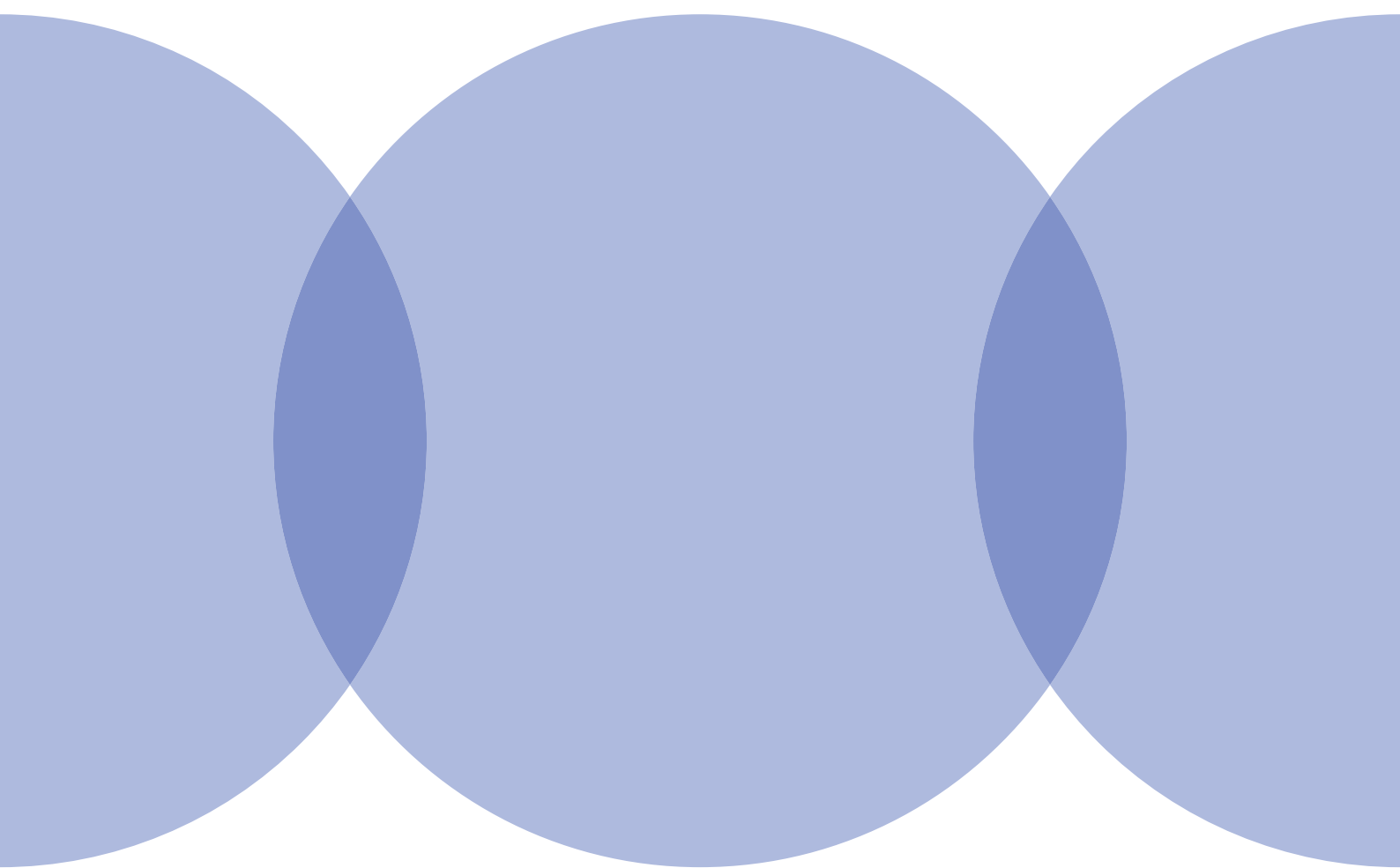




Zurich Bank International Limited

Report and Financial Statements for the year ended
31 December 2008



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Directors' Report for the year ended 31 December 2008

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activities

Zurich Bank International Limited ("the Company") is engaged in providing a range of banking services, focused on deposit taking. Furthermore the Company provides loans to businesses and individuals to facilitate the financing of their insurance premiums.

The majority of the Company's assets are held with its parent, Zurich Bank.

The Company is licensed by the Financial Supervision Commission under section 7 of the Financial Services Act 2008 to carry on, in or from the Isle of Man, the activities of deposit taking.

Results and dividend

The profit for the year after taxation amounted to £802,000 (2007: £650,000) which has been transferred to reserves.

Post tax profit has grown from £650,000 in 2007 to £802,000 in 2008, an increase of 23%.

This reflects both the growth in the Company's deposit base from £230m to £279m, as well as the profitable provision of services to other companies within the Zurich Financial Services Group.

During a year in which the financial markets saw unprecedented turmoil, the Company was able to capitalise on its continued financial strength and increase its market share, leverage brand recognition, and ultimately increase its profitability.

The Directors do not recommend the payment of a dividend (2007: Nil).

Directors

The Directors of the Company during the year and to the date of the report were:

C J Tunley
S K Dowling
D J G Peach
G Sheward
A M Deller
R L Desmond

Secretary

D J G Peach

Assistant Secretary

M M Gawne

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office in accordance with Section 12(2) of the Companies Act 1982.

By Order of the Board

David Peach
Company Secretary

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable Isle of Man law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The financial statements are required by law to 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 those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK 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 confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. 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 responsible for the maintenance and integrity of the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

David Peach
Company Secretary

08 April 2009

Independent Auditors' Report to the members of Zurich Bank International Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Zurich Bank International Limited which comprise the Balance Sheet as of 31 December 2008 and the Profit and Loss Account for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with applicable Isle of Man law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 15 of the Isle of Man Companies Act 1982 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 conducted our audit in accordance with International Accounting Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks and material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion:

- the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2008, and of its financial performance for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 - 2004.

**PricewaterhouseCoopers
Douglas, Isle of Man
Chartered Accountants**

08 April 2009

Profit and Loss Account for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Interest receivable	1(a)	12,535	11,591
Interest payable	1(a)	(10,220)	(9,402)
Net interest income		2,315	2,189
Fees and commissions receivable	1(b)	1,085	544
Fees and commissions payable	1(b)	(274)	(213)
Dealing profits		171	120
Net operating income		3,297	2,640
Administration expenses	3	(2,281)	(1,851)
Provision for bad and doubtful debts	4	(140)	(80)
Profit on ordinary activities before taxation	5	876	709
Tax on profit on ordinary activities	6(a)	(74)	(59)
Retained profit for the year	7	802	650

The Company has no recognised gains and losses other than those included in the profit above of £802,000 (2007: £650,000) and therefore no separate statement of total recognised gains and losses has been presented. All of the profit for the year arises in respect of continuing activities.

There is no difference between the profit before taxation and the retained profit for the year stated above and their historical cost equivalents.

The notes on pages 8 to 25 form part of the financial statements.

Balance Sheet at 31 December 2008

	Notes	2008 £000	2007 £000
Assets			
Fixed assets	2	1,097	979
Loans and advances to parent	8	248,978	211,715
Loans and advances to other banks	9	14,670	3,682
Loans and overdrafts	10	19,533	17,106
Other assets	11	5,281	6,282
Total assets		289,559	239,764
Liabilities and shareholders' funds			
Deposit liabilities	13	271,440	221,911
Other liabilities	14	7,602	8,138
		279,042	230,049
Paid up issued share capital	7	5,000	5,000
Reserves	7	5,517	4,715
Equity shareholders' funds	17	10,517	9,715
Total liabilities and shareholders' funds		289,559	239,764
Memorandum items			
Contingent liabilities:			
– other contingent liabilities		–	–
Commitments			
– undrawn loan commitments		362	–

The financial statements on pages 6 to 25 were approved by the Board of Directors on 08 April 2009 and were signed on their behalf by:

Graham Sheward
Director

David Peach
Director

The notes on pages 8 to 25 form part of these financial statements.

Notes to the Financial Statements for the year ended 31 December 2008

1 Accounting Policies

The financial statements have been prepared under the historical cost convention and in accordance with both applicable Accounting Standards in the United Kingdom and the Statements of Recommended Practice issued by the British Bankers Association.

A summary of the more important accounting policies, which have been applied consistently, is set out below.

(a) Interest

Interest receivable and interest payable are accrued on a day to day basis.

Interest receivable represents interest received and receivable on loans, advances and overdrafts made to the parent, other banks and customers.

Interest payable represents interest paid and payable on deposits placed with the Company.

(b) Fees and commissions

Fees and commissions relating to general customer activities are credited to the profit and loss account when due. Commission receivable and payable in respect of the Company's Guaranteed Equity Bond products is amortised over the maximum term of the product. Income received for undertaking operations work, under a Service Level Agreement ("SLA"), for Zurich Bank is charged at a set annual fee.

(c) Provisions for bad and doubtful debts

Specific provisions are made against loans on a case by case basis to cover anticipated losses in respect of all accounts where a probable loss has been identified due to impairment. Anticipated losses on such accounts are calculated as the difference between the current achievable market value of the security and the outstanding loan balance, after making appropriate allowance for costs of disposal and sale. If, at some future point, it is concluded that there is no realistic prospect of recovery, the impaired value of the loan will be written off.

Portfolio provisions are made to reflect the probability that other loans may also be impaired at the balance sheet date, with the result that the amount advanced may not be recovered in full. The portfolio provision for the premium finance book of loans is calculated objectively using the historical default experience of this loan type and utilising both internal and market data. The provision for the remaining loan book is based on the Directors' view of the portfolio (excluding cases already specifically provided for) according to risk profiles reflecting product characteristics and borrower credit-worthiness. In calculating both portfolio and specific provisions, no provision is made for future interest.

(d) Foreign currencies

Foreign currency transactions during the year are translated into Sterling at the average rate for the month. Monetary assets and liabilities denominated in foreign currencies are incorporated into the financial statements by translating foreign currencies into Sterling at the rate of exchange ruling at the balance sheet date. Exchange differences arising are taken to the profit and loss account.

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

1 Accounting Policies (continued)

(e) **Deferred taxation**

Deferred tax is provided in full in respect of timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

(f) **Operating lease expense**

Operating lease expense is charged to administration expenses in the Profit and Loss Account on a straight-line basis over the period of the lease.

(g) **Software development and implementation**

Software and development costs and fixtures and fittings are capitalised and are depreciated over a five year period.

(h) **Off balance sheet financial instruments and derivatives**

The Company does not permit trading transactions to be undertaken in off balance sheet financial instruments or derivatives other than for customer facilitation purposes, as defined by Financial Reporting Standard 13. Transactions of this nature are marked to market and are fully hedged. Non-trading derivative positions are entered into to hedge the Company's financial obligations and risks, and are treated in accordance with the accounting treatment of the item being hedged. All off balance sheet financial instruments are transacted with companies within the Zurich Financial Services Group.

(i) **Tangible fixed assets and depreciation policy**

All tangible fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation of assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over the estimated useful lives, as follows:

- Fixtures and Fittings 5 years
- Computer equipment 5 years

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. They are included in other operating expenses in the Profit and Loss Account.

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

2 Fixed Assets

	2008	2008	2007	2007
	Computer	Fixtures	Computer	Fixtures
	Equipment	& Fittings	Equipment	& Fittings
	£000	£000	£000	£000
Cost				
At 1 January	1,275	19	1,282	-
Additions	387	18	65	19
Disposals	-	-	(72)	-
At 31 December	1,662	37	1,275	19
Depreciation				
At 1 January	(314)	(1)	(71)	-
Charge for the year	(280)	(7)	(263)	(1)
Disposals	-	-	20	-
At 31 December	(594)	(8)	(314)	(1)
Net Book Value as at 31 December	1,068	29	961	18

3 Administration Expenses

	2008	2007
	£000	£000
Expenses directly attributable to the Company	1,718	1,319
Isle of Man group recharges	242	242
Zurich Banking recharges	243	211
Rental expense (note 18)	78	79
	2,281	1,851

Isle of Man Group recharges reflect the Company's contribution to the costs of central services, such as Human Resources and Business Services provided by Zurich Financial Services (Isle of Man) Group Services Limited, together with depreciation on fixed assets owned by Zurich Financial Services (Isle of Man) Group Services Limited and utilised by the Company in its banking operations.

Zurich Banking recharges reflect the Company's contribution towards

- treasury management services provided by Zurich Treasury Services Limited
- finance services provided by Zurich Bank
- IT support and hosting services provided by Dunbar Bank Plc

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

4 Provisions for bad and doubtful debts

	2008	2008	2007	2007
	£000	£000	£000	£000
	Specific	General	Specific	General
At 1 January	185	57	101	100
Additional provisions	116	40	123	-
Release of provisions	(16)	-	-	(43)
Charge/(Credit) against profit	100	40	123	(43)
Bad debts written off	(207)	-	(39)	-
At 31 December	78	97	185	57
As deduction from				
Loans and overdrafts	78	97	185	57

The gross amount of non-performing loans and overdrafts as at 31 December 2008 was £78,000 (2007: £185,000).

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2008	2007
	£000	£000
Auditors' remuneration for audit services	31	28
Directors' fees	19	15
Operating lease payable (note 18)	80	79
Depreciation (note 2)	287	264

The total operating income from continuing activities amounted to £13,791,000 (2007: £12,255,000).

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

6 Taxation

	2008 £000	2007 £000
a) Tax on profit on ordinary activities		
<i>Current Tax:</i>		
Manx income tax	78	54
Total current tax (see note 6b)	78	54
<i>Deferred Tax:</i>		
Origination and reversal of timing differences	(4)	5
Previously unrecognised timing differences relating to prior periods	-	-
Total deferred tax (see note 6d)	(4)	5
Total tax on profit on ordinary activities	74	59

b) Factors affecting tax charge for year

The tax assessed is lower than the relevant rate of income tax in the Isle of Man (10%). The differences are explained below.

Profit on ordinary activities before tax	876	709
Profit on ordinary activities multiplied by the 10% (2007: 10%) rate of income tax applicable to Banks in the Isle of Man	88	71
<i>Effects of:</i>		
Tax effect of movement in general provision	4	(5)
Net income taxed at 0%	(14)	(12)
Current tax charge (see note 6a)	78	54

c) Balance sheet

Deferred tax asset	10	6
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d) Provision for deferred taxation at 10%

Deferred tax asset at 1 January	(6)	11
Deferred tax asset at 31 December	(10)	(6)
Deferred tax charge in profit and loss account	(4)	5
Effect of general provisions	(4)	6
	(4)	6

A deferred tax asset of £10,000 has been recognised in these financial statements. On the basis of the Company's financial forecasts, the Directors believe that this asset will be recoverable against the future taxable profits of the Company.

e) Factors that may affect future tax charges

There are no factors that are expected to significantly affect the taxation charge in future periods.

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

7 Share capital and reserves

	2008	2007
	£000	£000
Share capital		
Authorised:		
350,000,000 ordinary shares of £0.10 each	35,000	35,000
Issued and fully paid:		
50,000,000 ordinary shares of £0.10 each	5,000	5,000
	2008	2007
	£000	£000
Reserves		
Retained earnings at 1 January	4,715	4,065
Retained profit for the year	802	650
Retained earnings at 31 December	5,517	4,715

8 Loans and advances to parent

	2008	2007
	£000	£000
Balances with Parent	248,978	211,715
Maturity analysis		
Sight – less than 8 days	78,277	143,927
8 days less than 1 month	23,353	5,409
1 month less than 3 months	35,364	22,125
3 months less than 6 months	16,113	29,082
6 months less than 1 year	94,671	11,172
1 year less than 3 years	1,200	-
3 years less than 5 years	-	-
More than 5 years	-	-
	248,978	211,715

9 Loans and advances to other banks

	2008	2007
	£000	£000
Due from Banks	14,670	3,682
Maturity analysis		
Sight – less than 8 days	4,670	3,682
8 days less than 1 month	10,000	-
1 month less than 3 months	-	-
3 months less than 6 months	-	-
6 months less than 1 year	-	-
1 year less than 3 years	-	-
3 years less than 5 years	-	-
More than 5 years	-	-
	14,670	3,682

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

10 Loans and Overdrafts

	2008	2007
	£000	£000
Secured	2,322	2,402
Unsecured	17,386	14,946
Specific bad debt provisions (note 4)	(78)	(185)
Portfolio bad debt provision (note 4)	(97)	(57)
	19,533	17,106
Maturity analysis		
Sight – less than 8 days	74	1,859
8 days less than 1 month	58	12
1 month less than 3 months	771	31
3 months less than 6 months	165	-
6 months less than 1 year	17,225	15,052
1 year less than 3 years	1,192	122
3 years less than 5 years	35	28
More than 5 years	13	2
	19,533	17,106

Unsecured loans to employees of the Zurich Financial Services Group amounted to £86,000 (2007: £105,000).

There were no advances that individually exceeded 10% of the Company's paid up share capital and reserves.

11 Other assets

	2008	2007
	£000	£000
Debtors and prepayments	5,271	542
Deferred taxation (note 6)	10	6
Amounts due from other group companies (note 12)	-	5,734
	5,281	6,282

Included within debtors and prepayments is £1,174,000 (2007: £334,000) of deferred commission payable in respect of the Company's Guaranteed Equity Bond products.

12 Amounts due from group companies

	2008	2007
	£000	£000
Amounts due from group companies:		
– Dunbar Bank Plc	-	2,495
– Zurich Bank	-	3,239
	-	5,734

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

13 Deposit liabilities

	2008	2007
	£000	£000
Due to customers	212,188	149,396
Due to customers of group companies	38,759	62,906
Due to banks	20,493	9,609
	271,440	221,911
<hr/>		
Maturity analysis		
Sight – less than 8 days	70,399	115,898
8 days less than 1 month	26,303	24,098
1 month less than 3 months	24,777	27,606
3 months less than 6 months	21,363	34,283
6 months less than 1 year	99,236	15,819
1 year less than 3 years	22,321	3,607
3 years less than 5 years	6,041	600
More than 5 years	1,000	-
	271,440	221,911

Amounts due to customers held as security for advances amounted to £Nil (2007: £Nil).

14 Other liabilities

	2008	2007
	£000	£000
Creditors and deferred income	7,546	5,492
Amounts due to other group companies (note 15)	56	2,646
	7,602	8,138

Included within creditors and deferred income is £1,311,000 (2007: £503,000) of deferred commission income in respect of the Company's Guaranteed Equity Bond products.

15 Amounts due to group companies

	2008	2007
	£000	£000
Amounts due to group companies:		
– Zurich Treasury Services Limited	-	100
– Zurich Financial Services (Isle of Man) Group Services Ltd	1	1,022
– Zurich Bank	18	71
– Dunbar Bank plc	37	1,302
– Other Zurich entities	-	151
	56	2,646

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

16 Contingent liabilities

Isle of Man Depositors' Compensation Scheme

The Company is a member of the statutory Isle of Man Depositors' Compensation Scheme ("the Scheme"). The Scheme is financed by contributions from licenceholders which are currently fixed at 1/8 % of Sterling and foreign currency deposits subject to a maximum levy in any one year of £350,000. The Scheme will only come into operation when there is a default by a participating banking institution and there will be no standing fund for compensation.

On 9 October 2008 a provisional liquidator was appointed to a banking licenceholder in the Isle of Man following suspension of its banking licence. The petition for the winding up of the licenceholder has been adjourned until 9 April 2009. If the licenceholder is wound up, this could crystallise a liability under the scheme.

17 Reconciliation of movements in shareholders' funds

	2008	2007
	£000	£000
Opening shareholders' funds	9,715	9,065
Retained profit for the year	802	650
Closing shareholders' funds	10,517	9,715

18 Operating lease

The Company is committed to rental expenditure under a sub-lease for its own office premises amounting to £78,000 (2007: £71,820) in the next 12 months. The sub-lease expires in 2013.

19 Employees and Pensions

Staff working for the Company are employed by another Group undertaking, Zurich Employment Services Limited, and therefore the Company does not incur direct staff or pension costs.

The Company incurs management charges from Zurich Employment Services Limited, via its recharge from Zurich Financial Services (Isle of Man) Group Services Limited. These costs are included within note 3 under the heading "Expenses directly attributable to the Company".

The principal disclosures in respect of these staff appear in the financial statements of Zurich Employment Services Limited, copies of which can be obtained from The Secretary, Zurich Employment Services Limited, UK Life Centre, Station Road, Swindon, SN1 1EL.

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

20 Immediate and ultimate holding company

The immediate holding company at 31 December 2008 was Zurich Bank, incorporated in the Republic of Ireland.

The ultimate holding company and controlling party at 31 December 2008 was Zurich Financial Services, which is a company incorporated in Switzerland. Zurich Financial Services is also the holding company of the largest group of companies for which group accounts are prepared, and copies of its group accounts can be obtained from Mythenquai 2, 8022 Zurich, Switzerland.

Zurich Bank is the holding company of the smallest group of companies of which the Company is a wholly owned subsidiary and for which group accounts are drawn up. Copies of the consolidated financial statements of Zurich Bank can be obtained from Zurich Bank, La Touche House, I.F.S.C., Dublin 1.

21 Segmental reporting

All of the Company's business arises from banking activities, geographically split by customer location as shown below:

2008

	Isle of Man, United Kingdom and Jersey £000	Other European Union £000	Rest of World £000	Total £000
<i>Balance Sheet</i>				
Fixed Assets	1,097	-	-	1,097
Moneymarket Assets	3,420	258,978	1,250	263,648
Other Assets	19,749	4,788	277	24,814
Deposit Liabilities	(219,594)	(22,161)	(29,685)	(271,440)
Other Liabilities	(6,504)	(801)	(297)	(7,602)
Net Assets	(201,832)	240,804	(28,455)	10,517
<i>Profit and Loss Account</i>				
Net Operating Income	2,364	143	790	3,297
Unallocated common costs				(2,421)
Profit on ordinary activities before taxation				876

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

2007

	Isle of Man, United Kingdom and Jersey £000	Other European Union £000	Rest of World £000	Total £000
<i>Balance Sheet</i>				
Fixed Assets	979	-	-	979
Moneymarket Assets	3,118	211,716	563	215,397
Other Assets	19,527	3,655	206	23,388
Deposit Liabilities	(188,869)	(7,810)	(25,232)	(221,911)
Other Liabilities	(7,561)	(299)	(278)	(8,138)
Net Assets	(172,806)	207,262	(24,741)	9,715
<i>Profit and Loss Account</i>				
Net Operating Income	1,948	103	589	2,640
Unallocated common costs				(1,931)
Profit on ordinary activities before taxation				709

In determining the geographical split of net operating income, net interest income, including income on shareholders' funds, has been allocated on the basis of the location of the deposit liabilities, as interest margins earned are approximately constant in each sector.

22 Related party disclosure

As permitted by Financial Reporting Standard 8 paragraph 3(c) and other than as disclosed in Note 3, any transactions with other members at least 90% owned within the Zurich Bank Group have not been disclosed because Zurich Bank prepares consolidated accounts. Details of material related party trading relationships are included in the Directors' Report.

23 Cash flow statement

As permitted by Financial Reporting Standard No. 1 (Revised 1996) a cash flow statement has not been prepared as the Company is a wholly owned subsidiary of an ultimate parent, which produces publicly available consolidated financial statements, including a cash flow statement.

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

24 Risk policy and financial instruments

The Company has a comprehensive approach to the management of risk. The Board of Directors has issued risk policies that are subject to review at least annually, and has delegated authority to various board subcommittees to control these risks. These subcommittees are Risk Forum, Balance Sheet and Risk Committee (BSRC), Credit Committee and Audit Committee.

The Company does not hold derivative instruments for trading purposes, other than for customer facilitation. No such trading instruments were entered into during the year, or were outstanding at 31 December 2008. Derivative instruments are entered into to enable the Company to hedge certain financial obligations as described in (e) below.

The Company is exposed to liquidity risk, credit risk, currency risk, operational risk and interest rate risk.

(a) Liquidity Risk

The liquidity policy is aimed at ensuring that the Company can meet its cash financial obligations as and when they fall due. The maturity profile of assets and liabilities is managed in accordance with the Company's liquidity policy.

(b) Credit Risk

Credit risk arises from extending credit in all forms, where there is a possibility that a counterparty may default. The Company is committed to a strong credit culture that recognises the need to ensure that risk assets are of high quality.

The Company's nostro relationships are with primary and Tier 1 banking institutions approved in accordance with Group guidelines.

The credit risk inherent in the Company's lending book is managed by having in place a detailed lending policy, and regular meetings of the Credit Committee. This provides lending officers with defined responsibilities as well as a disciplined and focused benchmark for sound credit decision making.

(c) Currency Risk

In accordance with the Company's liquidity policy, all client deposits are matched by an asset denominated in the same currency. As a result any potential exposure to currency risk on the Company's assets and liabilities is minimised. The Company undertakes foreign exchange dealing for customer facilitation purposes only. Positions created by such dealing are cleared down on a daily basis.

(d) Operational Risk

The Basel Committee defines operational risk as "the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events". The Risk Forum proactively seeks out and identifies these risks, ensuring that they are either eliminated or adequately controlled.

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

24 Risk policy and financial instruments (continued)

(e) Interest Rate Risk

Part of the Company's return on financial instruments is obtained from controlled mismatching of the dates on which the instruments mature or, if earlier, the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates. The tables below summarise these repricing mismatches on the Company's assets and liabilities as at 31 December 2008 and 2007. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

The premium financing loans issued by the Company are at fixed interest rates, whilst the liabilities used to fund these assets are at floating rate. The Company uses interest rate derivatives to hedge this risk, and the position shown below is net of these derivatives.

Additionally, the Company offers long term retail deposit accounts, where return is linked to the performance of one or more equity indices. The interest rate risk arising from such contracts is exactly matched through the use of derivative instruments, such instruments being classified as "non-trading".

(f) Interest rate sensitivity gap analysis

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non- interest bearing	Total
	£000	£000	£000	£000	£000	£000	£000
Interest rate repricing							
2008							
Assets:							
Fixed Assets	-	-	-	-	-	1,097	1,097
Loans & advances to banks	151,664	16,113	94,671	1,200	-	-	263,648
Loans & overdrafts to customers	19,533	-	-	-	-	-	19,533
Other assets	-	-	-	-	-	5,281	5,281
Total assets	171,197	16,113	94,671	1,200	-	6,378	289,559
Liabilities:							
Deposit liabilities	159,398	16,446	95,396	200	-	-	271,440
Other liabilities	-	-	-	-	-	7,602	7,602
Shareholders' funds	-	-	-	-	-	10,517	10,517
Total liabilities	159,398	16,446	95,396	200	-	18,119	289,559
Interest rate sensitivity gap	11,799	(333)	(725)	1,000	-	(11,741)	-
Cumulative gap	11,799	11,466	10,741	11,741	11,741	-	-

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

24 Risk policy and financial instruments (continued)

(f) Interest rate sensitivity gap analysis (continued)

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non- interest bearing	Total
Interest rate repricing	£000	£000	£000	£000	£000	£000	£000
2007							
Assets:							
Fixed Assets	-	-	-	-	-	979	979
Loans & advances to banks	175,143	29,082	11,172	-	-	-	215,397
Loans & overdrafts to customers	17,106	-	-	-	-	-	17,106
Other assets	-	-	-	-	-	6,282	6,282
Total assets	192,249	29,082	11,172	-	-	7,261	239,764
Liabilities:							
Deposit liabilities	180,675	29,719	11,517	-	-	-	221,911
Other liabilities	-	-	-	-	-	8,138	8,138
Shareholders' funds	-	-	-	-	-	9,715	9,715
Total liabilities	180,675	29,719	11,517	-	-	17,853	239,764
Interest rate sensitivity gap	11,574	(637)	(345)	-	-	(10,592)	-
Cumulative gap	11,574	10,937	10,592	10,592	10,592	-	-

A positive interest rate sensitivity gap exists when more assets than liabilities reprice during a given period. Although a positive gap position tends to benefit net interest income in an increasing interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rate sensitivity within repricing periods and among currencies.

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

24 Risk policy and financial instruments (continued)

(g) Maturity analysis and replacement costs of derivatives and off balance sheet instruments

At 31 December 2008 and 31 December 2007, the principal amounts of instruments not included on the Company's balance sheet were:

	5 years or less		Over 5 years		Total	
	Notional Replacement Principal £000	Cost £000	Notional Replacement Principal £000	Cost £000	Notional Replacement Principal £000	Cost £000
2008						
Interest rate related contracts						
Financial Institutions	14,638	-	-	-	14,638	-
Equity related contracts						
Financial Institutions	33,005	319	5,140	87	38,145	406
Total	47,643	319	5,140	87	52,783	406
2007						
Interest rate related contracts						
Financial Institutions	15,433	-	-	-	15,433	-
Equity related contracts						
Financial Institutions	14,924	1,176	-	-	14,924	1,176
Total	30,357	1,176	-	-	30,357	1,176

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

24 Risk policy and financial instruments (continued)

(h) Fair value of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all of the Company's non-trading derivatives as at 31 December 2008 and 31 December 2007.

The Company held no trading derivatives at 31 December 2008 or 31 December 2007, and had entered into no trading contracts during either year.

	Non Trading Fair Value £000	Non Trading Book Value £000
2008		
Assets		
Equity related contracts	406	52
Interest related contracts	-	-
Liabilities		
Equity related contracts	1,914	-
Interest related contracts	242	37
2007		
Assets		
Equity related contracts	1,176	40
Interest related contracts	-	-
Liabilities		
Equity related contracts	102	-
Interest related contracts	23	9

Fair values of non-trading derivatives have been calculated on the basis of market values as at 31 December 2008 and 31 December 2007.

The book values of the non-trading derivatives detailed above represents amounts included in the Company's balance sheet in respect of interest accrued under the terms of the derivative.

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

24 Risk policy and financial instruments (continued)

(i) Hedging

The tables below summarise the unrecognised gains and losses on hedges at 31 December 2008, and the movements therein during the year pending their recognition in the profit and loss account.

2008	Gains	Losses	Total net
	£000	£000	gains/(losses)
			£000
Unrecognised gains and losses on hedges at 1 January 2008	1,176	(125)	1,051
Gains and losses arising in the year to 31 December 2008 that were not recognised in that year	(770)	(2,031)	(2,801)
Unrecognised gains and losses on hedges at 31 December 2008	406	(2,156)	(1,750)
Of which expected to be recognised in the year to 31 December 2009	-	-	-
2007	Gains	Losses	Total net
	£000	£000	gains/(losses)
			£000
Unrecognised gains and losses on hedges at 1 January 2007	968	(46)	922
Gains and losses arising in the year to 31 December 2007 that were not recognised in that year	208	(79)	129
Unrecognised gains and losses on hedges at 31 December 2007	1,176	(125)	1,051
Of which expected to be recognised in the year to 31 December 2008	-	-	-

The gains noted above are amounts due to customers, whilst the losses are offset by amounts due from those counterparties with whom the Company has transacted the relevant derivative instrument.

Notes to the Financial Statements for the year ended 31 December 2008 (continued)

25 Capital adequacy

The Company monitors its capital adequacy on an on-going basis and the table below shows capital adequacy calculations as at 31 December 2008 and 2007.

	2008	2007
Tier 1 capital		
Share Capital	5,000	5,000
Retained Earnings	5,517	4,715
Total Tier 1 Capital	10,517	9,715
Tier 2 Capital		
Collective impairment allowance	97	57
Total Capital Available	10,614	9,772
Credit risk	5,773	6,582
Market risk	33	73
Operational risk	375	-
Pillar 1 Capital Required	6,181	6,655
Pillar 2 Capital Required	1,545	-
Total Capital Required	7,726	6,655
Surplus Capital	2,888	3,117
Risk Asset Ratio	13.7%	14.7%

On 27 January 2009, the Company issued 10,000,000 fully paid ordinary shares of £0.10 to Zurich Bank at par value. This served to increase the Company's post-audit regulatory capital to £11,614,000

Zurich Bank International

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