

HAMILTON INSURANCE COMPANY LIMITED
FINANCIAL STATEMENTS - 31 DECEMBER 1998
TOGETHER WITH DIRECTORS'
AND AUDITORS' REPORTS

The Company's registered number is 1655888



HAMILTON INSURANCE COMPANY LIMITED

DIRECTORS & OFFICERS

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

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 1998

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 1998.

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 to grow at current levels.

FINANCIAL RESULTS

Net earned premium income increased by £7,418,000 during the year to £44,584,000 (1997 - £37,166,000).

Investment income increased by £508,000 during the year and profit after taxation increased by £788,000 to £2,889,000 (1997 - profit £2,101,000).

An interim dividend of 24.35 pence per ordinary share was paid on 28th August 1998 to shareholders of the Company registered as at the close of business on 18th May 1998.

Results were as follows:-	1998 £000
Retained profit for the year	889
Retained profit, beginning of year	5,776
Retained profit, end of year	<u>6,665</u>

HAMILTON INSURANCE COMPANY LIMITED

DIRECTORS' REPORT (Continued)

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company are shown on page 1.

On 5 January 1998 G D Gilmer resigned as a Director.

On 26 February 1998 R V Lovering was appointed as a Director.

On 16 November 1998 P J Blackmore was appointed as a Director.

None of the Directors had at any time during the period any disclosable interests in the shares or loan stock of the Company or any Group Company incorporated within Great Britain.

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 as applicable to insurance companies. 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.

YEAR 2000 COMPLIANCE

The Company has established a programme to tackle the Year 2000 issue, which arises from the inability of many older computer programmes to deal with the century change date. The Company has conducted a detailed review of its computer systems and processes and has implemented a plan to ensure all systems are Year 2000 compliant. Good progress has been made on this project during the year.

Given the complexity of the problem, it is impossible to guarantee that no Year 2000 problem will remain. However, the Board believes it will achieve an acceptable state of readiness.

The Board receives regular updates on the project.

THE EURO

All the Company's activities are carried out in the UK. The Company has implemented procedures to deal with the Euro and it is not anticipated that the introduction of the Euro will have any significant systems implications.

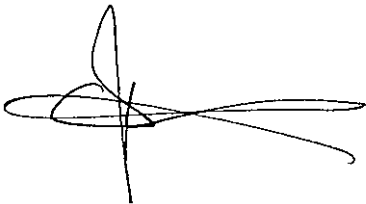
HAMILTON INSURANCE COMPANY LIMITED

DIRECTORS' REPORT (Continued)

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

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

C J Rivers
Secretary

8 March 1999

Auditors' report to the members of Hamilton Insurance Company Limited

We have audited the financial statements on pages 7 to 19, which have been prepared on the bases described in the statement of accounting policies set out on pages 11 and 12.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements, and to report our opinion to you.

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 1998 and of its profits for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS
8 March 1999

HAMILTON INSURANCE COMPANY LIMITED

Profit and loss account
Technical Account - General Business
For the year ended 31 December 1998

	Notes	1998		1997	
		£000	£000	£000	£000
Earned premiums					
Gross premiums written (Net of IPT)	2	46,559		44,199	
Reinsurance premiums	2	<u>(4,424)</u>		<u>(3,922)</u>	
Net written premiums			42,135		40,277
Change in gross unearned premiums		2,603		(2,239)	
Change in unearned reinsurance premiums		<u>(154)</u>		<u>(872)</u>	
			2,449		(3,111)
Earned Premiums, net of reinsurance	2		<u>44,584</u>		<u>37,166</u>
Investment income transferred from the non-technical account			4,039		3,531
Claims incurred					
Claims paid		(12,949)		(12,049)	
Reinsurance recoveries		<u>3,969</u>		<u>3,572</u>	
Net claims paid		<u>(8,980)</u>		<u>(8,477)</u>	
Change in provision for claims		(600)		(91)	
Change in provision for reinsurance		<u>(30)</u>		<u>(334)</u>	
		(630)		(425)	
Claims incurred, net of reinsurance	2		(9,610)		(8,902)
Net operating expenses	2,4		(34,826)		(28,728)
Total balance on the technical account for general business			<u>4,187</u>		<u>3,067</u>

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

HAMILTON INSURANCE COMPANY LIMITED

Profit and loss account

Non-technical account

For the year ended 31 December 1998

	Notes	1998	1997
		£000	£000
Balance on the general technical account		4,187	3,067
Investment Income	5	4,039	3,531
Allocated investment return transferred to the general business technical account		(4,039)	(3,531)
Profit on ordinary activities before tax		<u>4,187</u>	<u>3,067</u>
Tax on profit on ordinary activities	9	(1,298)	(966)
Profit on ordinary activities after tax		<u>2,889</u>	<u>2,101</u>
Dividend paid		(2,000)	-
Retained profit for the year		<u>889</u>	<u>2,101</u>
Retained profit, beginning of year		5,776	3,675
Retained profit, end of year		<u><u>6,665</u></u>	<u><u>5,776</u></u>

The only recognised gains or losses in the accounting period are those disclosed in the profit and loss account.

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

HAMILTON INSURANCE COMPANY LIMITED

Balance sheet

At 31 December 1998

	Notes	1998 £000	1997 £000
ASSETS			
Investments	10	52,510	55,770
Reinsurers' share of technical provisions			
Unearned reinsurance premiums		788	941
Claims outstanding		191	221
Debtors			
Debtors arising out of direct insurance operations	11	3,868	3,182
Debtors arising out of reinsurance operations		572	755
Other assets			
Cash at bank and in hand		57	-
Prepayments and accrued income			
Accrued interest		1,408	2,017
Deferred acquisition costs		14,712	9,507
TOTAL ASSETS		<u>74,106</u>	<u>72,393</u>

The accompanying notes are an integral part of this balance sheet


HAMILTON INSURANCE COMPANY LIMITED

Balance sheet
At 31 December 1998

	Notes	1998 £000	1997 £000
LIABILITIES			
Capital and reserves			
Called up share capital	15	8,212	8,212
Capital contribution		93	93
Profit and loss account	16	6,665	5,776
Shareholders' funds - equity interests		<u>14,970</u>	<u>14,081</u>
Technical provisions			
Provision for unearned premiums		31,722	34,325
Claims reserves	3	15,680	15,080
Claims outstanding		<u>1,022</u>	<u>1,554</u>
		48,424	50,959
Creditors			
Creditors arising out of direct insurance operations	12	8,156	5,859
Creditors arising out of reinsurance operations		494	320
Other creditors including taxation	13	<u>2,062</u>	<u>1,174</u>
		10,712	7,353
TOTAL LIABILITIES		<u><u>74,106</u></u>	<u><u>72,393</u></u>

The financial statements on pages 7 to 19 were approved by the Board of Directors on 8 March 1999 and signed on its behalf by the Directors listed below.


C J Messer
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 1998

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) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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 1998 (continued)

(c) 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.

(d) 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.

(e) Cashflow statement

Under the provisions of Financial Reporting Standard No. 1 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.

(f) Taxation

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

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 1998 (continued)

2 Segmental Information

A	1998			1997		
	Reinsurance			Reinsurance		
Written premiums	Gross £000	Ceded £000	Net £000	Gross £000	Ceded £000	Net £000
Direct insurance						
Accident and health	26,586	(3,380)	23,206	26,212	(3,158)	23,054
Miscellaneous financial loss	19,605	(765)	18,840	17,561	(442)	17,119
Property damage	368	(279)	89	426	(322)	104
	<u>46,559</u>	<u>(4,424)</u>	<u>42,135</u>	<u>44,199</u>	<u>(3,922)</u>	<u>40,277</u>

All premiums represent direct business and are written in the United Kingdom.

B	1998			1997		
	Reinsurance			Reinsurance		
Earned Premiums	Gross £000	Ceded £000	Net £000	Gross £000	Ceded £000	Net £000
Direct insurance						
Accident and health	28,447	(3,531)	24,916	25,035	(4,025)	21,010
Miscellaneous financial loss	20,341	(765)	19,576	16,489	(442)	16,047
Property damage	374	(282)	92	436	(327)	109
	<u>49,162</u>	<u>(4,578)</u>	<u>44,584</u>	<u>41,960</u>	<u>(4,794)</u>	<u>37,166</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 1998 (continued)

C	1998			1997		
	Reinsurance			Reinsurance		
	Gross	Ceded	Net	Gross	Ceded	Net
	£000	£000	£000	£000	£000	£000
Incurred claims						
Direct insurance						
Accident and health	10,037	(3,048)	6,989	9,382	(2,708)	6,674
Miscellaneous financial loss	3,292	(745)	2,547	2,592	(413)	2,179
Property damage	220	(145)	75	166	(117)	49
	<u>13,549</u>	<u>(3,938)</u>	<u>9,611</u>	<u>12,140</u>	<u>(3,238)</u>	<u>8,902</u>
D	1998			1997		
	Reinsurance			Reinsurance		
	Gross	Ceded	Net	Gross	Ceded	Net
	£000	£000	£000	£000	£000	£000
Operating expenses						
Direct insurance						
Accident and health	15,683	-	15,683	14,370	-	14,370
Miscellaneous financial loss	19,060	-	19,060	14,238	6	14,244
Property damage	161	(78)	83	200	(86)	114
	<u>34,904</u>	<u>(78)</u>	<u>34,826</u>	<u>28,808</u>	<u>(80)</u>	<u>28,728</u>
E	1998			1997		
	Reinsurance			Reinsurance		
	Gross	Ceded	Net	Gross	Ceded	Net
	£000	£000	£000	£000	£000	£000
Profit on ordinary activities before tax						
Direct insurance						
Accident and health	4,677	(483)	4,194	2,969	(1,316)	1,653
Miscellaneous financial loss	77	(20)	57	1,504	(35)	1,469
Property damage	(6)	(59)	(65)	70	(125)	(55)
	<u>4,748</u>	<u>(562)</u>	<u>4,186</u>	<u>4,543</u>	<u>(1,476)</u>	<u>3,067</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 1998 (continued)

3	Movements in prior years claims provisions	1998	1997
		£000	£000
	Opening claims reserve	15,080	14,989
	Payments in respect of previous years claims	(7,284)	(6,760)
	Over provision of prior years provisions	(4,049)	(3,801)
	Claims reserving for current year	17,598	15,941
	Claims paid in respect of current year	(5,665)	(5,289)
	Closing claims reserve	<u>15,680</u>	<u>15,080</u>
4	Net operating expenses	1998	1997
		£000	£000
	Acquisition costs	39,437	27,679
	Changes in deferred acquisition costs	(5,205)	(784)
	Administrative expenses	672	1,913
		<u>34,904</u>	<u>28,808</u>
	Reinsurance commissions	(78)	(80)
	Net operating expenses	<u>34,826</u>	<u>28,728</u>
5	Investment Return	1998	1997
		£000	£000
	Investment income	4,039	3,532
	Investment management charges	-	(1)
		<u>4,039</u>	<u>3,531</u>
	Investment Income on:		
	Listed fixed rate securities	97	119
	Listed variable rate securities	1	15
	Cash deposits	3,503	3,109
	Certificates of Deposit	438	289
	Investment management charges	-	(1)
		<u>4,039</u>	<u>3,531</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 1998 (continued)

6 Directors' emoluments	1998	1997
	£000	£000
Aggregate emoluments as Directors	80	75
Company pension contributions to money purchase schemes	5	4
	<u>85</u>	<u>79</u>

During the period under review one Director exercised share options in the ultimate holding company Household International, Inc., and one Director has received amounts due under a long term incentive scheme.

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 1998 and 1997.

8 Profit on ordinary activities before tax	1998	1997
	£000	£000
Profit on ordinary activities before tax is stated after:		
Auditors' remuneration - Audit	22	15
- Other	-	-
Directors' remuneration	<u>85</u>	<u>79</u>

9 Taxation	1998	1997
	£000	£000
Corporation tax at 31% (1997 - 31.5%)	<u>1,298</u>	<u>966</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 1998 (continued)

10 Investments	1998	1997
	£000	£000
Listed fixed rate securities	-	1,506
Listed variable rate securities	-	89
Cash deposits	34,510	46,175
Certificates of Deposit	15,500	5,000
Cash deposits with parent company	2,500	3,000
	<u>52,510</u>	<u>55,770</u>

The amortised cost of investments held at 31 December 1998 is the same as original cost. The market value of investments held was £52,585,000 (1997 - £55,976,000). The maturity value of these investments is £52,510,000.

11 Debtors arising out of direct insurance operations	1998	1997
	£000	£000
Premiums collected by parent company	<u>3,868</u>	<u>3,182</u>

12 Creditors arising out of direct insurance operations	1998	1997
	£000	£000
Amount owed to parent company	7,336	4,863
Insurance premium tax	508	471
External commissions	125	350
Expenses	187	175
	<u>8,156</u>	<u>5,859</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 1998 (continued)

13	Other creditors including taxation	1998	1997
		£000	£000
	Taxation	1,393	1,148
	Amount owed to parent company	669	-
	Bank overdrafts	-	26
		<u>2,062</u>	<u>1,174</u>
 14	 Reconciliation of shareholders' funds	 1998	 1997
		£000	£000
	Retained profit for the year	889	2,101
	Opening shareholders' funds	14,081	11,980
	Closing shareholders' funds	<u>14,970</u>	<u>14,081</u>
 15	 Called up share capital	 1998	 1997
		£000	£000
	Authorised :-		
	Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
	Allotted, called up and fully paid :-		
	Ordinary shares of £1 each	<u>8,212</u>	<u>8,212</u>
 16	 Reserves	 1998	 1997
		£000	£000
	Profit and loss account as at 1 January	5,776	3,675
	Retained profit for the year	889	2,101
	Profit and loss account as at 31 December	<u>6,665</u>	<u>5,776</u>

HAMILTON INSURANCE COMPANY LIMITED

Notes to the financial statements for the year ended 31 December 1998 (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.