

HAMILTON INSURANCE COMPANY LIMITED
FINANCIAL STATEMENTS - 31 DECEMBER 2000
TOGETHER WITH DIRECTORS'
AND AUDITORS' REPORTS

The Company's registered number is 1655888



HAMILTON INSURANCE COMPANY LIMITED

DIRECTORS & OFFICERS

Directors : S G Boyle - Chairman
P J Blackmore
P A de Chazal
A H Doggart
A K A Ferguson - Managing Director
A R Hill
R V Lovering
C J Messer - Resigned

Secretary : C J Rivers

Registered Office : North Street
Winkfield
Windsor
Berkshire
SL4 4TD

Auditors : Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Bankers : The Royal Bank of Scotland plc
Corporate Banking Office
PO Box 450
5-10 Great Tower Street
London
EC3P 3HX

HAMILTON INSURANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2000

The Directors present their annual report on the affairs of the Company, together with the financial statements and Auditors' report, for the year ended 31 December 2000.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Company is a wholly owned subsidiary of HFC Bank plc and is a member of the Household International, Inc. group of companies.

The principal activity of the Company continues to be the transaction of general insurance business. The Directors expect operations to continue at current levels.

FINANCIAL RESULTS

Gross earned premium income rose by £4.8 million during the year to £62.4 million (1999 - £57.6 million). Profit after taxation increased by £4.0 million to £7.5 million (1999 - profit £3.5 million).

The Directors do not recommend a dividend payment (1999 - £nil).

Results were as follows:-

2000
£000

Retained profit for the year	7,486
Retained profit, beginning of year	10,121
Retained profit, end of year	<u>17,607</u> =====

HAMILTON INSURANCE COMPANY LIMITED

DIRECTORS' REPORT (Continued)

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company are shown on page 1.

On 13 March 2000 C J Messer resigned as a Director and Chairman. S G Boyle was appointed as Chairman on 13 March 2000.

None of the Directors had at any time during the year any disclosable interest in the shares or loan stock of the Company or any Group Company incorporated within the United Kingdom.

DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to ensure that financial statements are prepared for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In those financial statements the Directors are required to ensure that:

- appropriate accounting policies have been selected and applied consistently;
- judgements and estimates made are reasonable and prudent;
- a statement is given as to whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the provisions of the Companies Act 1985. They are also responsible for taking all reasonable steps to ensure the assets of the company are safeguarded and that steps are taken for prevention and detection of fraud and other irregularities.

In exercising these duties and responsibilities, the Directors take account of the advice given to them and obtained by them. The Directors regularly review reports on the systems and controls which are established to give reasonable assurance that the business is being conducted in accordance with the above principles.

HAMILTON INSURANCE COMPANY LIMITED

DIRECTORS' REPORT (Continued)

EMPLOYEE INFORMATION

Details are given in note 7 to the financial statements.

PAYMENT OF CREDITORS

All amounts incurred are settled by the Company's parent, HFC Bank plc. The policy of the group of which the Company is part is to pay for goods or services received, invoiced and not in dispute within the payment terms agreed with its suppliers. Where no payment terms have been agreed for goods or services received, payment typically occurs within 60 days of receipt of the invoice. Trade creditor days for the Group as at 31 December 2000 were 6 days (1999 1 day), calculated in accordance with the requirements set down in the Companies Act 1985 and its Regulations. This represents the ratio, expressed in days, between the amount due to suppliers at the end of the year by the Group and the amount invoiced by suppliers in the year.

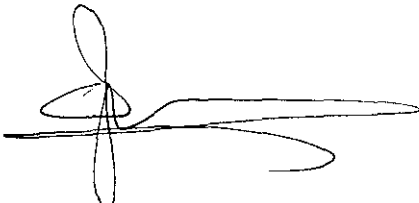
THE EURO

Other than a very small amount of business transacted in the Republic of Ireland and the Channel Islands, all the Company's activities are carried out in the United Kingdom. The Company has implemented procedures to deal with the Euro and it is not envisaged that the Euro will have any significant systems implications.

AUDITORS

The Company having passed in General Meeting an elective resolution in accordance with s.379(A) Companies Act 1985 to dispense with the obligation to appoint auditors annually as permitted by s.386 Companies Act 1985, Arthur Andersen shall be deemed to be re-appointed as auditors to the Company for the next financial year.

BY ORDER OF THE BOARD



C J Rivers

Secretary

12 March 2001

HAMILTON INSURANCE COMPANY LIMITED

Auditors' report to the members of Hamilton Insurance Company Limited

We have audited the financial statements on pages 6 to 18, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 3 the Company's Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 December 2000 and of its profits for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS
12 March 2001

HAMILTON INSURANCE COMPANY LIMITED

Profit and loss account for the year ended 31 December 2000

Technical Account - General Business

	Notes	2000		1999	
		£000	£000	£000	£000
Earned premiums					
Gross premiums written	2	68,236		60,970	
Outward reinsurance premiums	2	(19,597)		(10,385)	
Net premiums written			48,639		50,585
Change in gross provision for unearned premiums		(5,792)		(3,430)	
Change in provision for unearned premiums, reinsurers' share		(363)		(37)	
			(6,155)		(3,467)
Earned Premiums, net of reinsurance	2		42,484		47,118
Allocated investment income transferred from the non-technical account			3,901		3,176
Claims paid					
- gross amount		(14,680)		(15,243)	
- reinsurers' share		10,947		8,807	
- net of reinsurance		(3,733)		(6,436)	
Change in the provision for claims					
- gross amount		2,407		(837)	
- reinsurers' share		-		(92)	
- net of reinsurance		2,407		(929)	
Claims incurred, net of reinsurance	2		(1,326)		(7,365)
Changes in other technical provisions, net of reinsurance			(1,626)		-
Net operating expenses	2,4		(33,572)		(37,900)
Balance on the technical account - general business			<u>9,861</u>		<u>5,029</u>

The accompanying notes are an integral part of this profit and loss account

HAMILTON INSURANCE COMPANY LIMITED

Profit and loss account for the year ended 31 December 2000

Non-technical account

	Notes	2000	1999
		£000	£000
Balance on the general technical account		9,861	5,029
Investment income	5	3,901	3,176
Allocated investment return transferred to the general business technical account		(3,901)	(3,176)
Profit on ordinary activities before tax		<u>9,861</u>	<u>5,029</u>
 Tax on profit on ordinary activities	9	<u>(2,375)</u>	<u>(1,573)</u>
Profit on ordinary activities after tax		<u>7,486</u>	<u>3,456</u>
Dividends		-	-
Retained profit for the year		<u><u>7,486</u></u>	<u><u>3,456</u></u>

The only recognised gains or losses in the accounting period are those disclosed in the profit and loss account. All operations of the Company continued throughout both periods and no operations were acquired or discontinued.

The accompanying notes are an integral part of this profit and loss account

HAMILTON INSURANCE COMPANY LIMITED

Balance sheet at 31 December 2000

	Notes	2000	1999
		£000	£000
ASSETS			
Investments	10	66,750	58,750
Reinsurers' share of technical provisions			
Provision for unearned premiums		296	659
Claims outstanding		129	129
Debtors arising out of reinsurance operations		2,554	2,664
Debtors			
Debtors arising out of direct insurance operations	11	5,468	4,338
Other assets			
Cash at bank and in hand		55	977
Prepayments and accrued income			
Accrued interest		2,357	1,773
Deferred acquisition costs		11,675	10,162
TOTAL ASSETS		<u>89,284</u>	<u>79,452</u>

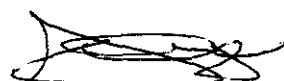
The accompanying notes are an integral part of this balance sheet

HAMILTON INSURANCE COMPANY LIMITED

Balance sheet at 31 December 2000

	Notes	2000	1999
		£000	£000
LIABILITIES			
Capital and reserves			
Called up share capital	15	8,212	8,212
Capital contribution		93	93
Profit and loss account	16	17,607	10,121
Shareholders' funds - equity interests		<u>25,912</u>	<u>18,426</u>
Technical provisions			
Provision for unearned premiums		40,944	35,152
Claims outstanding	3	15,209	17,615
		<u>56,153</u>	<u>52,767</u>
Deposits received from reinsurers	19	2,650	1,302
Future margins	19	(1,024)	-
Creditors			
Creditors arising out of direct insurance operations	12	4,163	5,632
Creditors arising out of reinsurance operations		305	227
Other creditors including taxation	13	1,125	1,098
		<u>5,593</u>	<u>6,957</u>
TOTAL LIABILITIES		<u><u>89,284</u></u>	<u><u>79,452</u></u>

The financial statements on pages 6 to 18 were approved by the Board of Directors on 12 March 2001 and signed on its behalf by the Directors listed below.



S G Boyle
Chairman



A K A Ferguson
Managing Director & Chief Executive
Officer

The accompanying notes are an integral part of this balance sheet

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 2000

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice issued by the Association of British Insurers in December 1998. The financial statements have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985.

A summary of the more important accounting policies, which have been applied consistently throughout this year and the preceding year, unless otherwise stated, is set out below.

(a) Basis of Accounting

The financial statements are prepared in accordance with the historical cost convention.

(b) Annual Basis

The technical result for accident and health, miscellaneous financial loss, and property damage is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

- (i) Written premiums are recognised when the policy liability is set up and the premium is due for payment.
- (ii) Premium income is earned over the life of each contract, using rules appropriate to the type of each insurance contract, and taking account of the effect of reinsurance agreements.
- (iii) Provision is made for net unearned premiums. The unearned premiums are set aside to provide for periods of risk extending beyond the year end. Unearned premiums are calculated on a basis appropriate to the contract.
- (iv) Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability against future margins and amortised over the period in which the related premiums are earned.
- (v) Claims paid includes amounts for claims received but not paid. Claims incurred comprise claims and related expenses paid in the year, changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

(c) Premiums

Premiums are stated net of Insurance Premium Tax.

(d) Investments

Investments in fixed and variable interest securities are shown in the balance sheet at cost, adjusted for the amortisation of any premium or discount on redemption value on a straight line basis.

Gross investment income is accounted for on an accruals basis.

(e) Transfer of investment return

A transfer of investment return, including unrealised gains and losses, expenses and charges, is made from the non-technical account to the technical account - general business to reflect the return made on those assets directly attributable to the insurance business.

(f) Cashflow statement

Under the provisions of Financial Reporting Standard No. 1 (Revised 1996) the Company has not prepared a cashflow statement because its ultimate holding company, Household International, Inc., which is incorporated in the United States of America, has prepared consolidated accounts which include the results of the Company for the year which contain a consolidated cashflow statement.

(g) Taxation

Corporation tax is provided on taxable profits at the current rate.

(h) Reinsurance contracts

Where reinsurance contracts are structured to provide financing as well as transfer of risk, they are accounted for as insurance contracts. A linked presentation is adopted in the balance sheet to reflect the liability due to the reinsurer which is contingent upon the emergence of future margins required to finance the repayment of the liability. This represents a change in policy from the previous year where no linked presentation was adopted and the remaining obligation the reinsurer was shown in the balance sheet.

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

2 Segmental Information

A	2000			1999		
	Reinsurance			Reinsurance		
Written premiums	Gross £000	Ceded £000	Net £000	Gross £000	Ceded £000	Net £000
Direct insurance						
Accident and health	37,298	(12,397)	24,901	33,872	(7,936)	25,936
Miscellaneous financial loss	30,513	(7,045)	23,468	26,784	(2,209)	24,575
Property damage	425	(155)	270	314	(240)	74
	<u>68,236</u>	<u>(19,597)</u>	<u>48,639</u>	<u>60,970</u>	<u>(10,385)</u>	<u>50,585</u>

All premiums are in respect of direct insurance business and are written in the United Kingdom, Channel Islands and the Republic of Ireland. Business written outside the United Kingdom represents less than 5% of total gross premiums and has therefore not been analysed.

B	2000			1999		
	Reinsurance			Reinsurance		
Earned Premiums	Gross £000	Ceded £000	Net £000	Gross £000	Ceded £000	Net £000
Direct insurance						
Accident and health	35,264	(12,756)	22,508	32,910	(7,969)	24,941
Miscellaneous financial loss	26,747	(7,045)	19,702	24,311	(2,209)	22,102
Property damage	433	(159)	274	319	(244)	75
	<u>62,444</u>	<u>(19,960)</u>	<u>42,484</u>	<u>57,540</u>	<u>(10,422)</u>	<u>47,118</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

C	2000			1999		
	Reinsurance			Reinsurance		
	Gross £000	Ceded £000	Net £000	Gross £000	Ceded £000	Net £000
Incurred claims						
Direct insurance						
Accident and health	7,837	(8,278)	(441)	11,639	(7,153)	4,486
Miscellaneous financial loss	4,026	(2,441)	1,585	4,192	(1,460)	2,732
Property damage	410	(228)	182	249	(102)	147
	<u>12,273</u>	<u>(10,947)</u>	<u>1,326</u>	<u>16,080</u>	<u>(8,715)</u>	<u>7,365</u>

D	2000			1999		
	Reinsurance			Reinsurance		
	Gross £000	Ceded £000	Net £000	Gross £000	Ceded £000	Net £000
Operating expenses						
Direct insurance						
Accident and health	21,546	(3,665)	17,881	19,844	-	19,844
Miscellaneous financial loss	18,814	(3,386)	15,428	17,984	-	17,984
Property damage	318	(55)	263	143	(71)	72
	<u>40,678</u>	<u>(7,106)</u>	<u>33,572</u>	<u>37,971</u>	<u>(71)</u>	<u>37,900</u>

E	2000			1999		
	Reinsurance			Reinsurance		
	Gross £000	Ceded £000	Net £000	Gross £000	Ceded £000	Net £000
Profit on ordinary activities before tax						
Direct insurance						
Accident and health	7,776	(1,627)	6,149	3,271	(817)	2,454
Miscellaneous financial loss	5,912	(2,030)	3,882	3,468	(749)	2,719
Property damage	(295)	125	(170)	(73)	(71)	(144)
	<u>13,393</u>	<u>(3,532)</u>	<u>9,861</u>	<u>6,666</u>	<u>(1,637)</u>	<u>5,029</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

3 Movements in prior years' provisions for claims outstanding

	2000	1999
	£000	£000
Opening claims outstanding	17,615	16,702
Payments in respect of previous years' claims	(8,638)	(8,843)
Run off variance in prior years' provisions	(5,494)	(3,479)
Claims reserving for current year	17,768	19,635
Claims paid in respect of current year	(6,042)	(6,400)
Closing claims outstanding	<u>15,209</u>	<u>17,615</u>

Favourable run-off deviations were experienced during the year of £3,895,000 in respect of Accident and Health business and £1,443,000 in respect of Miscellaneous Financial Loss business. In 1999 there were favourable run-off deviations of £1,840,000 in respect of Accident and Health business and £1,387,000 in respect of Miscellaneous Financial Loss business.

4 Net operating expenses

	2000	1999
	£000	£000
Acquisition costs	40,574	31,566
Changes in deferred acquisition costs	(1,513)	4,550
Administrative expenses	<u>1,617</u>	<u>1,855</u>
	40,678	37,971
Reinsurance commissions	(7,106)	(71)
Net operating expenses	<u>33,572</u>	<u>37,900</u>

5 Investment Return

	2000	1999
	£000	£000
UK listed fixed rate securities	-	1
Cash deposits	1,944	1,630
Certificates of Deposit	<u>1,957</u>	<u>1,545</u>
	<u>3,901</u>	<u>3,176</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

6 Directors' emoluments	2000	1999
	£000	£000
Aggregate emoluments as Directors	139	142
Gains made on Employee Stock Purchase Plan	8	-
Amounts receivable under long-term incentive schemes	17	-
Company pension contributions to money purchase schemes	11	7
	<u>175</u>	<u>149</u>

Retirement benefits are accruing to two Directors under a money purchase scheme.

7 Employee Information

The Company does not employ any staff directly. All staff used by the Company were employed and provided by HFC Bank plc for both 2000 and 1999.

8 Profit on ordinary activities before tax	2000	1999
	£000	£000
Profit on ordinary activities before tax is stated after:		
Auditors' remuneration - Audit	23	21
- Other	-	-
Directors' remuneration	<u>175</u>	<u>149</u>

9 Taxation	2000	1999
	£000	£000
Corporation tax at 30% (1999 - 30.25%)	<u>2,375</u>	<u>1,573</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

10 Investments	2000	1999
	£000	£000
Cash deposits	43,250	23,250
Certificates of Deposit	23,500	35,000
Cash deposits with parent company	-	500
	<u>66,750</u>	<u>58,750</u>

The amortised cost of investments held at 31 December 2000 is the same as original cost. The market value of investments held was £67,048,000 (1999 - £58,153,000). The maturity value of these investments is £66,750,000.

11 Debtors arising out of direct insurance operations	2000	1999
	£000	£000
Premiums collected by parent company	<u>5,468</u>	<u>4,338</u>

12 Creditors arising out of direct insurance operations	2000	1999
	£000	£000
Amount owed to parent company	2,895	4,314
Insurance premium tax	832	764
External commissions	230	230
Expenses	205	324
	<u>4,163</u>	<u>5,632</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

13	Other creditors including taxation	2000	1999
		£000	£000
Taxation		<u>1,125</u>	<u>1,098</u>
		<u>1,125</u>	<u>1,098</u>
14	Reconciliation of shareholders' funds	2000	1999
		£000	£000
Retained profit for the year		7,486	3,456
Opening shareholders' funds		<u>18,426</u>	<u>14,970</u>
Closing shareholders' funds		<u>25,912</u>	<u>18,426</u>
15	Called up share capital	2000	1999
		£000	£000
Authorised :-			
10,000,000 Ordinary shares of £1 each		<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid :-			
8,212,000 Ordinary shares of £1 each		<u>8,212</u>	<u>8,212</u>
16	Profit and Loss Account	2000	1999
		£000	£000
Balance as at 1 January		10,121	6,665
Retained profit for the year		7,486	3,456
Balance as at 31 December		<u>17,607</u>	<u>10,121</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 2000 (continued)

17 Ultimate parent company

The Company's immediate holding company is HFC Bank plc. The ultimate holding company and the largest group in which HFC Bank plc and its subsidiary companies are consolidated is Household International, Inc., which is incorporated in the State of Delaware, United States of America.

The smallest group in which the results of the Company are consolidated is that headed by HFC Bank plc. The consolidated accounts of these groups are available to the public and may be obtained from the Company Secretary at the Company's registered office.

Hamilton Insurance Company Limited is registered in England and Wales.

18 Related Party Transactions

The Company has taken advantage of the exemption in Financial Reporting Standard No. 8 to not disclose intercompany transactions within the Group.

19 Deposits received from reinsurers

The Company has entered into reinsurance arrangements the terms of which involve the payment by the reinsurer of an initial expense allowance. The net amount of the financing outstanding under the reinsurance arrangements at 31 December 2000 amounting to £2.6m (1999 - £1.3m) is included within 'Deposits received from reinsurers'. Linked presentation has been adopted whereby the corresponding asset to recognise that part of the future margins arising from the reinsured block of policies out of which the reinsurance liability will be paid is deducted from the deposit liability. The company is under no obligation to repay the liability to the reinsurer in the event that the actual level of margins is insufficient.