u>	<u>349,972</u>
Claims paid (Note 2)		
- gross amount	(159,856)	(146,231)
- reinsurers' share	<u>11,363</u>	<u>9,363</u>
- net	<u>(148,493)</u>	<u>(136,868)</u>
Change in provision for claims		
- gross amount	(122,285)	(60,094)
- reinsurers' share	<u>104,371</u>	<u>39,996</u>
- net	<u>(17,914)</u>	<u>(20,098)</u>
Claims incurred, net of reinsurance (Note 2)	<u>(166,407)</u>	<u>(156,966)</u>
Net operating expenses (Notes 1 and 3)	(71,861)	(78,194)
Other Finance Income	<u>766</u>	<u>650</u>
Total Technical Charges	<u>(237,502)</u>	<u>(234,510)</u>
Balance on the Technical Account for Non-Life Insurance Business		
- Existing	<u>96,815</u>	<u>115,462</u>
- Acquired	<u>94,069</u>	-
	<u>2,746</u>	-

The notes on pages 13 to 27 form an integral part of these Financial Statements.

ZURICH INSURANCE IRELAND LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31st December, 2005

	2005	2004
	€'000	Restated €'000
Non-Technical Account		
Balance on the technical account: non-life insurance business	96,815	115,462
Investment income (Note 4)		
- Income from investments	37,167	33,532
- Gains and losses on the realisation of investments	9,652	2,072
- Exchange Gains	715	-
- Investment Expenses	(1,165)	(916)
Allocated investment return transferred to the technical account: non-life insurance business (Notes 1 and 4)	(24,204)	(22,209)
Unrealised gains/(losses) on investments (Note 4)	(5,672)	10,459
Other charges (Note 8)	(9,354)	(667)
Goodwill Amortisation (Note 12)	(521)	(521)
Profit on Ordinary Activities Before Tax (Note 9)	103,433	137,212
- Existing	100,354	-
- Acquired (Note 5)	3,079	-
Tax on Profit on Ordinary Activities (Note 10)	(14,411)	(17,145)
Profit on Ordinary Activities After Tax	89,022	120,067
- Existing	88,037	-
- Acquired (Note 5)	985	-
Increase in Retained Earnings	89,022	120,067

All premiums and results have been generated from continuing operations. There were no recognised gains or losses other than those dealt with in the profit and loss account.


R. H. Rheel, Managing Director


E. Ward, Director

The notes on pages 13 to 27 form an integral part of these Financial Statements.

ZURICH INSURANCE IRELAND LIMITED

BALANCE SHEET

As at 31st December, 2005

	2005	2004
	€'000	Restated €'000
Assets		
Investments		
Investment in group undertaking (Notes 11 and 12)	132,747	28,924
Intangible assets (Note 12)	6,754	7,275
Other financial investments (Note 13)	<u>1,053,250</u>	<u>899,046</u>
	<u>1,192,751</u>	<u>935,245</u>
Reinsurers' Share of Technical Provisions		
Provision for unearned premiums	93,111	4,593
Claims outstanding	<u>227,018</u>	<u>123,189</u>
	<u>320,129</u>	<u>127,782</u>
Debtors		
Debtors arising out of direct insurance operations (Note 14)	126,717	57,103
Debtors arising out of reinsurance	8,308	-
Other debtors (Note 15)	<u>18,848</u>	<u>11,335</u>
	<u>153,873</u>	<u>68,438</u>
Other Assets		
Tangible assets (Note 16)	2,055	2,070
Cash at bank and in hand	<u>17,842</u>	<u>571</u>
	<u>19,897</u>	<u>2,641</u>
Prepayments and Accrued Income		
Accrued interest	18,556	18,820
Deferred acquisition costs	<u>22,258</u>	<u>22,325</u>
	<u>40,814</u>	<u>41,145</u>
Total Assets	<u>1,727,464</u>	<u>1,175,251</u>

The notes on pages 13 to 27 form an integral part of these Financial Statements.

ZURICH INSURANCE IRELAND LIMITED

BALANCE SHEET

As at 31st December, 2005

	2005	2004
	€'000	Restated €'000
Liabilities		
Capital and Reserves		
Called up share capital (Note 17)	4,627	4,627
Capital conversion reserve (Note 17)	73	73
Capital redemption reserve fund	1	1
Share premium account	44	44
Exchange Reserve (Note 18)	(5)	-
Profit and Loss (Note 18)	<u>323,223</u>	<u>237,400</u>
Shareholders' funds - equity interests (Note 18)	<u>327,963</u>	<u>242,145</u>
Technical Provisions – Gross		
Provision for unearned premiums	261,991	156,011
Claims outstanding	<u>805,376</u>	<u>683,680</u>
	<u>1,067,367</u>	<u>839,691</u>
Provision for other risk and charges		
Deferred tax (Note 19)	<u>1,242</u>	<u>2,450</u>
Creditors		
Creditors arising out of insurance operations (Note 20)	96,073	5,953
Other creditors including tax and social welfare (Note 21)	109,769	67,132
Subordinated Loan (Note 22)	<u>103,602</u>	-
	<u>309,444</u>	<u>73,085</u>
Pension Liability (Note 24)	<u>21,448</u>	<u>17,880</u>
Total Liabilities	<u>1,727,464</u>	<u>1,175,251</u>


R. H. Rheel, Managing Director


E. Ward, Director

The notes on pages 13 to 27 form an integral part of these Financial Statements.

ZURICH INSURANCE IRELAND LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005	2004 Restated
	€'000	€'000
Profit on ordinary activities after tax	89,022	120,067
Exchange Difference	(5)	-
Actuarial loss in respect of pension scheme (Note 24)	(3,656)	(13,800)
Deferred Tax on Actuarial loss	<u>457</u>	<u>1,725</u>
Total recognised losses and gains relating to the year	85,818	<u>107,992</u>
Prior year adjustment	<u>(13,816)</u>	
Total recognised gains and losses since last financial statements	<u>72,002</u>	

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005	2004 Restated
	€'000	€'000
Profit for the year	89,022	120,067
Other recognised gains and losses relating to the year (Note 18)	<u>(3,204)</u>	<u>(12,075)</u>
Net addition to shareholders' funds	85,818	107,992
Opening shareholders' funds at 1 st January as previously stated	255,961	137,832
Prior Year Adjustments	<u>(13,816)</u>	<u>(3,679)</u>
Closing shareholders' funds	<u>327,963</u>	<u>242,145</u>

The notes on pages 13 to 27 form an integral part of these Financial Statements.

ZURICH INSURANCE IRELAND LIMITED
STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies adopted by the Company are as follows:

A Basis of Preparation

The Financial Statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish Statute comprising the Companies Acts, 1963 to 2005, and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996. Accounting Standards generally accepted in preparing Financial Statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

B Change in Accounting Policy

The Company has adopted Financial Reporting Standard 17 – "Retirement Benefits" (FRS 17) for the first time in 2005. FRS 17 requires that assets in the Company's defined benefit pension schemes are valued at fair value and liabilities are valued on an actuarial basis. The difference between assets and liabilities is shown in the Financial Statements as a pension surplus or deficit. The profit and loss charge under FRS 17 consists of the current service cost and the net of the expected return on pension scheme assets and the interest cost of the pension scheme liabilities. Actuarial gains and losses are recognised through the statement of recognised gains and losses.

The change in accounting policy has resulted in a prior year adjustment and the 2004 figures have been restated accordingly. The change resulted in a net reduction in shareholder's funds of €13.8m at 1st January, 2005. Profit before taxation increased by €1.9m for the year ended 31st December, 2004.

C Basis of Accounting

The Financial Statements are prepared in accordance with the historical cost convention, modified by the revaluation to market value of investments in accordance with the provisions of the European Communities (Insurance Undertakings: Accounts) Regulations, 1996. They have also been prepared in accordance with the ABI SORP on Accounting for Insurance Business, with the exception of the treatment of provisions in respect of the Company's share of outstanding claims of the Motor Insurers' Bureau of Ireland, which have been accounted for in line with Irish market practice as outlined in the Company's accounting policy on claims.

D (i) Underwriting Result

The underwriting result is determined on an annual basis after making full allowance for unearned premiums, deferred acquisition costs and outstanding claims.

(ii) Unearned Premiums

Unearned premiums are the proportion of premiums written in the current year which relate to cover provided in the following periods. They are calculated on a daily pro-rata basis.

(iii) Deferred Acquisition Costs

Deferred acquisition costs represent commission and other acquisition costs relating to unearned premiums.

(iv) Claims Provisions and Related Reinsurance Recoveries

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the Balance Sheet date, including the cost of claims incurred but not yet reported ('IBNR') to the Company, expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims expenses.

In estimating the cost of claims notified but not settled at the Balance Sheet date, the Company has regard to the claim circumstances as reported, any information available from loss adjusters and other experts and information on the cost of settling claims with similar characteristics in previous periods.

The estimation of IBNR claims is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is available.

ZURICH INSURANCE IRELAND LIMITED

STATEMENT OF ACCOUNTING POLICIES

(iv) ***Claims Provisions and Related Reinsurance Recoveries - continued***

In calculating the estimated cost of unsettled/outstanding claims, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including the effects of inflation, the impact of large losses and changes in the mix of business underwritten, company processes or the legal environment.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in settling the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year and having regard to the greater uncertainty in estimating the cost of claims arising on a "long-tail" liability business compared with claims arising on "short-tail" business such as property and motor damage.

A provision for the costs to be incurred in settling claims is calculated by reference to the level of outstanding claims numbers (whether reported or not), and based on current activity levels, the estimated average settlement periods and associated costs of handling claims to point of settlement.

Provision is also made for the Company's market share of the total estimated outstanding claims liability of the Motor Insurers' Bureau of Ireland at the Balance Sheet date.

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

(v) ***Reinsurance Recoveries***

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

(vi) ***Commissions***

With the exception of the amount carried forward in deferred acquisition costs as mentioned in note (iii), all commissions are written off in the year in which they are incurred.

E Investments

(i) ***Stocks and Shares***

Investments in stocks and shares are stated at mid market value.

(ii) ***Investment Appreciation***

Realised gains and losses on investments are calculated as the difference between the sale proceeds of the investments and the cost of acquisition. Unrealised gains and losses on investments are calculated as the difference between the market value of the investments at the Balance Sheet date and the market value of the investments at the preceding Balance Sheet date or cost of acquisition if later.

(iii) ***Investment in Group Undertakings***

The investment in Irish National plc is carried at cost less any re-allocation to goodwill. The investment in Zurich International (France) Compagnies d'Assurances S.A. is carried at cost.

(iv) ***Investment Income***

Investment income in the Profit and Loss Account comprises interest income, dividends and realised investment gains and losses and is the total amount receivable for the year before deduction of taxes.

ZURICH INSURANCE IRELAND LIMITED
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(v) *Transfer of Investment Return*

Investment return, including realised and unrealised gains and losses, is initially recorded in the non-technical account. A transfer is made from the non-technical to the technical account: non-life insurance business to reflect the return arising from funds generated from technical activity. The transfer is based on the longer term investment return (as estimated by the Directors). The longer term rate is used so that the balance on the technical account: non-life insurance business is not subject to distortion from short term fluctuations in investment return.

Consistent with the ABI SORP on Accounting for Insurance Business, investment expenses are included in the non-technical account and are then allowed for in determining the transfer of the longer term investment return to the technical account: non-life insurance business.

F *Goodwill*

Purchased goodwill is amortised on a straight line basis over its economic useful life. The useful life of purchased goodwill relating to Irish National Insurance Company p.l.c. has been determined by the Directors as twenty years. The amortisation is included in the non-technical account.

G *Pensions*

The Company operates defined benefit pension schemes for all of its employees. A full actuarial valuation of the schemes is undertaken every three years and is updated to reflect current conditions in the intervening periods. Scheme assets are valued at market value and scheme liabilities are measured on an actuarial basis. The surplus or deficit on the schemes is shown in the Financial Statements as an asset or liability net of the deferred tax impact. Actuarial gains and losses are recognised immediately in the statement of the recognised gains and losses.

The current service and past service cost of the schemes and the expected return on assets net of the change in the present value of the scheme liabilities arising from the passage of time, are charged to operating profit.

H *Depreciation*

Fixed assets are written off over their estimated useful lives on a straight line basis as follows: