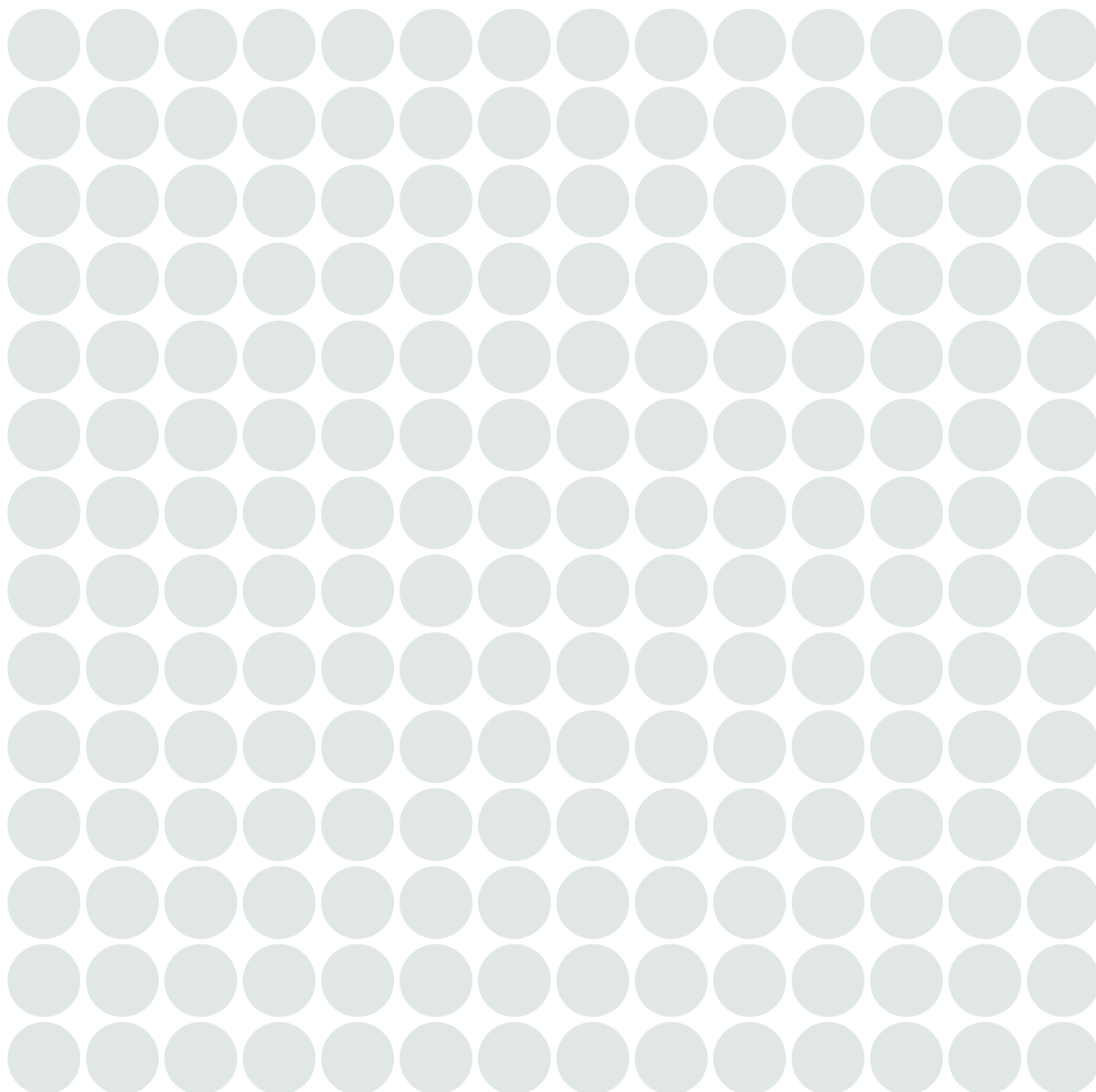


Zurich Bank International Limited

Report and Financial Statements for the year ended 31 December 2011



Contents

	Page
Report of the Directors	3-4
Statement of Directors' Responsibilities	5
Independent Auditors' Report	6-7
Profit and Loss Account	8
Balance Sheet	9
Notes to the Financial Statements	10-29

Directors' Report for the year ended 31 December 2011

The Directors present their report and the audited financial statements for the year ended 31 December 2011.

Principal activities

Zurich Bank International Limited ("the Company") is engaged in providing a range of banking services, focussed on deposit taking.

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 £1,219k (2010: £1,306k) which has been transferred to reserves.

Profit on ordinary activities before exceptional items was £1,648k (2010: £1,403k) with the increase primarily attributed to a number of factors: net interest income is down on 2010 as a result of the bank exiting the premium finance business, this reduction in net interest income is compensated by a decrease in administrative expenses and the release of a portfolio provision during the year, resulting in higher profits.

The Company saw a reduction in its deposits book from £497m to £482m, continuing to reflect the shift from fixed rate bond products towards longer term structured deposits.

The Directors do not recommend the payment of a dividend (2010: Nil).

Going concern

The Company's business activities are set out above. The principal risks and uncertainties the Company currently faces are described in note 26 to the financial statements and this note includes the Company's objectives, policies and procedures for managing those risks.

The Company's performance has been resilient in the difficult economic conditions currently being experienced and in previous downturns. The directors further believe the Company has a sound funding and liquidity position and adequate capital resources. As a consequence, the directors believe the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries with management reviewing forecasts, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' Report for the year ended 31 December 2011 (continued)

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
P J Lindley
M A Waterhouse
S Corcoran

Secretary

E Yarker

Assistant Secretary

M M Gawne

Auditor

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

By Order of the Board

Eric Yarker

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 Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards. 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 that are sufficient to show and explain the company's transactions and 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

Eric Yarker

Company Secretary

22 March 2012

Independent Auditor's 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 2011 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 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 auditor's judgement, including the assessment of the risks of 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.

Independent Auditor's Report to the members of Zurich Bank International Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view of the financial position of the company as of 31 December 2011, and of its financial performance for the year then ended in accordance with United Kingdom Accounting Standards; and
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 – 2004.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Isle of Man Companies Acts 1931-2004 require us to report to you if, in our opinion :

- proper books of account have not been kept by the company or, proper returns adequate for our audit have not been received from branches not visited by us; or
- the company's balance sheet and profit and loss account are not in agreement with the books of account and returns; or
- we have not received all the information and explanations necessary for the purposes of our audit; and
- certain disclosures of directors' loans and remuneration specified by law have not been complied with.

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
22 March 2012

Profit and Loss Account for the year ended 31 December 2011

	Notes	2011 £000	2010 (Restated) Note 17 £000
Interest receivable		9,635	10,400
Interest payable		(6,862)	(7,500)
Net interest income		2,773	2,900
Fees and commissions receivable		3,292	2,512
Fees and commissions payable		(2,700)	(2,070)
Dealing profits		38	96
Net operating income		3,403	3,438
Administration expenses	2	(1,803)	(1,999)
Provision for bad and doubtful debts	3	(48)	(36)
Profit on ordinary activities before exceptional items		1,648	1,403
Isle of Man Depositor's Compensation Scheme	19	(304)	-
Profit on ordinary activities before taxation	4	1,344	1,403
Tax on profit on ordinary activities	10	(125)	(97)
Retained profit for the year	16	1,219	1,306

The Company has no recognised gains and losses other than those included in the profit above of £1,219k (2010: £1,306k) 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 material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

The notes on pages 10 to 29 form part of the financial statements.

Balance Sheet at 31 December 2011

	Notes	2011 £000	2010 £000
Assets			
Fixed assets	5	192	478
Loans and advances to parent	6	456,158	473,128
Loans and advances to other banks	7	53,289	41,790
Loans and overdrafts	8	118	7,982
Debtors and prepayments	9	8,987	10,487
Deferred taxation	10	-	8
Amounts due from group companies	11	-	251
Total assets		518,744	534,124
Liabilities and shareholders' funds			
Deposit liabilities	12	482,193	497,167
Creditors and deferred income	13	10,359	11,713
Amounts due to group companies	14	204	246
Provisions	15	115	93
		492,871	509,219
Paid up issued share capital	16	10,500	10,500
Subordinated loan notes	17	7,500	7,500
Reserves	16	7,873	6,905
Equity shareholders' funds	18	25,873	24,905
Total liabilities and shareholders' funds		518,744	534,124
Memorandum items			
Contingent liabilities:			
– other contingent liabilities		-	-
Commitments			
– undrawn loan commitments		-	-

The financial statements on pages 8 to 29 were approved and authorised for issue by the Board of Directors on 22 March 2012 and were signed on their behalf by:

Mark Waterhouse
Director

Shane Corcoran
Director

The notes on pages 10 to 29 form part of these financial statements.

Notes to the Financial Statements for the year ended 31 December 2011

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) Going concern

The financial statements, which should be read in conjunction with the Director's report, are prepared on a going concern basis.

(b) 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.

(c) 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 Structured Deposit 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 and Dunbar Assets are charged at a set annual fee.

(d) 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.

General 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 general 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 general (excluding cases already specifically provided for) according to risk profiles reflecting product characteristics and borrower credit-worthiness. In calculating both general and specific provisions, no provision is made for future interest.

(e) Foreign currencies

Foreign currency transactions during the year are translated into Sterling at the relevant daily rate. 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 2011 (continued)

1 Accounting Policies (continued)

(f) 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.

(g) Operating lease expense

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

(h) Software development and implementation

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

(i) 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.

(j) 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

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

1 Accounting Policies (continued)

(j) Tangible fixed assets and depreciation policy – continued

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.

(k) Intra-Group charging

Where services are provided between Group members, the charges are made on a commercial basis.

(l) Provisions

Provisions are recognised when, and only when, the following criteria are met:

- i) There is a present obligation (legal or constructive) as a result of a past event; and
- ii) It is probable that an outflow of resources will be required to settle the obligation; and
- iii) a reliable estimate can be made of the amount of the obligation.

Provisions are discounted to net present values using rates which reflect the risks specific to the provision, unless the effect of discounting is minimal.

Provisions are reviewed at each balance sheet date, and are released if they no longer meet the above criteria.

(m) Loans and advances

Loans and Advances are stated net of specific provisions for bad and doubtful debts which are made on the basis of regular review by Management.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

2 Administration expenses

	2011	2010
	£000	£000
Expenses directly attributable to the Company	1,186	1,468
Isle of Man group recharges	212	211
Zurich Banking recharges	310	231
Rental expense (note 20)	95	89
	1,803	1,999

The decrease in 2011 expenses directly attributable to the Company reduced mainly as a result of lower staff costs in particular lower incentive costs. Also there were lower Depreciation charges as two assets were fully depreciated during the year.

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 Assets Plc & Zurich Bank.

3 Provisions for bad and doubtful debts

	2011	2011	2011	2010	2010	2010
	£000	£000	£000	£000	£000	£000
	Specific	General	Total	Specific	General	Total
At 1 January	79	77	156	134	75	209
Additional provisions	21	-	21	28	2	30
Release of provisions	-	(77)	(77)	(1)	-	(1)
Charge/(credit) against profit	21	(77)	(56)	27	2	29
Bad debts written off	(30)	-	(30)	(82)	-	(82)
	70	-	70	79	77	156
At 31 December	70	-	70	79	77	156
As deduction from						
Loans and overdrafts	70	-	70	79	77	156

The gross amount of non-performing loans and overdrafts as at 31 December 2011 was £111k (2010: £92k).

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2011	2010
	£000	£000
Auditors' remuneration for audit services	46	44
Directors' fees	29	42
Operating lease payable (note 20)	95	89
Depreciation (note 5)	286	349

The total operating income from continuing activities amounted to £12,965k (2010: £13,008k).

5 Fixed assets

	2011	2011	2011	2010	2010	2010
	Computer	Fixtures	Total	Computer	Fixtures	Total
	Equipment	& Fittings		Equipment	& Fittings	
	£000	£000	£000	£000	£000	£000
	Specific	General	Total	Specific	General	Total
Cost						
At 1 January	1,734	37	1,771	1,714	37	1,751
Additions	-	-	-	20	-	20
Disposals	-	-	-	-	-	-
At 31 December	1,734	37	1,771	1,734	37	1,771
Depreciation						
At 1 January	(1,271)	(22)	(1,293)	(929)	(15)	(944)
Charge for the year	(279)	(7)	(286)	(342)	(7)	(349)
Disposals	-	-	-	-	-	-
At 31 December	(1,550)	(29)	(1,579)	(1,271)	(22)	(1,293)
Net Book Value as at						
31 December	184	8	192	463	15	478

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

6 Loans and advances to parent

	2011 £000	2010 £000
Balances with Parent	456,158	473,128
Maturity analysis		
Sight – less than 8 days	59,246	77,438
8 days less than 1 month	6,958	75,011
1 month less than 3 months	16,578	40,272
3 months less than 6 months	12,789	30,170
6 months less than 1 year	53,352	76,747
1 year less than 3 years	167,494	102,134
3 years less than 5 years	139,741	55,478
More than 5 years	-	15,878
	456,158	473,128

7 Loans and advances to other banks

	2011 £000	2010 £000
Due from other Banks	53,289	41,790
Maturity analysis		
Sight – less than 8 days	3,189	26,790
8 days less than 1 month	20,000	-
1 month less than 3 months	30,100	15,000
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	-	-
	53,289	41,790

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

8 Loans and overdrafts

	2011	2010
	£000	£000
Secured	113	386
Unsecured	75	7,752
Specific bad debt provisions (note 3)	(70)	(79)
General bad debt provision (note 3)	-	(77)
	118	7,982
Maturity analysis		
Sight – less than 8 days	102	201
8 days less than 1 month	-	849
1 month less than 3 months	-	1,698
3 months less than 6 months	-	2,548
6 months less than 1 year	5	2,457
1 year less than 3 years	-	218
3 years less than 5 years	11	3
More than 5 years	-	8
	118	7,982

Unsecured loans to employees of the Zurich Financial Services Group amounted to £6k (2010: £68k).

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

9 Debtors and prepayments

Included within debtors and prepayments is £7,432k (2010: £7,482k) of deferred commission payable in respect of the Company's Structured Deposit accounts.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

10 Taxation

	2011 £000	2010 £000
a) Tax on profit on ordinary activities		
<i>Current Tax:</i>		
Manx income tax	86	67
Underprovision in prior year	31	-
Total current tax (see note 6(b))	117	67
<i>Deferred Tax:</i>		
Origination and reversal of timing differences	8	30
Total deferred tax (see note 6(c))	8	30
Total tax on profit on ordinary activities	125	97

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	1,094	1,201
Profit on ordinary activities multiplied by the 10% (2010: 10%) rate of income tax applicable to Banks in the Isle of Man	109	120
<i>Effects of:</i>		
Movement in general provision	(8)	-
Depositors Compensation scheme	-	(30)
Net income taxed at 0%	(15)	(23)
Current tax charge (see note 6(a))	86	67

c) Provision for deferred taxation at 10%

Deferred tax asset at 1 January	(8)	(38)
Deferred tax asset at 31 December	0	(8)
Deferred tax charge in profit and loss account	8	30
Effect of Depositors Compensation Scheme	-	30
Effect of general provisions	8	-
	8	30

A deferred tax asset of £NIL (2010: £8k) has been recognised in these financial statements.

d) 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 2011 (continued)

11 Amounts due from group companies

	2011	2010
	£000	£000
Amounts due from group companies:		
– Zurich Bank	-	251
	-	251

12 Deposit liabilities

	2011	2010
	£000	£000
Due to customers	434,570	394,098
Due to customers of group companies	31,573	94,373
Due to banks	16,050	8,696
	482,193	497,167
Maturity analysis		
Sight – less than 8 days	77,325	81,157
8 days less than 1 month	13,084	18,384
1 month less than 3 months	16,328	20,769
3 months less than 6 months	21,845	35,885
6 months less than 1 year	57,916	77,483
1 year less than 3 years	168,805	153,102
3 years less than 5 years	126,890	91,953
More than 5 years	-	18,434
	482,193	497,167

13 Creditors and deferred income

Included within creditors and deferred income is £8,188k (2010: £8,180k) of deferred commission income in respect of the Company's Structured Deposit accounts.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

14 Amounts due to group companies

	2011 £000	2010 £000
Amounts due to group companies:		
– Zurich Treasury Services Limited	-	37
– Zurich Financial Services (Isle of Man) Group Services Ltd	76	146
– Zurich Bank	-	-
– Dunbar Assets plc	62	61
– Zurich Intermediary Group	65	-
– Other Zurich entities	1	2
	204	246

15 Provisions

	2011 £000	2010 £000
Corporation Tax	87	67
Withholding Tax	1	13
Other Taxes	27	13
	115	93

16 Share capital and reserves

	2011 £000	2010 £000
Share capital		
Authorised:		
350,000,000 ordinary shares of £0.10 each	35,000	35,000
Issued and fully paid:		
105,000,000 ordinary shares of £0.10 each	10,500	10,500
Reserves	2011 £000	2010 £000
Retained earnings at 1 January	6,905	5,801
Retained profit for the year	1,219	1,306
Interest payable on subordinated loan notes (note 17)	(251)	(202)
Retained earnings at 31 December	7,873	6,905

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

17 Subordinated loan notes

On 28 September 2009 the Company issued £2.5m of variable rate subordinated loan notes to Zurich Bank. These notes have no fixed repayment date and are redeemable only at the option of the Company. They carry an interest rate of 2.50% above the three month London Inter-Bank Offer Rate. On 23 March 2010 the loan was amended increasing the total amount of the loan to £7.5m.

The subordinated loan notes are classified as equity. The interest on these notes is recognised in reserves as interest payable on subordinated loan notes. In the 2010 accounts the interest expense was accounted for within interest payable in the profit and loss account. Consequently, the 2010 profit and loss account and reserves have been restated for comparability purposes to reclassify interest of £202k from the profit and loss account to reserves. This reclassification has increased profit for the year ended 31 December 2010 by £202k and decreased reserves by £202k, thus having no impact on closing shareholders' funds (notes 16 and 18). Similarly, there is no impact on the 2010 opening shareholders' funds.

18 Reconciliation of movements in shareholders' funds

	2011	2010
	£000	(restated) £000
Retained profit for the year	1,219	1,306
Interest payable on subordinated loan notes (note 17)	(251)	(202)
Subordinated loan notes issued (note 18)	-	5,000
	968	6,104
Opening shareholders' funds	24,905	18,801
Closing shareholders' funds	25,873	24,905

19 Isle of Man Depositors' Compensation Scheme

The majority of licensed deposit-taking institutions in the Isle of Man are members of the statutory Isle of Man Depositors' Compensation Scheme under the Depositors' Compensation Scheme Regulations 2010.

The Scheme provides compensation to a maximum of 100% of the first £50,000 or currency equivalent of individual depositors and £20,000 in any other case, subject to a maximum of £100,000,000 for all participants, in the event of the failure of a participant institution to meet its obligations to depositors.

Such a failure triggers the payment of a levy by each participant in any one financial year, calculated at the greater of £50,000, and 0.175% of average sterling and foreign currency deposits over such periods preceding the levying of the contribution as appears to the Scheme Manager to be appropriate, up to a maximum annual contribution of £500,000.

On 8 October 2008, the banking license granted to Kaupthing Singer and Friedlander (Isle of Man) Limited ("Kaupthing S&F") was suspended and on 27 May 2009 Kaupthing S&F was placed into liquidation, thus triggering the provisions of the Scheme.

During 2009 the Company paid an initial contribution of £304,000 to the Scheme and made a subsequent payment in 2010 amounting to £304,000. The Company made a third payment of £304,000 during 2011, no further payments to the Scheme are expected in 2012 or beyond. It is anticipated that an element of the previous 3 payments may be refunded to the Company during 2012.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

20 Operating lease

The Company is committed to rental expenditure under a sub-lease for its own office premises amounting to £95k (2010: £89k) in the next 12 months. Zurich Bank International surrendered its lease in March 2012 and will be moving to a new location in May 2012, the Bank will share these offices with the current occupiers who are related Zurich entities.

21 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.

22 Immediate and ultimate holding company

The immediate holding Company at 31 December 2011 was Zurich Bank, incorporated in the Republic of Ireland.

The ultimate holding Company and controlling party at 31 December 2011 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.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

23 Segmental reporting

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

2011	Isle of Man, United Kingdom & Jersey £000	Other European Union £000	Rest of World £000	Total £000
<i>Balance Sheet</i>				
Fixed assets	192	-	-	192
Moneymarket assets	32,950	476,179	318	509,447
Other assets	7,695	1,410	-	9,105
Deposit liabilities	(410,465)	(63,547)	(8,181)	(482,193)
Other liabilities	(9,856)	(745)	(77)	(10,678)
Shareholders' funds	(379,484)	413,297	(7,940)	25,873
<i>Profit and Loss Account</i>				
Net operating income	2,632	548	223	3,403
Unallocated common costs				(2,059)
Profit on ordinary activities before taxation				1,344
2010				
	Isle of Man, United Kingdom & Jersey £000	Other European Union £000	Rest of World £000	Total £000
<i>Balance Sheet</i>				
Fixed assets	478	-	-	478
Moneymarket assets	41,600	473,128	190	514,918
Other assets	16,774	1,954	-	18,728
Deposit liabilities	(437,892)	(47,930)	(11,344)	(497,166)
Other liabilities	(11,575)	(439)	(39)	(12,053)
Net assets	(390,615)	426,713	(11,193)	24,905
<i>Profit and Loss Account</i>				
Net operating income (restated – Note 17)	2,704	446	288	3,438
Unallocated common costs				(2,035)
Profit on ordinary activities before taxation				1,403

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.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

24 Related party disclosure

As permitted by Financial Reporting Standard 8 paragraph 3(c) and other than as disclosed in Note 3, any transactions with wholly owned subsidiaries within the Zurich Financial Services Group have not been disclosed. Details of material related party trading relationships are included in the Directors' Report.

25 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.

26 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) 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 2011. 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.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

26 Risk policy and financial instruments (continued)

(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.

(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 2011 and 2010. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

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".

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

26 Risk policy and financial instruments (continued)

(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
Interest rate repricing	£000	£000	£000	£000	£000	£000	£000
2011							
Assets:							
Fixed assets	-	-	-	-	-	192	192
Loans & advances to banks	471,728	7,023	30,696	-	-	-	509,447
Loans & overdrafts to customers	102	-	5	11	-	-	118
Other assets	-	-	-	-	-	8,987	8,987
Total assets	471,830	7,023	30,701	11	-	9,179	518,744
Liabilities:							
Deposit liabilities	431,480	17,259	31,901	1,553	-	-	482,193
Other liabilities	-	-	-	-	-	10,678	10,678
Shareholders' funds	7,500	-	-	-	-	18,373	25,873
Total liabilities	438,980	17,259	31,901	1,553	-	29,051	518,744
Interest rate sensitivity gap	32,850	(10,236)	(1,200)	(1,542)	-	(19,872)	-
Cumulative gap	32,850	22,614	21,414	19,872	19,872	-	-

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

26 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
2010							
Assets:							
Fixed assets	-	-	-	-	-	478	478
Loans & advances to banks	412,592	30,526	71,800	-	-	-	514,918
Loans & overdrafts to customers	2,749	2,547	2,457	221	8	-	7,982
Other assets	-	-	-	-	-	10,746	10,746
Total assets	415,341	33,073	74,257	221	8	11,224	534,124
Liabilities:							
Deposit liabilities	394,181	31,300	71,135	550	-	-	497,166
Other liabilities	-	-	-	-	-	12,053	12,053
Shareholders' funds	7,500	-	-	-	-	17,405	24,905
Total liabilities	401,681	31,300	71,135	550	-	29,458	534,124
Interest rate sensitivity gap	13,660	1,773	3,122	(329)	8	(18,234)	-
Cumulative gap	13,660	15,433	18,555	18,226	18,234	-	-

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 2011 (continued)

26 Risk policy and financial instruments (continued)

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

At 31 December 2011 and 31 December 2010, the principal amounts of instruments not included on the Company's balance sheet were:

	5 years or less		Over 5 years		Total	
	Notional Principal £000	Replacement Cost £000	Notional Principal £000	Replacement Cost £000	Notional Principal £000	Replacement Cost £000
2011						
Equity related contracts						
Financial Institutions	328,835	25,789	1,000	-	329,835	25,789
2010						
Equity related contracts						
Financial Institutions	261,925	19,434	20,434	127	282,359	19,561

(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 2011 and 31 December 2010.

The Company held no trading derivatives at 31 December 2011 or 31 December 2010, and had entered into no trading contracts during either year.

	Non Trading Fair Value £000	Non Trading Book Value £000
2011		
Assets		
Equity related contracts	25,789	(231)
Liabilities		
Equity related contracts	4,957	178
2010		
Assets		
Equity related contracts	19,561	(222)
Liabilities		
Equity related contracts	5,181	113

Fair values of non-trading derivatives have been calculated on the basis of market values as at 31 December 2011 and 31 December 2010.

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 2011 (continued)

26 Risk policy and financial instruments (continued)

(i) Hedging

The tables below summarise the unrecognised gains and losses on hedges at 31 December 2011, and the movements therein during the year pending their recognition in the profit and loss account.

2011	Gains	Losses	Total net gains/(losses)
	£000	£000	£000
Unrecognised gains and losses on hedges at 1 January 2011	19,561	(5,181)	14,380
Gains and losses arising in the year to 31 December 2011 that were not recognised in that year	6,228	224	6,452
Unrecognised gains and losses on hedges at 31 December 2011	25,789	(4,957)	20,832

Of which expected to be recognised in the year to 31 December 2012	2,899	(11)	2,888
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2010	Gains	Losses	Total net gains/(losses)
	£000	£000	£000
Unrecognised gains and losses on hedges at 1 January 2010	5,089	(4,734)	355
Gains and losses arising in the year to 31 December 2010 that were not recognised in that year	14,472	(447)	14,025
Unrecognised gains and losses on hedges at 31 December 2010	19,561	(5,181)	14,380

Of which expected to be recognised in the year to 31 December 2011	499	(0)	499
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All of the gains and losses on hedges identified above are exactly offset by gains and losses on the derivatives embedded within the Company's structured deposit transactions with its customers.

Notes to the Financial Statements for the year ended 31 December 2011 (continued)

27 Capital Management

Regulatory capital is determined in accordance with the requirements of the regulator, the Isle of Man Financial Supervision Commission (FSC). The Company's objectives when managing capital are:

- to comply with the capital requirements set by the regulator
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of the business.

The Company monitors its capital adequacy on an on-going basis and the table below shows capital adequacy calculations as at 31 December 2011 and 2010.

	2011	2010
	£'000	£'000
Tier 1 capital		
Share capital	10,500	10,500
Retained earnings	7,873	6,905
Total Tier 1 capital	18,373	17,405
Tier 2 capital		
Collective impairment allowance	-	77
Subordinated loan notes	7,500	7,500
Total capital available	25,873	24,982
Credit risk	9,877	10,132
Market risk	32	31
Operational risk	493	463
Pillar 1 capital required	10,402	10,626
Pillar 2 capital required	11,034	2,657
Total capital required	21,436	13,283
Surplus capital	4,437	11,699
Risk Asset Ratio – Pillar 1	19.15%	18.81%

Zurich Bank International Limited

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