

Summary of The Scheme and The Independent Expert's Report

This booklet has been provided to give you an overview of the proposed Scheme and the report by the Independent Expert. Please take the time to read it in conjunction with the Letter and the Question and Answer sheet that we have enclosed in this pack.

If you have any further questions we have provided a freephone number 0800 0159 121 or more information at www.zurich.co.uk/changes2009.

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Preliminary

Zurich Insurance Ireland Limited ("**ZIIL**") is a company incorporated in Ireland, which carries on business in the UK through a branch ("**ZIIL UK**"). The UK branch of Zurich Insurance Company ("**ZIC UK**"), Navigators and General Insurance Company Limited ("**N&G**"), Zurich GSG Limited ("**ZGSG**") and Zurich International (UK) Limited ("**ZINT**") (together the "**Transferors**") and ZIIL intend that the Transferors will transfer their general insurance businesses in the UK (the "**Transferring Business**") to ZIIL for the account of its UK branch, including all the policies comprised in the Transferring Business (including, for ZGSG, all contracts of suretyship) (the "**Transferring Policies**"). ZIC is a company incorporated in Switzerland. The Transferors and ZIIL are all subsidiary companies of Zurich Financial Services, a company incorporated in Switzerland. No business is being transferred outside of the Zurich Financial Services Group.

It is proposed that the Transferring Business, including the Transferring Policies, will be formally transferred from the Transferors to ZIIL UK by way of a scheme (the "**Scheme**") pursuant to Part VII of the Financial Services and Markets Act 2000 ("**FSMA**"), which requires the sanction of the High Court of Justice of England and Wales ("**Court**").

Zurich is also changing the company name and incorporation status of Zurich Insurance Ireland Limited to Zurich Insurance plc with effect from 1 January 2009.

Dr Lis Gibson of Deloitte & Touche LLP has been appointed as an independent expert (the "**Independent Expert**") pursuant to section 109 of FSMA to provide a report (the "**Report**") on the effects of the Scheme on the policyholders of the Transferors and ZIIL. Dr Gibson's appointment has been approved by the Financial Services Authority ("**FSA**").

Each of the Transferors has in the past, or currently carries out general insurance business in or from within Jersey. The Transferors also intend to make an application by Representation (the "**Representation**") to the Royal Court of Jersey ("**Royal Court**") to transfer their Jersey insurance business to ZIIL UK, pursuant to a transfer scheme (the "**Jersey Scheme**") to be sanctioned by the Royal Court pursuant to the Insurance Business (Jersey) Law 1996. The terms of the Jersey Scheme substantially incorporate the terms of the UK Scheme and so (except where the context otherwise requires) this summary also applies to the Jersey Scheme. Certain Jersey policies will transfer under both schemes, but unless and until the Jersey scheme takes effect such policies will be reinsured by ZIIL UK under the UK Scheme.

A copy of the full Scheme and Report is available free of charge by visiting The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hants, PO15 7JZ or Zurich House, Ballsbridge, Dublin 4, Ireland or by writing to Freepost Zurich Transfer, PO Box 604, 3000b Parkway, Whiteley, Hants, PO14 9GR. Alternatively, you can request these documents free of charge by emailing transfer.team.ukgi@uk.zurich.com or by calling the number on the letter. These documents can be viewed at www.zurich.co.uk/changes2009. These documents will be available until the date on which the Scheme will be presented before the Court, which is expected to be on or about 12 December 2008.

Copies of the Representation, including the Jersey Scheme, and the Report will also be available, free of charge, during opening hours at the offices of Mourant du Feu & Jeune at 22 Grenville Street, St Helier, Jersey, JE4 8PX and at Zurich Financial Services (CI) Limited and

Zurich Trust Limited at One Castle Street, St Helier, Jersey up to and including the date on which the Jersey Scheme will be presented before the Royal Court, which is on 16 December 2008.

PART A - THE SCHEME

1. Introduction

The proposed transfer of the Transferring Business (including the Transferring Policies) will become effective after the Court makes an order sanctioning the Scheme. It is proposed that the Scheme shall become operative at 00:01 am on 1 January 2009 (the "**Effective Date**").

2. Transfer of Assets

Subject to paragraph 8 (Exclusions and delayed transfers), on and with effect from the Effective Date:

- all assets of ZINT, N&G and ZGSG comprised in the Transferring Business shall automatically transfer to ZIIL UK subject to the retention by those companies of assets to meet any regulatory capital requirements (if any); and
- for ZIC UK, sufficient assets of ZIC UK shall automatically transfer to ZIIL UK, such that the value of all the assets being transferred to ZIIL UK by the Scheme shall be equal to the value of the liabilities being assumed by ZIIL UK.

3. Transfer of the Transferring Policies

Subject to paragraph 8 (Exclusions and delayed transfers), on and with effect from the Effective Date, the rights, benefits and powers of the Transferors under or by virtue of the Transferring Policies and all rights and claims against any third party in relation to the Transferring Business or arising as a result of the Transferors having carried on the Transferring Business, will be transferred to and be vested in ZIIL UK by the order of the Court.

Holders of any of the Transferring Policies shall from the Effective Date become entitled, to the exclusion of any rights which they may have had against the Transferors under any of the Transferring Policies, to the same rights against ZIIL UK as were available to them against the Transferors under such Transferring Policies.

All premiums and other amounts attributable or referable to the Transferring Policies shall on and with effect from the Effective Date be payable to ZIIL UK. Payments of any instalments of a premium or other amount to the Transferors, whether by direct debit mandate or standing order, shall take effect in favour of ZIIL UK. Policyholders will not have to make alternative arrangements for payment of any sums in respect of their policies.

4. Transfer of Liabilities

Subject to paragraph 8 (Exclusions and delayed transfers), on and with effect from the Effective Date, the liabilities of the Transferors under or in respect of the Transferring

Policies or attributable to the Transferring Business shall, by order of the Court, automatically be transferred from the Transferors to ZIIL UK, becoming liabilities of ZIIL UK, and shall cease to be liabilities of the Transferors.

5. **Continuity of Proceedings**

On and with effect from the Effective Date, any judicial, quasi-judicial, disciplinary, administrative or arbitration proceedings (including but not limited to proceedings in the High Court, the County Court and complaints heard by the Financial Ombudsman Service) which are pending by or against the Transferors in connection with the Transferring Business, shall be continued by or against ZIIL UK and the Transferors shall have no liability under those proceedings. In such proceedings ZIIL UK shall be entitled to all defences, claims, counterclaims and rights of set-off that would have been available to the Transferors.

6. **Restrictions on Transfer**

Except as otherwise ordered by the Court, the transfer of policies, assets or liabilities comprised in the Transferring Business shall be valid and binding on all parties notwithstanding any restriction on transferring or assigning the same and shall not give rise to any right to terminate, modify or acquire or claim an interest or right, or to treat an interest or right as terminated or modified.

7. **Recourse Rights**

Subject to paragraph 8 (Exclusions and delayed transfers), on and with effect from the Effective Date, all rights, benefits and powers conferred on or vested in the Transferors, as well as all liabilities imposed on the Transferors, by or under reinsurance contracts, guarantees, indemnities or other recourse rights ("**Recourse Rights**") will be transferred to ZIIL UK, which shall be substituted as a party in place of the Transferors from inception in so far and to the extent that any such Recourse Rights relate to the Transferring Business.

8. **Exclusions and delayed transfers**

It is possible that some of the policies, Recourse Rights, assets, mandates, proceedings or liabilities that would otherwise be included in the Transferring Business may not transfer on the Effective Date because of regulatory or legal reasons and will remain with the Transferors. In this case, the Transferors will retain them for the account of ZIIL UK. The Transferors shall reinsure such policies in their entirety into ZIIL UK, until such time as the Transferors are able to transfer the policies to ZIIL UK. ZIIL UK will administer any such policies, assets or liabilities on behalf of the Transferors and shall have full authority to conduct any such proceedings or, where appropriate, direct the Transferors as to the conduct of the proceedings, until such time as the Transferors are able to transfer the same to ZIIL UK.

9. **Data Protection**

On and with effect from the Effective Date, ZIIL UK shall succeed to all rights, liabilities and obligations of the Transferors in respect of any personal data which relates to the Transferring Business and which is subject to the Data Protection Act 1998.

This means that, on and with effect from the Effective Date, ZIIL UK shall become the data controller of any personal data which relates to the Transferring Business and which is subject to the Data Protection Act 1998. ZIIL UK will be under the same duty to respect the confidentiality and privacy of such information as each of the Transferors was under and ZIIL UK shall be bound by any specific notice or consent given, or request made by, a data subject.

10. **Dissolution**

ZINT, N&G and ZGSG shall, after the Effective Date and following lodging with the Registrar of Companies a copy of a resolution of the board of the relevant company approving its dissolution, be dissolved without winding up.

11. **Costs and Expenses**

ZIC shall bear the costs and expenses incurred in the preparation and carrying into effect of the Scheme. No such costs will be borne by policyholders.

PART B – SUMMARY OF THE INDEPENDENT EXPERT'S REPORT

Introduction

This Summary sets out the key findings, methodology, assumptions and analysis contained in my full Independent Expert's Report ("**Report**"). It should not be read as a substitute for my full Report, as taken in isolation it could be misleading. Some issues are discussed more fully in the Report. In this summary, I have used a number of terms and abbreviations that are defined in the Report.

My conclusions on the proposed Scheme apply equally to the Jersey Scheme.

Appointment

I, Dr Lis Gibson, have been appointed by Zurich Insurance Company ("ZIC") acting through its UK Branch, Zurich Insurance Ireland Limited ("ZIIL"), Navigators and General Insurance Company Limited ("N&G"), Zurich International (UK) Limited ("ZINT") and Zurich GSG Limited ("ZGSG") to act as the Independent Expert for the proposed transfers described below. An extract of the relevant sections from the Statement of Work regarding this appointment is contained in the Report along with a brief summary of my experience.

My role is to produce a Scheme Report as required by s109 of FSMA 2000. I have taken into account the guidance given in SUP 18.

This Report relates to the transfers of business from Zurich Insurance Company UK Branch ("ZIC UK"), N&G, ZINT, and ZGSG to Zurich Insurance Ireland Limited UK Branch ("ZIIL UK").

I understand that ZIIL will change its name and incorporation status to Zurich Insurance plc ("ZIP") with effect from 1 January 2009.

I confirm that my appointment as an Independent Expert for the purpose of producing this Report has been approved by the Financial Services Authority ("FSA").

Limitations

I have only considered the Scheme to which this Report relates and I have not considered any alternative schemes.

I have relied on the accuracy and completeness of the data provided to me by ZFS Group companies and I have relied on audited accounts and financial statements.

Overview of Transfers

The Transfers in this Scheme are part of a wider plan of re-organisation in the ZFS Group of companies. The purpose of the reorganisation is to improve the Group's capital efficiency and simplify its structure in the European Union. Through the proposed changes ZFS Group aims to enhance its risk management capabilities and improve operational efficiency.

The effective date of the Scheme is proposed to be 1 January 2009.

I have considered the impact of these Transfers in isolation and have not tried to anticipate the impacts of future possible transfers, which would be speculative. In any case, such potential future transfers would be subject to their own legal processes.

Financial Analysis Summary

It is important to note that these Transfers have no overall impact on the financial resources of the ZFS Group and the business underwritten by the entities involved will continue albeit within different entities within the ZFS Group. Affected Policyholders can thus take a significant amount of comfort that the overall fundamental financial position of the Group is not changing as a result of the Transfers. However, notwithstanding this, I do need to consider the capital position of the different legal entities immediately pre and post Transfers. Additionally I have considered the ongoing solvency position of the post-Transfers ZIIL entity.

The main issue I have had to consider in the course of my work is whether there will be enough capital in the post-Transfers ZIIL to avoid the Transferred Policyholders being materially adversely impacted. I have also had to consider whether Retained ZIC Policyholders and Current ZIIL Policyholders are materially adversely impacted.

I describe what I mean by “materially adversely impacted” in my Report. I also explain that I have applied an ICA test in order to examine the solvency situation immediately pre and post-Transfer and then explain how I have applied this test so that I can reach a conclusion.

In summary an ICA test is the level of capital I believe the FSA would require an authorised UK insurer to hold, sufficient to cover events with a 1 in 200 probability over a one year time horizon. To do this I have considered the ZFS Group capital model. This review considered the following elements:

- Reserving risk for Asbestos, Pollution and Health Hazard (“APH”) and non-APH liabilities;
- Premium risk;
- Catastrophe risk;
- Market risk;
- Credit risk;
- Operational risk;
- Benefits from diversification of risks within ZIIL; and
- Available financial resources of ZIIL.

In addition I need to consider the ongoing capitalisation of ZIIL. I have addressed this in two ways, firstly by considering the Irish Financial Regulator (“IFR”) requirements under Solvency I, and secondly by considering the intentions of the ZIIL Board of Directors in relation to its future levels of capital.

On the day of transfer the capital position of the Zurich Group remains unchanged, but going forward the MCR test for ZIIL may result in a lower regulatory requirement than either an ICA calculation or the Swiss Solvency Test would produce. The MCR does not take into account all the risks stated above. Purely from a regulatory perspective, there is therefore a greater potential for the amount of capital resource held in ZIIL to be reduced. That said, I understand that the IFR will require 150% of MCR. In addition,

Zurich has stated its intention to maintain capital at a consistent level in relation to its risks.

Statement of Intent

I have received a Statement of Intent from ZIIL whereby it undertakes to consider any transfers in the transfer programme, for the next two to three years, in the context of the capital test principles established in this Transfer, with the intention, other things being equal, of broadly maintaining consistent levels of capital in relation to risk.

I take comfort from the Statement of Intent for the following reasons:

- At the point of any and all future transfers in the next two to three years, ZIIL intends to maintain consistent levels of capital in relation to risk following the Transfer;
- The maintenance of consistent levels of capital to risk is in my opinion a better safeguard than reliance on a particular percentage of a non-risk based MCR;
- Whilst the Statement of Intent is not a formal guarantee, it is a formal statement by the ZIIL Board (which will include two independent non-executive directors) and cannot be disregarded without proper consideration by the Board. In addition, I expect that any proposed changes to, or deviations from, that policy in the future would be of interest to the IFR;
- ZIIL will be a flagship risk carrier and major income generator for the ZFS Group and so there is unlikely to be any material dilution of its solvency due to its critical role in the Group. It is also intended that from the effective date its name will be even closer to the main brand in the Group for European General Insurance. This is in contrast to, say, a transfer to a run-off entity without well recognised group branding; and
- On current timetables, it is expected that Solvency II will come into force in 2012. If so, then the Statement of Intent broadly covers the period between the Transfers and the beginning of the Solvency II requirements on ZIIL. In this scenario, all future transfers into ZIIL will have an immediate post-transfer test of capital requirement based on risk – initially because of the Statement of Intent and later via Solvency II.

If Solvency II is delayed then there could be a gap between the expiry of the Statement of Intent and the eventual onset of the Solvency II requirements. If any transfers were to be made during such a gap, the directors of ZIIL would not be required to apply a risk-based test to the post-transfer solvency position.

I do not believe that the potential for such a gap to arise means that the Transfers expose the Affected Policyholders to a materially increased risk for a number of reasons, including the two points below:

- i. By 2012 most of the Affected Policyholders will have had any claims settled and so would no longer be exposed to the ongoing solvency of ZIIL. The notable exception is the APH claimants whose liabilities may remain for several decades. However, the APH liabilities are covered by a Stop Loss reinsurance up to the 99.5th centile level from the ICA

calculation. As such the APH claimants enjoy security comparable to their pre-Transfer position during and after the period of the Statement of Intent.

- ii. A group the size of ZFS Group is likely to have a multi-year implementation program for the adoption of Solvency II, which I would expect to be well advanced by 2012, even if the Solvency II in-force date were to be delayed. As a result I would expect that the ZFS Group internal capital allocation process would resemble Solvency II by 2012 such that any transfers into ZIIL after that date would have some form of risk-based solvency test via the internal group controls.

Non-financial Analysis Summary

The main issue I have had to consider in the course of my work is whether there is sufficient infrastructure in the post-Transfers ZIIL to cope with the large influx of policies into that legal entity, such that customer service standards will be maintained and there will be no material risk of corporate governance failure.

I have been briefed on the discussions between ZIIL, the Irish Financial Regulator (“**IFR**”) and the FSA on the subject of post-Transfers governance. I describe my considerations in my Report which have enabled me to reach a conclusion.

Conclusions

Based on the analysis described in my Report, I have concluded that the proposed Scheme will not have a material adverse impact on the financial security provided to the Affected Policyholders by their insurers. Based on my considerations described in my Report, I have also concluded that the proposed Scheme will not have a material adverse impact on the Affected Policyholders in relation to the way in which their policies are managed and administered. Both of these conclusions are made relative to the Affected Policyholders’ projected position immediately before the Effective Date given my knowledge as at the date of this Report.

The main factors driving my conclusions are these:

- Under the Scheme, there will be no fundamental change in the overall group capital, just a rearrangement within the ZFS Group. As the main general insurance underwriting platform for ZFS Group within Europe, ZIIL is to be a flagship branded risk carrier. Therefore, while it is possible that it could be allowed to fail, I believe that it is reasonable to assume that ZFS Group will make considerable efforts to provide capital to support it under extreme scenarios, as would have been the case before the transfer, such that the transfer itself has not brought about any real change.
- The Transfer involves the movement of policies from a hybrid-Swiss/UK Regulatory environment (Swiss in respect of ZIC; UK in respect of ZIC UK Branch, N&G, ZINT and ZGSG) to an Irish Regulatory one. I have no reason to suppose that this will result in a weakening of regulatory oversight or of long term solvency requirements applying, when the introduction of Solvency II requirements across the EU (expected in 2012) is taken into account. In the interim, I have assumed that the capitalisation requirements of the IFR will be broadly similar to the current Swiss and UK regulators’ requirements. I will verify that this is the case once the IFR has set out its detailed solvency requirements for ZIIL.
- I have required what I consider to be sufficient financial resources at the point of transfer to be placed in ZIIL by application of an ICA test, which I consider to be an

appropriate test to apply for UK policyholders. These financial resources have been provided by ZIC through a combination of capital and reinsurance, and exceed the capital requirement I have calculated by £260m.

- I have received a Statement of Intent from ZIIL whereby it undertakes to consider any transfers in the transfer programme, for the next two to three years, in the context of the capital test principles established in this Transfer, with the intention, other things being equal, of broadly maintaining consistent levels of capital in relation to risk. This broadly covers the period until the new Solvency II regime is planned to be implemented across the EU
- I note that Branch systems and administrative processes will remain broadly the same post-Transfer. Whilst the IFR will be responsible for solvency regulation, the FSA will retain responsibility for ZIIL UK Branch ongoing compliance with Conduct of Business matters, including Treating Customers Fairly Principles.
- The situation for Retained ZIC Policyholders is essentially unchanged. The situation for Current ZIIL Policyholders after the Transfers is the same as the Transferred Policyholders after the Transfers, so is covered by my comments above.

For a full understanding of the precise conclusions that I have reached, together with the rationale for these conclusions, it is important to read my Report. It is also important that the limitations and assumptions in it are borne in mind when interpreting these conclusions.

Update Report

As is usually the case in Part VII transfers, this Report considers the financial circumstances of ZIIL at a date in the future. As a result it has necessarily been based on forecasts and plans for the future. It will be necessary for me to issue an Update Report to the Court at the Final Court Hearing in which I will verify if:

- the latest balance sheets are broadly equivalent to the projections I have been supplied with;
- the ICAS and MCR calculations of solvency coverage remain valid;
- the proposed reinsurance programme is in place;
- details of the IFR position on the MCR solvency tests to be applied to ZIIL is at least in line with my expectations; and
- ownership of SA Fire House Limited will be transferring to ZIIL.

It will also consider whether there have been any other material changes to ZIIL's financial circumstances, and the impact of any changes in currency exchange rates.

Expert's Declaration

I have read Part 35 of the Civil Procedure Rules (and the accompanying practice direction) and the "Protocol for the Instruction of Experts to give evidence in Civil Claims" issued by the Civil Justice Council. I confirm that I fully understand my overriding duty to the Court and that I must help the Court on matters within my expertise. I consider that I have complied, and will continue to comply, with this duty.

I confirm that insofar as the facts stated in my report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

Dr Lis Gibson FIA

3 September 2008

PART C – FURTHER ACTION

If you believe that you would be adversely affected by the proposed transfer, you have the right under Part VII FSMA 2000 to make written representations and/or to appear at the Court hearing which is currently scheduled to take place on or about 12 December 2008 at the High Court of Justice, the Strand, London, WC2A 2LL.

If you intend to make written representations and/or appear at the Court hearing, either in person or by Counsel, you are asked to provide the written representations or written notice of your intention to appear at Court and details of your concerns as soon as possible. This should be sent to Freepost Zurich Transfer, PO Box 604, 3000b Parkway, Whiteley, Hants PO14 9GR or to Herbert Smith LLP, Exchange House, Primrose Street, London, EC2A 2HS quoting reference 2067.

If you believe that you would be adversely affected by the proposed transfer of Jersey business you also have the right under the Insurance Business (Jersey) Law 1996 to be heard at the hearing which is currently scheduled to take place on 16 December 2008 at 9am at the Royal Court of Jersey, Royal Court House, Royal Square, St Helier, Jersey, JE1 1BA. If you intend to appear at the Royal Court hearing, either in person or by Counsel, you are asked to provide written notice of your intention to appear at the Royal Court and details of your objections as soon as possible. This should be sent to Freepost Zurich Transfer, PO Box 604, 3000b Parkway, Whiteley, Hants, PO14 9GR or to Mourant du Feu & Jeune of 22 Grenville Street, St Helier, Jersey, JE4 8PX, quoting reference 2037593.