



ALLIED
ZURICH



27032032

Recommended
Proposals

PROCESSED BY

26 MAY 2000

DISCLOSURE LTD.

Unification

of the Holding Structure of the

Zurich Financial Services Group

This document is important
and requires your immediate attention

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should immediately seek personal financial advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser duly authorised under the Financial Services Act 1986, if you are in the United Kingdom, or otherwise from an appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your ordinary shares in the capital of Allied Zurich, please immediately forward this document, together with the accompanying forms of proxy, to the purchaser or transferee or to the agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The new Zurich Financial Services Shares to be issued, and the CDIs to be credited, pursuant to the Scheme, including those new Zurich Financial Services Shares and/or CDIs to be deposited in respect of new Zurich Financial Services ADRs, have not been and are not required to be registered with the US Securities and Exchange Commission under the US Securities Act of 1933. Such securities have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of such securities (or the accuracy or adequacy of this document). Any representation to the contrary is a criminal offence in the United States.

The new Zurich Financial Services Shares and the CDIs, including those new Zurich Financial Services Shares and/or CDIs to be deposited in respect of new Zurich Financial Services ADRs, will be issued without registration under the US Securities Act of 1933, as amended, on the basis of an exemption provided by Section 3(a)(10) thereof.

Allied Zurich intends to comply with the information supplying exemption pursuant to Rule 12g3-2(b) of the US Securities Exchange Act of 1934 (the "**Exchange Act**") for so long as it has more than 300 US shareholders. In addition, new Zurich Financial Services intends to apply for an exemption to the reporting requirements of the Exchange Act pursuant to Rule 12g3-2(b) thereof and thereafter to comply with the information supplying exemption pursuant to such rule for so long as it has more than 300 US shareholders.

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and, therefore, persons who come into possession of this document should inform themselves about and observe any such restrictions. Any failure to comply may constitute a violation of the securities laws of any such jurisdiction.

Allied Zurich p.l.c.

**Recommended proposals
to reorganise the Zurich Financial Services Group
(including a scheme of arrangement of Allied Zurich
under section 425 of the Companies Act 1985),
to enable Allied Zurich to pay a Special Cash Dividend of 40 pence
per Allied Zurich Share and
to enable Allied Zurich to purchase its own ordinary shares**

Your attention is drawn to the letter from the Independent Directors of Allied Zurich in Part I of this document, recommending that you vote in favour of the Proposals.

Notices of Meetings to be held on Tuesday 20 June 2000 commencing at 11.00 a.m. at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU to approve the Proposals herein are set out in Part IX and Part X of this document. The action which you are recommended to take is set out on page 9 of this document.

Whether or not you intend to be present at the Meetings, please complete and return the accompanying forms of proxy (blue for the Court Meeting and white for the Extraordinary General Meeting) to Allied Zurich's registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6BJ as soon as possible and in any event so as to arrive by not later than 48 hours before the time appointed for the relevant meeting. A form of proxy for the Court Meeting which is not so returned may, alternatively, be handed to the Chairman at the Court Meeting.

IF YOU HAVE ANY QUERIES IN RELATION TO THE CONTENTS OF THIS DOCUMENT OR THE ACTION TO BE TAKEN BY YOU, PLEASE CONTACT THE ALLIED ZURICH SHAREHOLDER HELPLINE ON FREEPHONE 0800 081 3047 (FOR CALLERS FROM OUTSIDE THE UNITED KINGDOM (FOR WHOM CALLS ARE NOT TOLL-FREE) +44 (0) 20 7335 7297). THE HELPLINE OPERATORS CANNOT PROVIDE FINANCIAL OR TAXATION ADVICE, BUT WILL BE ABLE TO ANSWER OTHER QUESTIONS ON THE EFFECT OF THE PROPOSALS UPON YOU AS AN ALLIED ZURICH SHAREHOLDER.

Dated 26 May 2000

Details of the Meetings

Latest requested time for receipt of blue forms of proxy for the Court Meeting*	11.00 a.m. on Sunday 18 June 2000
Latest time for receipt of white forms of proxy for the Extraordinary General Meeting	11.05 a.m. on Sunday 18 June 2000
Voting Record Time	6.00 p.m. on Sunday 18 June 2000
Court Meeting	11.00 a.m. on Tuesday 20 June 2000
Extraordinary General Meeting	11.05 a.m. on Tuesday 20 June 2000

In this document references to time are to London time.

Both Meetings will be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU. The Extraordinary General Meeting will be held at 11.05 a.m. or immediately following the Court Meeting should the Court Meeting conclude later than 11.05 a.m.. Allied Zurich Shareholders are requested to make every effort to vote in person or by proxy at the Meetings.

Whether or not you plan to attend the Meetings, please complete and return the blue and white forms of proxy enclosed with this document. This will enable your votes to be counted at the Meetings in the event of your absence.

*The Court Meeting form of proxy may alternatively be handed to the Chairman at the Court Meeting.

In the case of adjournment, the Voting Record Time for both Meetings will be 6.00 p.m. on the day prior to the day immediately before the Meeting which has been reconvened.

Key events following the Meetings

Due to the requirement for regulatory approvals in respect of the Proposals, it is not possible at this time to give precise dates of events following the Meetings. The table below shows the events expected to occur by the end of 2000 and, where appropriate, the expected day of the week on which the event will occur. Your Board will make an appropriate announcement as soon as the timing of these steps becomes clearer.

- Receipt of regulatory approvals and satisfaction of other Conditions
- Special Cash Dividend Record Time Wednesday
- Share Repurchase effected before the Court Hearing
- Court Hearing to sanction the Scheme and the cancellation of existing Allied Zurich Shares Thursday
- Board meeting to declare the Special Cash Dividend Thursday
- Termination of dealings in Allied Zurich Shares Friday
- Scheme Record Time, Scheme Effective Date and completion of the Statutory Merger Friday
- Dealings on the SWX Swiss Exchange and the London Stock Exchange commence in new Zurich Financial Services Shares the following Monday
- Despatch of Statements of Entitlement to CDIs and cheques in respect of fractional entitlements within 14 days of the Scheme Effective Date
- Payment of Special Cash Dividend to Allied Zurich Shareholders on the register of members at the Special Cash Dividend Record Time within 14 days of the Scheme Effective Date

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Independent Directors:

Lord Cairns

REJ Gilmore

VL Sankey

G Schulmeyer

CK Yeutter

Letter from the Independent Directors of Allied Zurich p.l.c.

26 May 2000

To Allied Zurich Shareholders and, for information only, to ADR Holders, Optionholders and Share Participants

Dear Shareholder

RECOMMENDED PROPOSALS FOR THE UNIFICATION OF THE HOLDING STRUCTURE OF THE ZURICH FINANCIAL SERVICES GROUP

1. INTRODUCTION

On 17 April 2000 the Independent Directors of Allied Zurich and the boards of Zurich Allied and Zurich Financial Services announced that they had reached agreement in principle on Proposals to simplify and unify the structure of the Group under a single parent company to be based in Switzerland, new Zurich Financial Services. A Transaction Agreement setting out the agreed basis on which the Proposals would be implemented was signed on 2 May 2000. An announcement of a firm intention to proceed with the Proposals was made on 3 May 2000.

The principal result of the Proposals will be that, in place of their current holding in Allied Zurich Shares, the Allied Zurich Shareholders will receive a holding in new Zurich Financial Services and will be paid a special cash dividend of 40 pence per Allied Zurich Share.

We are writing to you to explain the details of and the reasons for the Proposals and to explain why we, who have been so advised by Goldman Sachs and Cazenove, consider the Proposals to be in the best interests of Allied Zurich and Allied Zurich Shareholders as a whole and, accordingly, to recommend you to vote in favour of the resolutions to be considered at the Court Meeting and Extraordinary General Meeting, both of which are to be held on Tuesday 20 June 2000.

You will find definitions for certain words and phrases used in this document in Part XI.

The structure of the Group before and after the implementation of the Proposals is shown in diagrammatic form at the end of this letter.

2. BACKGROUND TO AND REASONS FOR THE PROPOSALS

Zurich Financial Services holds, directly or indirectly, all the business entities of the Group and its share capital is currently owned as to 43 per cent. by Allied Zurich and as to 57 per cent. by Zurich Allied, such relative ownership percentages being the "Equalisation Ratio".

The dual holding company structure was set up in September 1998 at the time of the merger of the financial services businesses of B.A.T Industries p.l.c. and Zurich Insurance Company which created the Zurich Financial Services Group. In the period between the inception of that structure and 14 April 2000 (the last day of dealings prior to the announcement of the Proposals on 17 April 2000), Zurich Allied Shares traded at an average premium of 12.6 per cent. to the Allied Zurich Shares relative to the value implied by the Equalisation Ratio. Based on closing share prices as at 14 April 2000 of 684 pence per Allied Zurich Share and CHF 827 per Zurich Allied Share, Zurich Allied Shares were trading at a premium of 7.8 per cent. to the Allied Zurich Shares relative to the value implied by the Equalisation Ratio.

Unification under the Proposals will eliminate the difference between the trading prices of Allied Zurich Shares and Zurich Allied Shares relative to the value implied by the Equalisation Ratio.

We, and the board of directors of Zurich Allied, believe that unification of the share structure will enhance long term value for shareholders by:

- enhancing strategic flexibility within a rapidly consolidating financial services industry;
- increasing the liquidity of new Zurich Financial Services Shares by comparison with Allied Zurich Shares and Zurich Allied Shares;
- simplifying capital raising for the Group and reducing complexity for investors; and
- facilitating the Group's intention to seek a listing on the New York Stock Exchange.

3. THE PROPOSALS

The Proposals involve a series of corporate actions, principal among which are (i) a scheme of arrangement to be proposed by Allied Zurich pursuant to which new Zurich Financial Services will become the holder of the entire issued share capital of Allied Zurich, and (ii) a statutory merger under Swiss law between new Zurich Financial Services and Zurich Allied.

Pursuant to the Proposals:

- new Zurich Financial Services will become the holding company of the Group. Under the Scheme former Allied Zurich Shareholders will own (subject to the effects of the Share Repurchase described below and of fractional entitlements) 43 per cent. of the issued share capital of new Zurich Financial Services;
- it is intended that Allied Zurich Shareholders on the register of members at the Special Cash Dividend Record Time will be entitled to a Special Cash Dividend of 40 pence per Allied Zurich Share;
- Allied Zurich Shareholders on the register of members at the Scheme Record Time will be entitled to one new Zurich Financial Services Share for every 42.928 Allied Zurich Shares; and
- subject to final agreement with CRESTCo, new Zurich Financial Services Shares to which Allied Zurich Shareholders are entitled will be delivered and held in the form of CREST Depository Interests ("CDIs") on the basis of one CDI for each new Zurich Financial Services Share. Further information in relation to CDIs is set out in paragraph 3(f) below and Part II of this document.

In order to be entitled to new Zurich Financial Services Shares under the Scheme and to the Special Cash Dividend, Allied Zurich Shareholders need to be on the register of members at, respectively, the Scheme Record Time and the Special Cash Dividend Record Time.

(a) Scheme

The Scheme requires the approval of Allied Zurich Shareholders at the Court Meeting and at the Extraordinary General Meeting and the sanction of the Court.

Under the Scheme, all existing Allied Zurich Shares will be cancelled and new shares in Allied Zurich issued to new Zurich Financial Services. In consideration for the cancellation of their Allied Zurich Shares, Allied Zurich Shareholders will be entitled to shares in new Zurich Financial Services on the basis of one new Zurich Financial Services Share for every 42.928 Allied Zurich Shares. The new Zurich Financial Services Shares will be held in CREST in the form of CDIs.

The exchange ratio of 42.928 Allied Zurich Shares to one new Zurich Financial Services Share was calculated as follows:

- Allied Zurich and Zurich Allied own, respectively, 43 per cent. and 57 per cent. of the issued share capital of Zurich Financial Services;
- on 17 April 2000 there were 48,659,517 Zurich Allied Shares and 1,575,810,149 Allied Zurich Shares in issue;
- on the basis that the 48,659,517 Zurich Allied Shares would be exchanged on a one for one basis and would represent 57 per cent. of the issued share capital of new Zurich Financial Services, there would be 85,367,574 new Zurich Financial Services Shares in issue on Completion. Subject to the effects of the Share Repurchase and of fractional entitlements former Allied Zurich Shareholders would be entitled to 43 per cent. of new Zurich Financial Services Shares, being 36,708,057 shares; and
- accordingly Allied Zurich Shareholders would be entitled to receive one new Zurich Financial Services Share for every $1,575,810,149 \div 36,708,057 = 42.928$ Allied Zurich Shares.

As at 14 April 2000 (the last day of dealings prior to the announcement of the Proposals on 17 April 2000), based on closing prices on that day, 42.928 Allied Zurich Shares were worth £299.71 compared to one Zurich Allied Share worth £317.25 (based on an exchange rate of CHF 2.6068 to £1 as at 14 April 2000).

Part I – Letter from the Independent Directors of Allied Zurich p.l.c.

Fractions of new Zurich Financial Services Shares will not be issued. Fractional entitlements will be aggregated and sold at the prevailing market price with the proceeds (net of expenses) being paid in Sterling to the relevant Allied Zurich Shareholders in the relevant proportions.

The rights attaching to the new Zurich Financial Services Shares to be issued under the Scheme (to be held in the form of CDIs) are described in Part IV and Part V of this document.

Further details of the Scheme, which is subject to the Conditions set out in Part III of this document, are provided in the Explanatory Statement set out in Part II of this document. The Scheme is set out in Part VIII of this document.

(b) Statutory Merger

The Proposals envisage that all the assets and liabilities of Zurich Allied will be transferred to new Zurich Financial Services. This will be achieved by means of a statutory merger under Swiss law. Zurich Allied Shareholders will receive new Zurich Financial Services Shares on a one for one basis.

Zurich Allied Shareholders approved the Statutory Merger at the annual general meeting of Zurich Allied held on 25 May 2000. However, completion of the Statutory Merger will be subject to the satisfaction or waiver of the conditions set out in the Merger Agreement, which is described in Part VI of this document.

(c) Special Cash Dividend

It is intended that Allied Zurich Shareholders on the register of members of Allied Zurich at the Special Cash Dividend Record Time will receive a Special Cash Dividend of 40 pence per Allied Zurich Share. This dividend is to compensate Allied Zurich Shareholders for a variety of factors, including the fact that new Zurich Financial Services, having its primary listing in Switzerland, will not be eligible for inclusion in the FTSE UK indices.

Once regulatory approvals have been obtained and all the other Conditions set out in Part III of this document have been satisfied or waived (but prior to the Scheme Effective Date), the Special Cash Dividend is intended to be declared by the Board and expected to be paid within 14 days of the Scheme Effective Date.

Under the Transaction Agreement it has been agreed that sufficient distributable reserves and funds will be made available to Allied Zurich to enable it to pay the Special Cash Dividend.

(d) Share Repurchase

Zurich Financial Services and new Zurich Financial Services have been advised by UBS Warburg that the Proposals may lead to increased share trading activity until several weeks after the Scheme Effective Date since, as the new Zurich Financial Services Shares will not be eligible for inclusion in the FTSE UK indices, a number of Allied Zurich Shareholders may need (or may otherwise choose) to sell their Allied Zurich Shares or new Zurich Financial Services Shares received pursuant to the Scheme. Zurich Financial Services and new Zurich Financial Services have also been advised by UBS Warburg that, over time, such selling activity may be partially matched by buying activity resulting from the increased weight of new Zurich Financial Services relative to Zurich Allied in major European and Swiss stock market indices. Given new Zurich Financial Services' characteristics its directors believe that it will be eligible for inclusion in major European indices.

In recognition of the above, your Board is seeking authority, at the Extraordinary General Meeting, to make market purchases of up to a maximum of 235,000,000 Allied Zurich Shares. If granted, this authority will, if appropriate, be used to make market purchases of Allied Zurich Shares with a value (based on the repurchase price) of up to USD 1.0 billion (representing approximately 6 per cent. of Allied Zurich Shares in issue as at 22 May 2000 (the last practicable date prior to the publication of this document) based on a repurchase price equal to the closing price of 710 pence per Allied Zurich Share and the USD/Sterling exchange rate of USD 1.4933 to £1 as at that date).

The authority will last until the expiry of 18 months from the date of the passing of the Special Resolution.

It is intended that the Share Repurchase will be conducted through one or more tender offers. However, subject to the approval of the Panel, some or all of the Share Repurchase may be carried out by other on-market purchases through the London Stock Exchange otherwise than by way of tender offer.

The maximum purchase price in any tender offer will be 1,500 pence per Allied Zurich Share. In the event that the Share Repurchase is effected, in whole or in part, otherwise than by tender offer, the rules of the UK Listing Authority limit the price which may be paid by Allied Zurich on any such purchase to 105 per cent. of the average of the middle-market quotations for Allied Zurich Shares for the five Business Days immediately preceding the date of the relevant purchase. The minimum purchase price, whether or not the Share Repurchase proceeds by tender offer, will be 25 pence (the nominal value of an Allied Zurich Share).

Under the Transaction Agreement it has been agreed that Allied Zurich will be provided with sufficient distributable reserves and funds for the purpose of the Share Repurchase. It is intended that Allied Zurich will issue preference shares

to a member of the Group in order to fund the Share Repurchase. Accordingly, approval is also being sought from Allied Zurich Shareholders at the Extraordinary General Meeting to (i) increase the authorised share capital of Allied Zurich by £58,750,000 by the creation of 235,000,000 preference shares of 25 pence each; and (ii) to give the Directors authority in accordance with section 80 of the Companies Act to allot such preference shares.

Further details of any tender offer(s) will be sent to Allied Zurich Shareholders in due course.

(e) Listings for the new Zurich Financial Services Shares

The Scheme is conditional upon, inter alia, the new Zurich Financial Services Shares being listed on the SWX Swiss Exchange and admitted to a secondary listing in the UK by the UK Listing Authority and to trading on the London Stock Exchange. Pursuant to the Transaction Agreement, new Zurich Financial Services has agreed to maintain this secondary listing (or such other listing as is substantially equivalent thereto) for as long as, in the reasonable opinion of new Zurich Financial Services, having regard solely to the interests of the former Allied Zurich Shareholders, this is warranted for the benefit of a material number of new Zurich Financial Services Shareholders.

It is also intended that new Zurich Financial Services will seek a listing on the New York Stock Exchange later in 2000, or in 2001. In the event that this intention should change, new Zurich Financial Services will make an announcement to that effect.

(f) CREST Depository Interests

Under the Scheme, Allied Zurich Shareholders will be entitled to new Zurich Financial Services Shares in exchange for Allied Zurich Shares. The new Zurich Financial Services Shares, being Swiss securities, will not, at the present time, be capable of being settled within the usual UK settlement systems. In addition, the Independent Directors believe that the new Zurich Financial Services Shares are unlikely to be easily and cheaply tradeable by the usual UK retail methods. Further, trading the new Zurich Financial Services Shares in the usual Swiss systems may not be appealing to UK investors because of cost and lack of familiarity.

In order to facilitate trading of new Zurich Financial Services Shares in the UK and to allow receipt of dividends on such shares in Sterling, the Scheme provides that new Zurich Financial Services will deliver new Zurich Financial Services Shares to which Allied Zurich Shareholders (other than the trustees of the Share Participation Schemes and, should new Zurich Financial Services and the Allied Zurich ADR Depositary agree, the Allied Zurich ADR Depositary) are entitled pursuant to the Scheme in the form of CDIs. CDIs are independent securities, priced in Sterling and constituted under English law, which are capable of being held and transferred through CREST, the UK system for the paperless settlement of trades in securities and the holding of uncertificated securities. At any time following Completion holders of CDIs will be entitled to exchange their CDIs for a registered holding of new Zurich Financial Services Shares, and to apply to new Zurich Financial Services, as required by its articles of incorporation, for voting rights to be conferred in respect of that holding (further details of the application procedure are given in Parts IV and V of this document). New Zurich Financial Services will reimburse to former Allied Zurich Shareholders the transaction cost (currently expected to be £5) of the first such exchange.

Under the Transaction Agreement, new Zurich Financial Services has agreed to procure, so far as is possible within applicable CREST regulations and practice and Swiss law, that holders of CDIs are treated in an equivalent manner to new Zurich Financial Services Shareholders, as regards attending and voting at general meetings of new Zurich Financial Services. New Zurich Financial Services has also agreed, for the benefit of former Allied Zurich Shareholders on the register at the Scheme Record Time, to maintain these CDI arrangements, free of custody charges, or such other listing and trading facilities as are substantially equivalent thereto, for so long as they are (in the reasonable opinion of new Zurich Financial Services having regard solely to the interests of former Allied Zurich Shareholders) warranted for the benefit of a material number of new Zurich Financial Services Shareholders.

In the event that satisfactory arrangements in relation to attending and voting at general meetings have not been established by the time the Scheme is due to become effective and until such time as they are so established new Zurich Financial Services intends to procure that equivalent arrangements are provided by Lloyds TSB Registrars to those persons on whose behalf Lloyds TSB Registrars Corporate Nominee Limited holds CDIs.

Further details of the arrangements for holding CDIs and the characteristics of CDIs are set out in Part II of this document.

(g) Zurich Allied share repurchases

Zurich Allied is authorised (until 31 December 2000) to make on-market repurchases of Zurich Allied Shares up to an amount of CHF 1.0 billion. The purpose of any such share repurchases will be to facilitate the transition to the new shareholding structure. Any Zurich Allied Shares repurchased will be held as treasury shares and will not be cancelled.

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Zurich Allied will not repurchase more than 25 per cent. of the daily trading volume in Zurich Allied Shares on the SWX Swiss Exchange.

4. EFFECT OF THE PROPOSALS ON ALLIED ZURICH SHAREHOLDERS

Pursuant to the terms of the Proposals, former Zurich Allied Shareholders will be entitled to hold 57 per cent. of the shares in new Zurich Financial Services and former Allied Zurich Shareholders will be entitled to hold, beneficially, 43 per cent. of the shares in new Zurich Financial Services (subject to the effects of the Share Repurchase and of fractional entitlements).

A summary of the principal differences between holding Allied Zurich Shares and new Zurich Financial Services Shares is set out in Part V of this document.

5. INFORMATION ON NEW ZURICH FINANCIAL SERVICES

(a) Dividends

Pursuant to the Transaction Agreement, it has been agreed that, following unification in accordance with the Proposals, new Zurich Financial Services will, as circumstances permit and so far as is in accordance with applicable law, maintain the Group's current dividend policy of distributing approximately 30 per cent. of the sustainable post-tax profits of the Group. New Zurich Financial Services will pay such dividends (net of Swiss withholding tax) annually in Swiss Francs (although persons whose new Zurich Financial Services Shares are held in the form of CDIs will have such amount converted into and paid by CREST in Sterling or, in relation to CDIs held directly in CREST, in any other CREST currency at their election) with the first dividend expected to be payable in May or June 2001 in respect of the year ended 31 December 2000.

(b) Directors

New Zurich Financial Services will have one board of directors consisting at Completion of the directors of Allied Zurich and Zurich Allied who are in office following this year's annual general meetings of Allied Zurich and Zurich Allied with the exception of Lord Cairns, who proposes to retire upon Completion and will not stand for election to the board of new Zurich Financial Services, and Martin Feinstein and Alexander Leitch, both of whom will continue their executive management roles within the Group. Rolf Hüppi will be the Chairman and Chief Executive Officer of new Zurich Financial Services.

(c) Corporate Governance

It has been agreed that the Group's current standards of corporate governance should be maintained. In particular, the committee structure, comprising audit, remuneration and nominations committees will remain in place with the same remit as at present.

New Zurich Financial Services has agreed in the Transaction Agreement to comply with the requirements of the Listing Rules of the UK Listing Authority relating to the Combined Code as at 2 May 2000, for so long as such requirements are, in the reasonable opinion of new Zurich Financial Services, having regard to the interests of the former Allied Zurich Shareholders and also the requirements of any stock exchange on which new Zurich Financial Services Shares are listed for the time being, warranted for the benefit of a material number of new Zurich Financial Services Shareholders.

(d) Operations

The Group is one of the leading financial services organisations providing financial protection and wealth accumulation solutions for more than 35 million customers in over 60 countries.

The Group was formed in September 1998 from the merger of Zurich Insurance Company and the financial services businesses of B.A.T Industries and includes the businesses of Zurich, Farmers Group, Scudder Kemper Investments, Eagle Star, Scudder Threadneedle Investments and Allied Dunbar. The Group has more than 68,000 employees worldwide, with the US, UK and Switzerland as home markets.

No changes are contemplated to the operations of the Group in terms of business, management or staff as a consequence of the Proposals or any element thereof, and the employment rights (including the pension entitlements) of the management and employees of the Group will be fully safeguarded.

Additional information on new Zurich Financial Services is set out in Part IV and Part VI of this document.

6. TAXATION

Advice received by the Independent Directors in respect of the Swiss, UK and US taxation consequences of the Proposals for Allied Zurich Shareholders is summarised in Part V and Part VI of this document. A summary of the principal

differences in the taxation treatment of Swiss, UK and US Allied Zurich Shareholders between holding Allied Zurich Shares and new Zurich Financial Services Shares is set out in Part V of this document.

If you are in any doubt about your tax position or you are subject to taxation in any jurisdiction other than Switzerland, the UK and the US, you are strongly recommended to consult an independent financial adviser immediately.

7. OVERSEAS SHAREHOLDERS AND ADR HOLDERS

If you are a citizen, resident or national of a jurisdiction outside the UK, or an ADR Holder, you should refer to Part VI which contains important information relevant to such persons.

8. SHARE SCHEMES

The effect of the Proposals upon the Share Schemes is summarised in Part VI of this document.

9. ACTION TO BE TAKEN

You will find set out in Part IX and Part X of this document notices of the Meetings which have been convened to enable Allied Zurich Shareholders to consider and, if thought fit, approve the Proposals and the steps required to implement them.

Details of the Meetings and of the resolutions to be proposed are set out in paragraph 4 of Part II of this document.

The Court Meeting will be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Tuesday 20 June 2000, at 11.00 a.m., and the Extraordinary General Meeting will follow at the same venue at 11.05 a.m. (or as soon as the Court Meeting has been concluded or adjourned, if later). Please make every effort to vote at the Meetings.

In addition, and whether or not you intend to be present at the Meetings, you are requested to complete and return the enclosed blue and white forms of proxy as soon as possible, and in any event so as to arrive at Allied Zurich's registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6BJ not later than 48 hours before the time for which the relevant Meeting has been convened. The form of proxy for the Court Meeting, if not so lodged, will also be validly delivered if handed to the Chairman at that Meeting.

Completing and returning the enclosed blue and white forms of proxy will ensure that your votes can be counted at the Meetings. The return of the forms of proxy will not prevent you from attending the Meetings and voting in person if you wish to do so.

Please note that the entitlement to vote at the Court Meeting and the Extraordinary General Meeting will be determined as at 6.00 p.m. on Sunday 18 June 2000 or, in the case of adjournment, 6.00 p.m. on the day prior to the day immediately before the Meeting which has been reconvened.

10. RECOMMENDATION

The Independent Directors and their financial advisers, Goldman Sachs and Cazenove, consider that the unification of Allied Zurich and Zurich Allied into a single Swiss holding company will, in the long term, be beneficial for Allied Zurich Shareholders. Accordingly, the Independent Directors, who have been so advised by Goldman Sachs and Cazenove, consider the Proposals to be in the best interests of Allied Zurich and Allied Zurich Shareholders taken as a whole. In giving their advice, Goldman Sachs and Cazenove have taken account of the commercial assessments of the Independent Directors.

The Independent Directors unanimously recommend that Allied Zurich Shareholders vote in favour of the resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting as they intend to in respect of their own beneficial holdings, amounting in aggregate to 59,073 Allied Zurich Shares.

Yours sincerely

The Rt. Hon. The Earl Cairns
Chairman

REJ Gilmore

VL Sankey

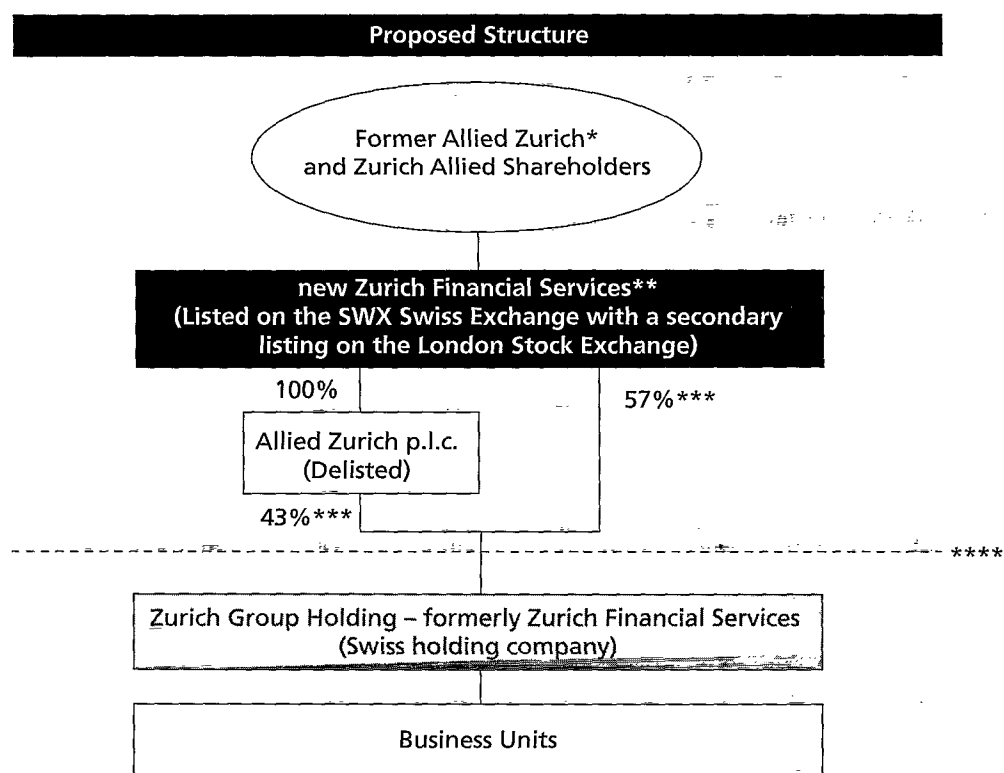
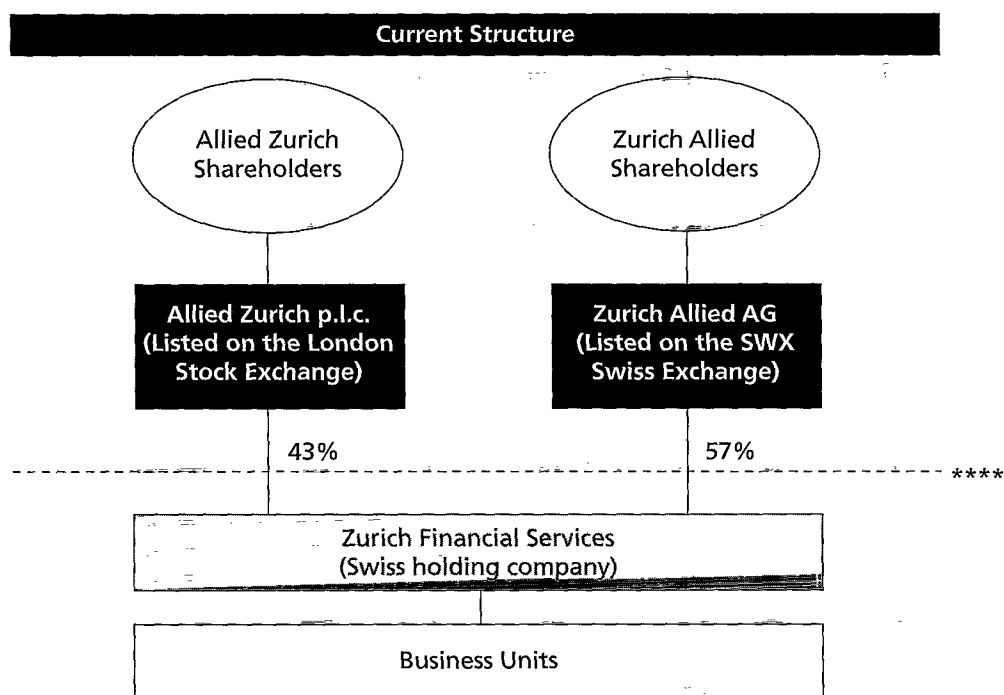
G Schulmeyer

CK Yeutter

IF YOU HAVE ANY QUERIES IN RELATION TO THE CONTENTS OF THIS DOCUMENT OR THE ACTION TO BE TAKEN BY YOU, PLEASE CONTACT THE ALLIED ZURICH SHAREHOLDER HELPLINE ON FREEPHONE 0800 081 3047 (FOR CALLERS FROM OUTSIDE THE UNITED KINGDOM (FOR WHOM CALLS ARE NOT TOLL-FREE) +44 (0) 20 7335 7297). THE HELPLINE OPERATORS CANNOT PROVIDE FINANCIAL OR TAXATION ADVICE, BUT WILL BE ABLE TO ANSWER OTHER QUESTIONS ON THE EFFECT OF THE PROPOSALS UPON YOU AS AN ALLIED ZURICH SHAREHOLDER.

DIAGRAMS

These summary diagrams illustrate the Group structure before and after the Proposals.



- * The new Zurich Financial Services Shares to which former Allied Zurich Shareholders are entitled under the Scheme will be delivered and held in the form of CDIs.
- ** Merged with Zurich Allied.
- *** Subject to the effects of the Share Repurchase.
- **** The Proposals have no effect on the structure of the Group below the dotted line.

Explanatory Statement in relation to the Scheme

(in compliance with section 426 of the Companies Act)



Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB



12 Tokenhouse Yard
London EC2R 7AN

To Allied Zurich Shareholders and, for information only, to ADR Holders, Optionholders and Share Participants

Dear Shareholder

Proposal for a scheme of arrangement under Section 425 of the Companies Act

1. INTRODUCTION

In recommending the Proposals, the Independent Directors have been advised by Goldman Sachs and Cazenove. They have asked us to write to you to explain the Scheme and the steps necessary to implement it.

Your attention is drawn to the letter from the Independent Directors set out in Part I of this document. The letter sets out the views of the Independent Directors and their unanimous recommendation that Allied Zurich Shareholders should vote in favour of the resolutions proposed at the forthcoming Court Meeting and Extraordinary General Meeting. Your attention is also drawn to Parts III, IV, V, VI and VII of this document which contain further relevant information. The Independent Directors' letter and Parts III, IV, V, VI, VII and XI of this document form part of this Explanatory Statement.

2. THE SCHEME OF ARRANGEMENT

It is proposed that, under the Scheme, which is set out in Part VIII of this document, and subject to the Conditions set out in Part III of this document:

- (a) all of the Scheme Shares will be cancelled and, following such cancellation, the issued share capital of Allied Zurich will be restored to its former amount by the application of the credit arising in the books of Allied Zurich as a result of such cancellation in paying up in full new Allied Zurich Shares which will be allotted and issued as fully paid to new Zurich Financial Services and/or its nominees;
- (b) Allied Zurich Shareholders will be entitled to one new Zurich Financial Services Share for every 42.928 Scheme Shares cancelled. Entitlements to fractions of new Zurich Financial Services Shares will not be issued to Allied Zurich Shareholders but will be sold at the prevailing market price with the proceeds (net of expenses) being paid in Sterling to the relevant Allied Zurich Shareholders in the relevant proportions;
- (c) all Scheme Shareholders (other than the trustees of Share Participation Schemes and, should new Zurich Financial Services and the Allied Zurich ADR Depositary so agree, the Allied Zurich ADR Depositary) will receive the new Zurich Financial Services Shares to which they are entitled under the Scheme in the form of CDIs on the basis of one CDI for each new Zurich Financial Services Share to which they are entitled;
- (d) the trustees of Share Participation Schemes and, should new Zurich Financial Services and the Allied Zurich ADR Depositary so agree, the Allied Zurich ADR Depositary, or a nominee, will receive the new Zurich Financial Services Shares to which they are entitled in registered form; and
- (e) the new Zurich Financial Services Shares will be issued, and the CDIs credited, free from all liens, charges, equitable interests, encumbrances and other interests of any nature whatsoever.

Part II – Explanatory Statement in relation to the Scheme

As a result, new Zurich Financial Services will become the parent company of Allied Zurich and 43 per cent. of the issued share capital of new Zurich Financial Services will, subject to the effect of the Share Repurchase, be beneficially owned by the holders of Scheme Shares (or persons who have purchased new Zurich Financial Services Shares comprising Scheme Shareholders' fractional entitlements).

The Scheme will only become effective if the resolutions proposed at the Court Meeting and at the Extraordinary General Meeting are passed and the Court's sanction of the Scheme and confirmation of the cancellation of the Scheme Shares is obtained. The Conditions of the Scheme are set out in Part III of this document.

Save as described in paragraph 2(c) above, pursuant to the Scheme all holders of Scheme Shares will be treated in the same way if the Scheme becomes effective.

3. CREST DEPOSITORY INTERESTS

(a) Holding CDIs

Save as described in paragraph 2(c) above, new Zurich Financial Services Shares issued pursuant to the Scheme will be delivered in CREST, the system for the paperless settlement of trades in securities and the holding of uncertificated securities in the UK, by means of the CREST International Settlement Links Service and in particular the link with Segaiserttle AG, the Swiss settlement system. Under the CREST International Settlement Links Service, the new Zurich Financial Services Shares will be allotted and issued to CREST International Nominees Limited, a subsidiary of CRESTCo, and CREST Depository will issue dematerialised depository interests representing entitlements to new Zurich Financial Services Shares, known as CDIs. Details of these arrangements are contained in the CREST International Manual (April 2000) issued through CRESTCo.

(b) Characteristics of CDIs

CDIs are independent securities, priced in Sterling and constituted under English law, which may be held, transferred and settled within CREST. The following points should be noted:

- new Zurich Financial Services will make arrangements for a market in its shares to be made in London. Trades in this market will be capable of settlement within CREST in the form of CDIs;
- former Allied Zurich Shareholders who hold their Scheme Shares in CREST will have their CDIs delivered to the CREST account in which their Scheme Shares were held and will, for so long as those CDIs are so held, be able to have dividends paid on new Zurich Financial Services Shares in CHF by new Zurich Financial Services or converted into and paid to them in Sterling by CRESTCo (or in USD, Euros or any other CREST currency if desired);
- former Allied Zurich Shareholders who hold their Scheme Shares in certificated form will have CDIs held on their behalf by Lloyds TSB Registrars Corporate Nominee Limited and will, for so long as that arrangement continues, have dividends paid on new Zurich Financial Services Shares in CHF by new Zurich Financial Services converted into and paid to them in Sterling; and
- all custody fees associated with the CDIs to which Scheme Shareholders are entitled will, provided such CDIs continue to be held by such persons, be paid by new Zurich Financial Services (or reimbursed upon application being made to new Zurich Financial Services together with satisfactory evidence of a holding at the Scheme Record Time).

It should be noted that CDI holders will not be the legal owners of the new Zurich Financial Services Shares to which they are entitled under the Scheme. Accordingly they will not be able to directly enforce or exercise the rights of new Zurich Financial Services Shareholders described in Parts IV and V of this document.

However:

- at any time following Completion holders of CDIs will be entitled to exchange their CDIs for a registered holding of new Zurich Financial Services Shares within Segaiserttle AG, the Swiss settlement system. This will allow them to apply for registration, pursuant to the new Zurich Financial Services Articles, for voting rights to be conferred in respect of that holding (further details of the application procedure are given in Parts IV and V of this document). New Zurich Financial Services will reimburse to former Allied Zurich Shareholders the transaction cost (currently expected to be £5) of the first such exchange;
- under the Transaction Agreement, new Zurich Financial Services has agreed to procure, so far as is possible within applicable CREST regulations and practice and Swiss law, that holders of CDIs are treated in an equivalent manner to new Zurich Financial Services Shareholders, as regards attending and voting at general meetings of new Zurich Financial Services. New Zurich Financial Services has also agreed under the Transaction Agreement, for the

Part II – Explanatory Statement in relation to the Scheme

benefit of former Allied Zurich Shareholders on the register at the Scheme Record Time, to maintain these CDI arrangements, free of custody charges, or such other listing and trading facilities as are substantially equivalent thereto, for so long as they are (in the reasonable opinion of new Zurich Financial Services having regard solely to the interests of former Allied Zurich Shareholders) warranted for the benefit of a material number of new Zurich Financial Service Shareholders;

- in the event that, by the Scheme Effective Date, it is not possible to establish such arrangements within CREST then, until such time as they are so established, new Zurich Financial Services intends to procure that equivalent arrangements are provided by Lloyds TSB Registrars to those persons on whose behalf Lloyds TSB Registrars Corporate Nominee Limited holds CDIs; and
- it is likely that the regulations based upon the new Zurich Financial Services Articles, when adopted, will contain provisions requiring a registered holder of new Zurich Financial Services Shares to make disclosure of any underlying beneficial interests in relation to such shares.

Allied Zurich Shares in uncertificated form (that is, in CREST)

Former Allied Zurich Shareholders (other than the trustees of the Share Participation Schemes and, should new Zurich Financial Services and the Allied Zurich ADR Depositary so agree, the Allied Zurich ADR Depositary) who hold Scheme Shares in uncertificated form will have their CREST account credited with CDIs in exchange for their holding of Allied Zurich Shares.

Allied Zurich Shares in certificated form

Former Allied Zurich Shareholders (other than the trustees of the Share Participation Schemes and, should new Zurich Financial Services and the Allied Zurich ADR Depositary so agree, the Allied Zurich ADR Depositary) who hold Scheme Shares in certificated form will have their CDIs held by Lloyds TSB Registrars Corporate Nominee Limited on their behalf. Lloyds TSB Registrars will despatch Statements of Entitlement to such persons, detailing the number of CDIs held on their behalf.

4. MEETINGS AND RESOLUTIONS

Notices of Meetings to be held on Tuesday 20 June 2000 commencing at 11.00 a.m. at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU to approve the Proposals are set out in Part IX and Part X of this document.

To implement the Proposals, the approval of Allied Zurich Shareholders is required at both the Court Meeting and the Extraordinary General Meeting. The Scheme and the element of the Scheme which involves a reduction of the share capital of Allied Zurich due to the cancellation of the Scheme Shares will require sanction by the Court.

(a) Court Meeting

The Court Meeting, which is held at the direction of the Court, has been convened to enable Allied Zurich Shareholders to consider and, if thought fit, approve the Scheme (with or without modification).

At the Court Meeting, voting will be by poll and not by a show of hands. A poll means that each holder of Allied Zurich Shares present (or his proxy) who is entitled to be present and to vote, has one vote for each Allied Zurich Share held.

The Scheme must be approved at the Court Meeting by a majority in number representing three-fourths in value of the Members present and voting, either in person or by proxy. **For the Court Meeting, Allied Zurich Shareholders should complete and return the blue form of proxy.**

(b) Extraordinary General Meeting

The Extraordinary General Meeting has been convened to enable, inter alia, the Directors to implement the Scheme. Allied Zurich Shareholders will be asked to consider, and if thought fit, to pass the Special Resolution.

The principal purpose of the Special Resolution is to approve the Scheme. The composite elements of the Scheme which require approval are as follows:

- the reduction of the ordinary share capital of Allied Zurich, and the increase in the share capital of Allied Zurich to its former amount;
- the granting of authority to the Directors in accordance with section 80 of the Companies Act to allot such increased share capital to new Zurich Financial Services (or its nominees);
- the amendment of the Allied Zurich Articles to enable and require Optionholders under the Share Schemes who exercise their Options after such amendment but before 6.00 p.m. on the Business Day immediately before the

Part II – Explanatory Statement in relation to the Scheme

Court makes an Order sanctioning the Scheme, to be allotted and issued Allied Zurich Shares which will be subject to the terms of the Scheme;

- the amendment of the Allied Zurich Articles to enable and require Optionholders under the Share Schemes who exercise their Options on or before the Scheme Effective Date, in circumstances where they would not otherwise be able to do so, to participate in the Scheme on the same basis as Scheme Shareholders; and
- the amendment of the Allied Zurich Articles to enable and require Optionholders under the Share Schemes who exercise their Options after the Scheme Effective Date, when it is too late to participate in the Scheme, to receive new Zurich Financial Services Shares.

In addition, the Special Resolution proposes:

- that Allied Zurich be authorised, for the purpose of the Share Repurchase, to make market purchases (within the meaning of section 163(3) of the Companies Act) of Allied Zurich Shares on the terms set out in the Special Resolution;
- for the purpose of declaring the Special Cash Dividend, to confer powers on the Directors to declare interim dividends as binding debts of Allied Zurich not requiring approval by Allied Zurich in general meeting;
- to increase Allied Zurich's share capital by the creation of preference shares and to authorise the Directors to allot preference shares. The proceeds of such issue are intended to be used to fund, in whole or in part, the Share Repurchase; and
- to authorise the Directors to agree the amendment or waiver of the Governing Agreement to the extent necessary to give effect to the Proposals.

At the Extraordinary General Meeting it is necessary for the Special Resolution to be approved by a majority of not less than three-fourths of the votes cast. **For the Extraordinary General Meeting, Allied Zurich Shareholders should complete and return the white form of proxy.** Voting will be on a show of hands, unless a poll is duly demanded in accordance with the Allied Zurich Articles, in which case those present in person or by proxy will be entitled to one vote for every share held.

Upon the Scheme becoming effective, it will be binding on all holders of Scheme Shares, irrespective of whether they attended and/or voted at the Court Meeting or the Extraordinary General Meeting.

5. CONDITIONS

The Scheme is subject to a number of Conditions, set out in Part III of this document. These include shareholder approvals, regulatory consents and tax clearances. If the Conditions are not satisfied or, if permitted, waived, by 31 December 2000, such that completion of the Statutory Merger and the Scheme cannot occur by that date, Allied Zurich and new Zurich Financial Services will not be bound to proceed with the Scheme unless the Independent Directors and the directors of Zurich Allied agree otherwise (such agreement not to be unreasonably withheld). The need for regulatory approvals in relation to the Proposals means that there is to be an unusually long period between the Meetings and the Court Hearing.

6. TAXATION

Advice received by the Independent Directors in respect of the Swiss, UK and US tax consequences of the Proposals for Allied Zurich Shareholders is summarised in Part V and Part VI of this document. A summary of the principal differences in the taxation treatment of Swiss, UK and US Allied Zurich Shareholders between holding Allied Zurich Shares and new Zurich Financial Services Shares is set out in Part V of this document.

If you are in any doubt about your tax position or you are subject to taxation in any jurisdiction other than Switzerland, the UK and the US, you are strongly recommended to consult an independent financial adviser immediately.

7. DIRECTORS' INTERESTS

Save as disclosed in Part VI of this document, the effect of the Scheme on the interests of the Directors does not differ from its effect on the like interests of other persons.

8. IMPLEMENTATION OF THE SCHEME

The Court Hearing is expected to be held in the second half of 2000. Allied Zurich Shareholders have the right to attend the Court Hearing and to appear in person or be represented by counsel to support or oppose the sanctioning of the Scheme. Allied Zurich Shareholders will be given more details of the Court Hearing nearer the time.

Subject to the Scheme being sanctioned by the Court and the Conditions set out in Part III of this document being satisfied or, where relevant, waived, it is expected that the Scheme will become effective by the end of 2000.

The Scheme contains a provision, exercisable up until sanction of the Scheme by the Court, for Allied Zurich to consent on behalf of all concerned at the Court Hearing to modifications of or additions to the Scheme or to any condition which the Court may think fit to impose or approve. The Court would be unlikely to approve any modifications or additions or impose or approve any condition which might be material to the interests of holders of Allied Zurich Shares unless the holders were informed of any such modification, addition or condition. In such circumstances it would be a matter for the Court to decide, in its discretion, whether or not further meetings of the Allied Zurich Shareholders should be held.

9. OVERSEAS SHAREHOLDERS AND ADR HOLDERS

If you are a citizen, resident or national of a jurisdiction outside the United Kingdom or an ADR Holder you should refer to Part VI of this document which contains important information relevant to such persons.

10. SHARE SCHEMES

The effect of the Proposals upon the Share Schemes is summarised in Part VI of this document.

11. LISTINGS, PROCEDURE AND DEALINGS

Application will be made for the new Zurich Financial Services Shares to be admitted to a primary listing on the SWX Swiss Exchange and to a secondary listing by the UK Listing Authority and to trading on the London Stock Exchange. It is expected that dealings in Allied Zurich Shares will cease from the close of business on the Scheme Effective Date. The register of members of Allied Zurich will close for transfers at 4.30 p.m. on the same day, being the Scheme Record Time. Subject to implementation of the Proposals, certificates representing Allied Zurich Shares will also cease to have effect at that time. It is expected that dealings in the new Zurich Financial Services Shares will commence on the next available Business Day and that CDIs will be credited to the relevant CREST accounts at that time.

Allied Zurich Shares held in uncertificated form (that is, in CREST)

Scheme Shareholders who hold their Allied Zurich Shares in uncertificated form at the Scheme Record Time will have their CDIs credited to the CREST account in which they held their Scheme Shares. Any cash consideration in respect of fractional entitlements to which an Allied Zurich Shareholder whose Allied Zurich Shares are held in CREST is entitled under the Proposals will be paid by means of CREST (provided that new Zurich Financial Services may, if it so determines, make payment of any such sum by cheque drawn on a UK clearing bank as set out below). Payment in CREST will be effected by new Zurich Financial Services procuring the creation of an assured payment obligation in favour of the Allied Zurich Shareholder's payment bank in accordance with the CREST assured payment arrangements.

Allied Zurich Shares held in certificated form

A Statement of Entitlement to CDIs and/or cheques for any cash due in respect of fractional entitlements, as appropriate, will be despatched by first-class post to the address last appearing on the register of members (and, in the case of joint holders, to such address and also to the holder whose name stands first in the register of members in respect of the holdings concerned) or in accordance with any special instructions regarding communications. All cash payments to Allied Zurich Shareholders whose Allied Zurich Shares are held in certificated form will be made in Sterling by cheque drawn on a UK clearing bank.

All documents and remittances sent to former Allied Zurich Shareholders, or as such persons may direct, will be sent at their own risk and may be sent by post.

12. ACTION TO BE TAKEN

Forms of proxy are enclosed as follows:

- (i) blue form for use at the Court Meeting; and
- (ii) white form for use at the Extraordinary General Meeting.

Whether or not you intend to be present at the Meetings, holders of Allied Zurich Shares are requested to complete and sign the enclosed forms of proxy. Completed and signed forms of proxy should be returned to Allied Zurich's registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6BJ as soon as possible, and in any case so as to be received not later than 48 hours before the time appointed for the relevant Meeting. However, in the case of the Court Meeting, if the form of proxy is not returned by that time, it may be

Part II – Explanatory Statement in relation to the Scheme

handed to the Chairman at the Court Meeting. In the case of the Extraordinary General Meeting, unless the form of proxy is lodged so as to be received at least 48 hours before the Meeting, it will be invalid.

The lodging of a form of proxy will not prevent Allied Zurich Shareholders from attending the relevant Meeting and voting in person if they so wish.

Yours sincerely

Goldman Sachs International

Cazenove & Co.

Conditions

The Scheme will comply with the appropriate rules and regulations of the UK Listing Authority, the London Stock Exchange and the Code.

The implementation of the Scheme is conditional upon the following:

- (a) the Scheme being approved by a majority in number representing three-fourths in value of the Allied Zurich Shareholders present and voting, either in person or by proxy, at the Court Meeting;
- (b) the passing without material amendment at the Extraordinary General Meeting of all necessary enabling resolutions to allow the Proposals to be effected;
- (c) the sanction of the Scheme, and the confirmation of the cancellation of the Scheme Shares which comprises part of the Scheme, by the Court (with or without modification, provided that no onerous undertakings not provided for in the Transaction Agreement are required to be given);
- (d) the SWX Swiss Exchange having agreed to the primary listing and the UK Listing Authority having agreed to the secondary listing of new Zurich Financial Services Shares and the London Stock Exchange having agreed to admit new Zurich Financial Services Shares to trading subject to completion of the Proposals (and once admission has become effective in accordance with paragraph 7.1 of the Listing Rules);
- (e) all necessary or desirable regulatory or administrative approvals as well as third party consents (including those relating to asset management activities) in connection with the Proposals being obtained in a form and terms satisfactory to Allied Zurich and Zurich Allied and all applicable waiting periods having expired, except to the extent waived by agreement between Allied Zurich and Zurich Allied;
- (f) Inland Revenue clearance and confirmation in connection with capital gains tax rollover for Allied Zurich Shareholders in respect of receipt of new Zurich Financial Services Shares being obtained and not being withdrawn or ceasing to be available;
- (g) all necessary consents, approvals or resolutions to give effect to the Statutory Merger being obtained or passed in a form and on terms reasonably satisfactory to Allied Zurich and Zurich Allied;
- (h) new Zurich Financial Services having the characteristics set out in the Transaction Agreement;
- (i) the Statutory Merger having become unconditional; and
- (j) expiry or termination of any administrative or court ordered prohibitions of consummation or waiting period, if failure to comply with these would, in the view of Allied Zurich, Zurich Allied, Zurich Financial Services and new Zurich Financial Services, have unacceptable consequences for one or all of Allied Zurich, Zurich Allied, Zurich Financial Services and new Zurich Financial Services.

Part IV

Information on new Zurich Financial Services

1. INCORPORATION, REGISTERED ADDRESS AND REGISTERED AUDITORS

New Zurich Financial Services was incorporated on 26 April 2000 as a joint stock company as defined in article 620ss of the Swiss Code of Obligations and was registered in the Register of Commerce of the Canton of Zurich with registered number CH-020.3.023.083-6.

The registered address of new Zurich Financial Services is Mythenquai 2, 8002 Zurich, Switzerland.

The registered auditors of new Zurich Financial Services are PricewaterhouseCoopers AG of Stampfenbachstrasse 73, Postfach, 634, 8035 Zurich and OBT Treuhand AG of Hardturmstrasse 120, Postfach, 8037 Zurich.

2. SHARE CAPITAL OF NEW ZURICH FINANCIAL SERVICES

(a) Prior to completion of the Proposals

The issued share capital of new Zurich Financial Services on incorporation was CHF 100,000 divided into 10,000 fully paid registered shares with a nominal value of CHF 10 each, issued to Zurich Financial Services. Until Completion, the share capital of new Zurich Financial Services will not change, nor will the company have any authorised or contingent share capital.

(b) On completion of the Proposals

The issued share capital of new Zurich Financial Services on Completion will be an amount in CHF equal to the sum of:

- (i) the number of Zurich Allied Shares in issue immediately before Completion; and
- (ii) the number of Allied Zurich Shares issued to new Zurich Financial Services pursuant to the Scheme, divided by 42.928

(both (i) and (ii) above being multiplied by a factor of 10).

New Zurich Financial Services will have an authorised share capital of CHF 60,000,000 allowing its directors, prior to the second anniversary of Completion, to increase the company's total share capital by up to this amount by issuing up to 6,000,000 fully paid registered shares with a nominal value of CHF 10 each.

In addition, new Zurich Financial Services will have contingent capital of (i) CHF 30,000,000, and (ii) CHF 15,000,000, by means of which the directors of new Zurich Financial Services may increase the total share capital of the company:

- (i) by up to 3,000,000 fully paid shares with a nominal value of CHF 10 each, in respect of the exercise of options or rights of conversion on the issuance of bonds or similar debt instruments; and
- (ii) by up to 1,500,000 fully paid shares with a nominal value of CHF 10 each, in respect of the issue of new shares to employees of new Zurich Financial Services and its group of companies.

No further share capital of new Zurich Financial Services may be issued, save with the approval of shareholders.

3. DIRECTORS

The directors of new Zurich Financial Services as at the date of this document are Rolf Hüppi, Henry Bodmer, Franz Humer, Dana Mead, Phillipe Pidoux, David de Pury and Lodewijk van Wachem.

It is proposed that, effective from Completion, Rosalind Gilmore, Vernon Sankey, Gerhard Schulmeyer and Clayton Yeutter be elected as additional directors of new Zurich Financial Services.

4. RIGHTS ATTACHING TO AND CHARACTERISTICS OF THE NEW ZURICH FINANCIAL SERVICES SHARES

This section includes only a summary of the rights attaching to, and characteristics of, the new Zurich Financial Services Shares. For more complete information, the new Zurich Financial Services' articles of incorporation ("the new Zurich Financial Services Articles") should be read, and relevant Swiss statutes, rules and ordinances (principally the Swiss Code of Obligations, the SESTA and its implementing ordinances) should be consulted. Copies of the new Zurich Financial Services Articles and the above referenced codes, acts and ordinances, and English translations thereof, are on display as described in Part VI of this document.

It should also be noted that Allied Zurich Shareholders will receive their new Zurich Financial Services Shares in the form of CDIs. CDI holders will not be the legal owners of the new Zurich Financial Services Shares to which

they are entitled under the Scheme, and they will not be able directly to enforce or exercise the rights of new Zurich Financial Services Shareholders described below. However:

- (i) holders of CDIs will be entitled to exchange their CDIs for a registered holding of new Zurich Financial Services Shares within SegInterSettle AG, the Swiss Settlement System. This will allow them to apply for voting rights to be conferred in respect of that holding (further details of the application procedure are given in this Part and Part V of this document). New Zurich Financial Services will reimburse to former Allied Zurich Shareholders the transaction cost (currently expected to be £5), of the first such exchange;
- (ii) under the Transaction Agreement, new Zurich Financial Services has agreed to procure, so far as is possible within applicable CREST regulations and practice and Swiss law, that holders of CDIs are treated in an equivalent manner to new Zurich Financial Services Shareholders, as regards attending and voting at general meetings of new Zurich Financial Services. New Zurich Financial Services has also agreed under the Transaction Agreement, for the benefit of former Allied Zurich Shareholders on the register at the Scheme Record Time, to maintain these CDI arrangements, free of custody charges, or such other listing and trading facilities as are substantially equivalent thereto, for so long as they are (in the reasonable opinion of new Zurich Financial Services, having regard solely to the interests of former Allied Zurich Shareholders) warranted for the benefit of a material number of new Zurich Financial Services Shareholders; and
- (iii) in the event that, by the Scheme Effective Date, it is not possible to establish such arrangements with CREST then, until such time as they are so established, new Zurich Financial Services intends to procure that substantially equivalent arrangements are provided by Lloyds TSB Registrars to those persons on whose behalf Lloyds TSB Registrars Corporate Nominee Limited holds CDIs.

(a) Denomination, status and form

The new Zurich Financial Services Shares will have a nominal value of CHF 10 and will be issued credited as fully paid. Upon their issue, they will be in uncertificated form. However, a shareholder may require the company to issue certificates in respect of such shares.

The new Zurich Financial Services Shares issued to Allied Zurich Shareholders under the Scheme and the new Zurich Financial Services Shares issued to Zurich Allied Shareholders pursuant to the Statutory Merger, together with the new Zurich Financial Services Shares issued upon its incorporation, will all rank *pari passu*.

New Zurich Financial Services may issue certificates representing any number of shares.

(b) Transfers

Undocumented (i.e. uncertificated) new Zurich Financial Services Shares and the rights deriving from them may only be transferred by means of written assignment which, in order to be effective vis-a-vis the company, must be notified to new Zurich Financial Services.

Certificated new Zurich Financial Services Shares and the rights deriving from them may be transferred by delivery of the relevant share certificate(s) to the Company, together with a written endorsement or assignment.

(c) Dividends

All new Zurich Financial Services Shares will rank *pari passu* in relation to the right to dividends.

Only shareholders' meetings of new Zurich Financial Services may authorise the payment of dividends, based on available profits shown in the company's balance sheet, and in accordance with applicable provisions of the Swiss Code of Obligations.

Under Swiss law, dividends may only be paid if a company has sufficient profits available for distribution or if it has a sufficient general reserve to allow for distributions from that reserve (the concept of a general reserve under Swiss law is more fully explained in paragraph 4(a) of Part V of this document).

(d) Participation in assets

Each of the new Zurich Financial Services Shares ranks *pari passu* in respect of participation in liquidation proceeds. Upon a liquidation, any surplus proceeds will be divided equally amongst the new Zurich Financial Services Shareholders.

(e) Pre-emptive rights

A new Zurich Financial Services Shareholder has a pre-emptive right to subscribe for new Zurich Financial Services Shares (or an advance subscription right to subscribe for any securities convertible into such shares), in proportion to the new Zurich Financial Services Shares he holds as at the date of issue of such new Zurich Financial Services Shares.

Part IV – Information on new Zurich Financial Services

This right may be withdrawn or limited by a resolution of a shareholders' meeting, passed with a majority of at least two-thirds of the votes cast and the majority of the share capital present thereat, provided there are valid reasons under Swiss law. Examples of such reasons are the use of the newly-issued shares for acquisitions of other enterprises, the issue of shares in connection with employee participation plans, or the expansion of the shareholder base in connection with listing on another exchange.

(f) Registration

Any holder of new Zurich Financial Services Shares or a usufructuary (i.e., a person entitled to exercise the rights attaching to and enjoy the benefits of shares although ownership is with another person) is entitled to be registered in the new Zurich Financial Services share register.

However, according to the new Zurich Financial Services Articles, only shareholders or usufructuaries entered on the share register as shareholders "with voting rights" are entitled to vote. The directors may refuse to recognise a holder or usufructuary as a shareholder with voting rights if such person does not expressly declare upon request that he acquired the shares in his own name and on his own account, or if he makes false statements in his application for registration of the shares.

Application for entry in the share register is made by completion and submission of a form provided by new Zurich Financial Services for this purpose. The new Zurich Financial Services board of directors may, however, recognise equivalent registration procedures.

(g) Voting and attendance at meetings

Only persons entered in the new Zurich Financial Services share register as shareholders with voting rights on a record date specified by the board of directors are entitled to attend a shareholders' meeting and to exercise their votes at that meeting.

A shareholder with voting rights not attending the shareholders' meeting in person may authorise another shareholder with voting rights to represent him at the meeting by means of a written authorisation, to be submitted to new Zurich Financial Services.

Every person (whether an owner or usufructuary) entered in the share register as a shareholder with voting rights is entitled to one vote in respect of each share of which he is the holder.

(h) Shareholders' rights of proposal, comment and objection at meetings

New Zurich Financial Services Shareholders representing at least 10 per cent. of the issued share capital may request that the directors convene a shareholders' meeting.

New Zurich Financial Services Shareholders representing shares with an aggregate nominal value of CHF 1 million may require an item to be included in the agenda for a shareholders' meeting. Such a request must be submitted to the directors at least 45 days before the date of the meeting.

At any shareholders' meeting, a new Zurich Financial Services Shareholder may take the floor to speak or propose a motion relating to items on the agenda. He may also raise objections as to the attendance of persons not entitled to participate in the meeting.

(i) Information rights

At any shareholders' meeting, a new Zurich Financial Services Shareholder has the right to request information from the directors regarding the business of the company, and from the auditors regarding the conduct and results of their audit.

However, a shareholder may not request such information for purposes other than those relating to the exercise of his shareholder's rights, and is only entitled to obtain information of a general nature (e.g., the company need not disclose the details of a specific business transaction). In any event, the request for such information may be refused if the disclosure requested concerns confidential information, or if it would otherwise jeopardise the interests of the company.

Company records and correspondence may only be inspected with the express authorisation of the shareholders' meeting (by simple majority), or by resolution of the board of directors, and in any event subject to the legitimate need to protect business secrets of the company.

The business report and the auditors' report of new Zurich Financial Services shall be made available for inspection at the company's registered address no later than twenty days prior to the annual general meeting. Any new Zurich Financial Services Shareholder may request that a copy of these documents be immediately sent to him.

Part IV – Information on new Zurich Financial Services

Any new Zurich Financial Services Shareholder has a right to inspect minutes of shareholders' meetings upon application to the company.

Any new Zurich Financial Services Shareholder may inspect the share register in respect of his own registration (although the prevailing view under Swiss law is that he is not entitled to review the registrations of other shareholders).

Any new Zurich Financial Services Shareholder may request that the board of directors provide him with details as to the organization of the company if he shows that he has a justifiable interest in such information.

(j) Special audit

At any shareholders' meeting, a new Zurich Financial Services Shareholder may propose that certain matters (generally those which relate to the proper management of the company) be made subject to a special audit, provided that this is required for the exercise of his rights as a shareholder, and provided that he has first exhausted his information rights described in paragraph (i) above.

If the meeting does not approve this motion (by simple majority), shareholders holding at least 10 per cent. of the share capital, or who own shares with a total nominal value of CHF 2 million, may within three months of the meeting petition the Swiss court to appoint a special auditor in relation to these matters (subject to the satisfaction of certain criteria).

(k) Right to challenge shareholders' resolutions

A new Zurich Financial Services shareholder may challenge in the Swiss court a resolution of the shareholders' meeting on the ground that it violates the law or the articles of incorporation. For example, a resolution may be challenged if shareholders' rights are withdrawn or limited without proper reason, or if shareholders are discriminated against or disadvantaged in a manner not justified having regard to the interests of the company.

A new Zurich Financial Services Shareholder may also challenge a resolution if persons not authorised to attend the shareholders' meeting participated in the adoption of the resolution, unless the company proves that the said participation did not affect the outcome of the resolution.

An action to challenge a resolution must be filed within two months after the shareholders' meeting.

In some cases, procedural irregularity, or violation of shareholder rights or principles of company law, if fundamental, may render a resolution null and void ab initio, without the need for further judgment or order of the court. A shareholder, however, may request a competent court to confirm that such a resolution is null and void.

(l) Shareholder actions

A shareholder may bring an action for and on behalf of the company against directors or officers, to allow the company to recover any damages caused by intentional or negligent breach of duty by such persons.

Any shareholder may bring an action against a director, officer, or other shareholder who has obtained unjust enrichment from the company. This action is brought on behalf of the company, the proceeds of the action being payable to the company.

Shareholders representing at least 10 per cent. of the share capital may, with valid reason, request the Swiss court to dissolve the company or to order any other reasonable measure. This remedy is very rarely used and it is the prevailing view under Swiss law that it is only available in extraordinary cases.

(m) Variation of shareholders' rights

Certain shareholders' rights (e.g., the right to challenge shareholders' resolutions, the right to bring an action against directors and, in the case of shareholders with voting rights, the right to attend shareholders' meetings) are effectively inalienable (i.e., it is not possible to disenfranchise a shareholder completely from such rights, although a shareholder may waive them in certain cases).

A second category of shareholders' rights may only be withdrawn with the consent of each of the affected shareholders (e.g., the right of each shareholder to ensure that the company continues to conduct its business in the pursuit of profit).

A third category of shareholders' rights (e.g., rights of pre-emption) may only be varied pursuant to a shareholders' resolution adopted by a majority of at least two-thirds of the votes cast and the majority of the share capital present at the relevant shareholders' meeting.

All other shareholders' rights may be varied pursuant to shareholders' resolutions adopted by a simple majority.

Part IV – Information on new Zurich Financial Services

(n) Share repurchases

Under the Swiss Code of Obligations, new Zurich Financial Services is permitted to acquire its own shares provided that its holding shall not, together with the holdings of its subsidiaries, exceed 10 per cent. of its issued share capital, and provided that it has reserves available for such acquisition. The voting and ancillary rights attaching to shares so acquired are suspended.

Under the Swiss Code of Obligations new Zurich Financial Services is required to provide for a separate reserve, in an amount corresponding to the acquisition value of any new Zurich Financial Services Shares so acquired.

Part V

Principal differences between holding Allied Zurich Shares and new Zurich Financial Services Shares

1. INTRODUCTION

The rights of Allied Zurich Shareholders are principally governed by the Companies Act, the Listing Rules of the UK Listing Authority, the Code, the provisions of the Allied Zurich articles of association (“Allied Zurich Articles”) and by the Governing Agreement.

The rights of new Zurich Financial Services Shareholders will principally be governed by the Swiss Code of Obligations, the SESTA and its implementing ordinances, and the provisions of new Zurich Financial Services’ articles of incorporation (“**new Zurich Financial Services Articles**”) and the regulations based thereon.

The following is a summary of the material differences between the rights of Allied Zurich Shareholders and the rights of new Zurich Financial Services Shareholders.

This section includes only a summary of certain differences considered by the board of Allied Zurich and its advisers to be material to Allied Zurich Shareholders as a whole. It does not deal with all such differences, and depending on their circumstances, individual Allied Zurich Shareholders may consider differences not dealt with below to be material to them. For more complete information, the Allied Zurich Articles and the new Zurich Financial Services Articles should be read and the above referenced codes, acts and ordinances should be consulted. Copies of the new Zurich Financial Services Articles and of the above referenced Swiss codes, acts and ordinances, and English translations thereof, are on display as described in Part VI of this document.

It should also be noted that Allied Zurich Shareholders will receive their new Zurich Financial Services Shares in the form of CDIs. CDI holders will not be the legal owners of the new Zurich Financial Services Shares to which they are entitled under the Scheme, and they will not be able directly to enforce or exercise the rights of new Zurich Financial Services Shareholders described below. However:

- (i) holders of CDIs will be entitled to exchange their CDIs for a registered holding of new Zurich Financial Services Shares within SegalInterSettle AG, the Swiss Settlement System. This will allow them to apply for voting rights to be conferred in respect of that holding (further details of the application procedure are given in this Part and Part IV of this document). New Zurich Financial Services will reimburse to former Allied Zurich Shareholders the transaction cost (currently expected to be £5), of the first such exchange;
- (ii) under the Transaction Agreement, new Zurich Financial Services has agreed to procure, so far as is possible within applicable CREST regulations and practice and Swiss law, that holders of CDIs are treated in an equivalent manner to new Zurich Financial Services Shareholders, as regards attending and voting at general meetings of new Zurich Financial Services. New Zurich Financial Services has also agreed under the Transaction Agreement (for the benefit of former Allied Zurich Shareholders on the register at the Scheme Record Time) to maintain these CDI arrangements, free of custody charges, or such other listing and trading facilities as are substantially equivalent thereto, for so long as they are (in the reasonable opinion of new Zurich Financial Services, having regard solely to the interests of former Allied Zurich Shareholders) warranted for the benefit of a material number of new Zurich Financial Services Shareholders; and
- (iii) in the event that, by the Scheme Effective Date, it is not possible to establish such arrangements as are referred to in (ii) above with CREST then, until such time as they are so established, new Zurich Financial Services intends to procure that substantially equivalent arrangements are made with Lloyds TSB Registrars for the benefit of those former Allied Zurich Shareholders who hold their Allied Zurich Shares in certificated form.

2. VOTING AND RELATED RIGHTS

(a) Voting rights and quorum requirements Allied Zurich

Under English law, the voting rights of shareholders are regulated by a company’s articles of association.

The Allied Zurich Articles specify that any two shareholders (regardless of the number of shares held by them) present in person or by proxy, and entitled to vote upon the business to be transacted at a meeting of shareholders, shall be a quorum.

Part V – Principal differences between holding Allied Zurich Shares and new Zurich Financial Services Shares

Any Allied Zurich Shareholder on the register of members at the record date set by the Allied Zurich Directors may vote in person or by proxy (assuming the proxy is received by Allied Zurich at least 48 hours prior to the time set for the meeting) at a shareholder meeting of Allied Zurich.

Voting occurs by show of hands unless a poll is demanded. On a show of hands, each registered Allied Zurich Shareholder entitled to vote at the relevant meeting present in person (or, if a corporation present by a representative or proxy) is entitled to one vote in respect of each resolution which is put to the meeting.

A poll may be demanded by (i) the Chairman of the meeting; or (ii) at least five shareholders present in person or by proxy; or (iii) a shareholder or shareholders present in person or by proxy representing not less than one-tenth of the total voting rights of all shareholders having the right to vote on the resolution; or (iv) a shareholder or shareholders present in person or by proxy holding Allied Zurich Shares conferring the right to vote on such resolution on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

If a poll is taken, every Allied Zurich Shareholder entitled to vote and present in person or by proxy is entitled to cast one vote for each Allied Zurich Share held or represented by him.

If a poll is demanded, it may be taken at the meeting or within thirty days following the meeting. The Allied Zurich Articles provide that the giving of a proxy will be deemed to also confer authority to demand or concur in demanding a poll.

In certain limited circumstances, rights, including voting rights, of Allied Zurich Shares may be suspended.

New Zurich Financial Services

Under Swiss law, the voting rights of shareholders are regulated by the Swiss Code of Obligations and by a company's articles of incorporation.

The new Zurich Financial Services Articles provide that a shareholders' meeting shall be quorate irrespective of the number of shareholders present or represented.

Only shareholders who are registered in the share register as shareholders "with voting rights" are permitted to vote. New Zurich Financial Services may only refuse to register a shareholder as a shareholder "with voting rights" if he does not expressly declare upon request that he acquired the shares in his own name and on his own account or if he makes false statements in his application for registration of the shares.

A shareholder with voting rights who cannot attend the shareholders' meeting personally may authorise another shareholder with voting rights to represent him at the meeting by means of a written authorisation, to be submitted to new Zurich Financial Services.

Every person (whether an owner or usufructuary) entered in the share register as a shareholder with voting rights is entitled to one vote in respect of each share of which he is the holder, whether on a poll or show of hands. Shareholders' resolutions of New Zurich Financial Services are decided by a show of hands unless a poll shall be demanded. A poll may be demanded by (i) the Chairman of the shareholders' meeting, or (ii) shareholders representing in the aggregate at least two per cent. of the votes represented at the meeting.

In addition, should the result of a vote or election by show of hands be unclear, the Chairman may order that the vote be taken again by poll; in that event, only the result of the poll shall count.

(b) Meetings

Allied Zurich

Under English law, an annual general meeting (an "AGM") of a public company must be held each year and at least once every fifteen months. An extraordinary general meeting (an "EGM") of a company may be convened by its board of directors or, notwithstanding any provision to the contrary in a company's articles of association, by a request from shareholders holding not less than one-tenth of the paid-up capital of the company carrying voting rights at general meetings.

An AGM requires 21 days notice, regardless of the type of resolution(s) to be proposed.

An EGM at which an ordinary or extraordinary resolution is proposed requires 14 days notice. An EGM at which a special resolution is proposed requires 21 days notice. Such notice periods exclude the day when the notice is given or deemed to be given and the day for which it is given.

Part V – Principal differences between holding Allied Zurich Shares and new Zurich Financial Services Shares

Passing of an ordinary resolution requires (i) on a show of hands, a majority of members present and voting or (ii) on a poll, a majority of the votes cast, in person or by proxy.

Passing of a special resolution and an extraordinary resolution requires (i) on a show of hands, a three-quarters majority of members present and voting or (ii) on a poll, a three-quarters majority of the votes cast, in person or by proxy.

Under English law, the following are the principal corporate actions which require the passing of a special resolution of a company:

- a change to the name;
- a change to the memorandum or articles of association;
- voluntary liquidation;
- reduction of share capital (subject also to the Court's sanction); and
- disapplication of pre-emption rights on the allotment of equity securities.

Allied Zurich is also subject to the rules of the UK Listing Authority regulating notices of shareholder meetings and solicitation of proxies. Under the applicable UK Listing Authority requirements, notice of a shareholder meeting is normally accompanied by a shareholder circular (or, in the case of an AGM, by an annual report and accounts) containing an explanation of the purpose of the meeting and the Board's recommendations with respect to actions to be taken.

New Zurich Financial Services

Under the Swiss Code of Obligations an annual general meeting must take place annually within six months after the close of the business year. Special meetings may be called according to need.

Shareholders' meetings may be called by the board of directors. In certain circumstances, the auditors, the liquidator or representatives of bondholders may also call shareholders' meetings. The calling of a shareholders' meeting may also be requested in writing by shareholders with voting rights representing together at least ten per cent. of the share capital of the company, the request specifying the matters to be discussed and the corresponding proposals.

Shareholders' meetings are required to be called through publication of a notice in the Swiss Official Gazette of Commerce at least twenty days prior to the day of the meeting.

Resolutions and elections of shareholders require a simple majority of the votes exercised at the relevant meeting, excluding abstentions, blank and invalid votes, unless the articles of incorporation or mandatory legal provisions (article 704 of the Swiss Code of Obligations) shall stipulate otherwise. In the event of an equality of votes, the Chairman of the meeting shall have a casting vote.

The following resolutions may only be adopted by a majority of at least two-thirds of the votes cast and the majority of the share capital present at such shareholders' meeting:

- modification of the purpose of the new Zurich Financial Services;
- creation of shares with increased voting power;
- introduction of transfer restrictions for registered shares;
- creation of authorized or contingent share capital;
- share capital increases (i) out of available equity, (ii) in respect of contributions in kind, (iii) in anticipation of a subsequent acquisition of assets;
- the granting of special benefits;
- limitation or withdrawal of pre-emptive rights;
- change in the situation of the registered office; and
- dissolution of new Zurich Financial Services without liquidation.

Part V – Principal differences between holding Allied Zurich Shares and new Zurich Financial Services Shares

(c) Notice and calling of meetings

Allied Zurich

Under English law and the Allied Zurich Articles, certain business may be conducted at an AGM or an EGM only if the requisite notice of such business has been given prior to such meeting. As stated above, notice of such business must be given to shareholders a certain number of days prior to the meeting.

Under the Companies Act, shareholders holding not less than one-twentieth of the total voting rights of all shareholders having the right to vote (or not less than 100 shareholders holding shares on which there has been paid up an average per shareholder of not less than £100) may require Allied Zurich to circulate notice of any resolution which the said shareholders wish to propose at that meeting.

In addition, pursuant to the Allied Zurich Articles, any shareholder entitled to attend a shareholders' meeting and vote on such a resolution may propose a resolution for the appointment of a person as a director (not being either a director who is retiring by rotation in accordance with the Allied Zurich Articles or a person recommended by the directors for appointment), provided that he provides written notice of his intention and the written consent of the person so proposed to the Secretary of Allied Zurich not less than seven but not more than 42 clear days before the date appointed for the meeting.

New Zurich Financial Services

The notice of shareholders' meeting shall indicate the items to be discussed and the resolutions to be proposed. Resolutions must be duly announced in this way, except for resolutions calling for a special meeting of shareholders, or for a special audit.

The Swiss Code of Obligations and the new Zurich Financial Services Articles provide that shareholders who control shares with a total nominal value of CHF 1 million may request that items be included in the agenda of a shareholders' meeting (including the election of new board members). If the agenda for the shareholders' meeting includes the election of members of the board of directors, any shareholder may propose a candidate for election to the board of directors at the shareholders' meeting, even if the shareholder has not made such a nomination in advance of the meeting. Under the Swiss Code of Obligations, a shareholders' meeting may not elect a new director if the election of members of the board of directors is not included as an item in the agenda.

(d) Control of the new Zurich Financial Services Group

Allied Zurich

Allied Zurich and Zurich Allied agreed in the Governing Agreement that the Zurich Financial Services Group should be jointly controlled and that the majority required for the passing of a shareholder resolution of Zurich Financial Services was to be a super-majority of not less than 58 per cent. of all the voting rights attaching to the shares of Zurich Financial Services (other than in specified cases). The effect of these arrangements is that Allied Zurich, although holding 43 per cent. of the share capital of Zurich Financial Services, possesses joint control with Zurich Allied, in relation to shareholder resolutions of the company.

New Zurich Financial Services

The implementation of the Proposals will entail temporary adaptations to the Governing Agreement. These adaptations include the ability to proceed with the proposed Share Repurchase, which may also affect the Equalisation Ratio and thus, indirectly, the 58 per cent. majority requirement for votes in shareholder meetings of Zurich Financial Services.

Following completion of the Proposals therefore, the former Allied Zurich shareholders will (subject to the effect of the Share Repurchase) together possess 43 per cent. of the voting share capital of the company, but will cease to possess negative control in relation to those shareholder resolutions of new Zurich Financial Services which require a simple majority.

3. MERGERS, CORPORATE RECONSTRUCTIONS AND SIGNIFICANT TRANSACTIONS

Allied Zurich

Mergers or consolidations of English companies are normally conducted pursuant to takeover offers, schemes of arrangement or, in some circumstances, a scheme of reconstruction under section 110 of the Insolvency Act 1986.

In the United Kingdom, takeovers of public companies and acquisitions of significant stakes in public companies, including Allied Zurich, are regulated by the Code. The Code is administered by the Panel, a non-statutory body comprising representatives of certain regulatory, shareholder, business, financial and professional institutions which oversees the conduct of such takeovers. The Code and the Panel operate principally to ensure fair and equal treatment

of shareholders in relation to takeovers. Under the Code, any shareholder or group of shareholders acting in concert who acquire 30 per cent. or more of the voting rights of a UK public company will be required to make a cash offer to all remaining shareholders. This mandatory offer may be waived in certain circumstances, in particular if another shareholder holds 50 per cent. or more of the voting rights in the relevant company. The price to be offered must be not less than the highest price paid by the offeror or any member of the concert party for such shares during the preceding twelve months.

The Companies Act provides that where a takeover offer is made for the shares of a company and, within four months of the date of the offer, the offeror has, by virtue of acceptances of the offer, acquired or contracted to acquire not less than nine-tenths in value of the shares to which the offer relates, the offeror may, within two months of reaching the nine-tenths level, by notice acquire shares held by shareholders who have not accepted the offer on the terms of the offer. Such a shareholder may apply to the court within six weeks of the date on which notice was given objecting to the transfer or its proposed terms. The court may order that the shareholder shall not be required to transfer his shares, or may specify such terms for the transfer as it finds appropriate. When the offeror does not give such a notice to shareholders who have not accepted the offer, a minority shareholder is entitled in these circumstances to require the offeror to acquire his shares on the terms of the offer, even if the offer is otherwise closed for acceptances.

Schemes of arrangement are arrangements or compromises between a company and any class of its shareholders (or any class or classes of its creditors) and are used for certain types of reconstructions, amalgamations, capital reorganisations or takeovers. Schemes of arrangement require the approval at a Court-convened meeting of the company of a majority in number, representing three-quarters in value of holders of the relevant class of shares (or creditors) present and voting, either in person or by proxy, and the sanction of the Court. Once so approved and sanctioned, all shareholders (or, as the case may be, creditors) of the relevant class are bound by the terms of the scheme. The Court may have regard to representations made by dissenters when exercising its discretion as to whether to sanction the scheme.

A scheme of reconstruction under section 110 of the Insolvency Act 1986 may be effected when a company is being wound up voluntarily. With the sanction of a special resolution of shareholders in a general meeting, the whole or part of the company's business or property may be transferred to another company in consideration for the issue or transfer to them of shares in that other company. A dissenting shareholder can require the liquidator to abstain from carrying the resolution into effect or to purchase the interest of such shareholder at a price to be agreed or determined by arbitration.

Shareholder approval is usually required under the rules of the UK Listing Authority (the "UKLA Class Transaction Requirements") for acquisitions and disposals by a company with a primary listing on the Official List such as Allied Zurich, if the assets to be acquired or disposed of represent 25 per cent. or more of the value of the company, measured by reference to any of the various bases of calculation prescribed by the UKLA Class Transaction Requirements. Where the size of the acquisition or disposal falls below that level, certain information may be required to be published or circulated to shareholders. Shareholder approval under the UKLA Class Transaction Requirements and the Companies Act may also be required for an acquisition or disposal of assets between a company and certain parties including: (i) directors of the company or its subsidiaries, (ii) holders of 10 per cent. of any class of the company's or any subsidiary's voting shares or (iii) any associate of (i) or (ii).

New Zurich Financial Services

Mergers of Swiss companies are normally conducted pursuant to statutory mergers or takeover offers.

Under Article 748 of the Swiss Code of Obligations, a statutory merger is effected by the transfer of all assets and liabilities of a company to another company by operation of law. The transferor company is thereby dissolved. Shareholder approval of the transferor company is required, by way of a two-thirds majority of the votes cast, and a majority of the share capital present at a shareholder meeting.

In Switzerland, takeovers of listed companies are regulated by the SESTA and its implementing ordinances. Under the SESTA, any shareholder or group of shareholders acting in concert who acquire more than 33⅓ per cent. of the voting rights of a listed Swiss company will be required to make a takeover offer in cash to all remaining shareholders. This mandatory offer obligation may be waived under certain circumstances, in particular if another shareholder owns a higher percentage of voting rights than the offeror. The price to be offered for such shares shall be at least as high as the average opening price announced by the SWX Swiss Exchange during the 30 days prior to publication of the mandatory offer, and shall not be lower than 25 per cent. of the highest price paid by the offeror or any member of the concert party for equity securities of the target company in the preceding twelve months.

Under the SESTA, any offeror who has made a takeover offer for the shares of a listed Swiss company and who, as a result of such offer, holds more than 98 per cent. of the voting rights of such company may petition the Swiss court to

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cancel the remaining equity securities. The corresponding petition must be filed against the listed company within three months after the lapse of the takeover offer period. The remaining shareholders may join in the proceedings. If the court orders cancellation of the remaining equity securities the target company will reissue the equity securities and deliver such securities to the offeror against performance of the takeover offer for the benefit of the holders of the cancelled equity securities.

As a foreign company with a secondary listing on the Official List, the UKLA Class Transaction Requirements and the Companies Act will not apply to new Zurich Financial Services.

4. DIVIDENDS AND SHARE CAPITAL

(a) Payment of dividends

Allied Zurich

English law permits payment of dividends by a company only out of profits available for such purpose (being its accumulated, realised profits (not previously utilised by distribution or capitalisation) less accumulated, realised losses), and not out of share capital or share premium.

The excess of the consideration for the issue of outstanding shares over the aggregate par value of such shares must (except in certain limited circumstances) be credited to a share premium account and may not be paid out as dividends but may, however, be used to pay up unissued shares which may then be distributed to shareholders in proportion to their holdings and for other limited purposes.

In addition, Allied Zurich, as a public company, may make a distribution at any time only if, at that time and immediately after such distribution, the amount of its net assets is not less than the aggregate of its called-up (i.e. issued and paid up) share capital and undistributable reserves.

Under English law, a dividend must be declared by reference to relevant accounts showing the availability of distributable reserves for such dividend. As a public company, the relevant accounts for Allied Zurich are its last audited accounts or, where such accounts do not show sufficient distributable reserves, interim accounts (which need not be audited) prepared and filed with the Registrar of Companies of England and Wales.

The Governing Agreement provides that it shall be left to the discretion of Allied Zurich and Zurich Allied to decide how much of the dividends received in any financial year are paid out provided that the amount retained by either company should not exceed 10 per cent. of the dividends received.

New Zurich Financial Services

The Swiss Code of Obligations permits the payment of dividends by a company out of profits as increased or reduced (as the case may be), by profit or loss carried forward from prior years, less any contributions to the general reserve. The Swiss Code of Obligations requires that a company allocate 5 per cent. of its net profit in each business year to the general reserve, until such time as the amount in such reserve is equal to 20 per cent. of the nominal value of the issued share capital.

The Swiss Code of Obligations permits the payment of dividends out of the general reserve of a holding company as long as the value of the general reserve is not reduced to below 20 per cent. of the nominal value of issued share capital.

In addition, subject to limited exceptions, there must also be credited to the general reserve the excess of the consideration received for issued shares over the aggregate par value of such shares (in effect, the share premium).

The annual general meeting decides which portion of the profit will be distributed to the shareholders, based on the motion of the board of directors and the confirmation by the auditors that such motion complies with applicable law and the articles of incorporation.

In the Transaction Agreement new Zurich Financial Services has undertaken for the benefit of Allied Zurich to maintain, as far as circumstances permit and so far as it is in accordance with applicable law, the current dividend policy of the Zurich Financial Services Group.

(b) Distribution of assets on a winding-up

Allied Zurich

Under the Allied Zurich Articles, on a winding-up surplus assets remaining after payment of all creditors are to be divided amongst the shareholders in proportion to the paid up share capital held by them at the commencement of the winding-up subject to the rights of the holders of any class of shares having preferential rights or privileges.

If Allied Zurich is in liquidation, a liquidator may distribute the assets in kind with the sanction of an extraordinary resolution.

New Zurich Financial Services

The Swiss Code of Obligations provides that, upon liquidation, any liquidation proceeds following the satisfaction of all claims shall be divided amongst shareholders according to the paid-up nominal share value of shares held subject to the rights of the holders of any class of shares having preferential rights or privileges.

(c) Pre-emptive rights

Allied Zurich

Under English law, when Allied Zurich issues equity shares (or grants certain other rights to acquire equity shares) ("**equity securities**") in consideration for payment of cash, then, unless certain provisions of the Companies Act are disapplied by a special resolution of Allied Zurich Shareholders, existing shareholders are entitled to participate in the offer of such equity securities pro rata to their existing shareholdings. This disapplication must be made by special resolution.

New Zurich Financial Services

Under the Swiss Code of Obligations, a shareholder has a pre-emptive right to subscribe for shares or an advance subscription right for securities convertible into shares, issued by such company, in proportion to the shares he already holds, unless such right is withdrawn or limited by the shareholders' meeting with a majority of at least two-thirds of the votes cast, based on valid reasons under Swiss law. Examples of such valid reasons are the use of the newly issued shares for acquisitions of other enterprises or employee participation plans, or the expansion of the shareholder base in connection with listing on another exchange.

In respect of the authorised share capital of CHF 60,000,000 as referred to in Part IV, section 2 (b) of this document, the directors are authorised to restrict or withdraw the pre-emptive rights of the new Zurich Financial Services Shareholders if the shares are used for the acquisition of an enterprise, or for the financing of such a transaction, or for expanding the shareholder base of the company in connection with the listing of shares on a foreign stock exchange.

In respect of the contingent share capital of CHF 30,000,000 as referred to in Part IV, section 2 (b) of this document, the directors may withdraw the rights of advance subscription of the new Zurich Financial Services Shareholders, if the relevant bonds are issued for the financing of an acquisition of an enterprise and they are issued at market value.

In respect of the contingent share capital of CHF 15,000,000 as referred to in Part IV, section 2(b) of this document, the new Zurich Financial Services Shareholders have neither pre-emptive rights, nor rights of advance subscription.

5. CORPORATE GOVERNANCE

(a) Board of directors and committees

Allied Zurich

The Allied Zurich Articles provide that unless otherwise determined by shareholders, the number of Directors (other than alternate Directors) shall not be less than ten. They further provide that at each annual general meeting of Allied Zurich one-third of the Directors subject to retirement by rotation (or the number nearest to that not exceeding one-third) shall retire from office by rotation. The Directors to retire by rotation in every year are those who have been longest in office since their last election, but, as between persons who become Directors on the same day, those to retire (unless they otherwise agree among themselves) are determined by lot. A retiring Director is eligible for re-election.

All Directors not initially appointed at a shareholders' meeting hold office only until the end of the next annual general meeting and are then eligible for re-election (but are not taken into account in determining the directors who are to retire at such meeting). Any Director may be removed from office at any time by an ordinary resolution of Allied Zurich Shareholders. A Director need not be an Allied Zurich Shareholder.

Allied Zurich has a nominations committee, a remuneration committee, and an audit committee. New Directors of Allied Zurich are proposed by the nominations committee.

The above committees were constituted and maintained pursuant to undertakings given by Allied Zurich (together with Zurich Allied) in the Governing Agreement, and Allied Zurich has adopted organisational rules relating to the establishment of these committees.

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New Zurich Financial Services

The articles of incorporation of new Zurich Financial Services provide that the board of directors of new Zurich Financial Services shall consist of not less than nine but not more than thirteen members. Under the Swiss Code of Obligations, a majority of such directors must be Swiss citizens residing in Switzerland. The federal government may grant exceptions for holding corporations if the majority of their holdings is in companies incorporated in foreign countries. New Zurich Financial Services will apply for such an exemption.

Under the Swiss Code of Obligations, each director of a Swiss company must be a shareholder of the corporation and hold at least one share for as long as he serves as a director.

The new Zurich Financial Services Articles provide for an ordinary term of office for a director of 3 years. The Swiss Code of Obligations and the new Zurich Financial Services Articles further provide that each director is eligible for re-election upon expiration of his term of office. The new Zurich Financial Services Articles require the board of directors to organise the election of its members in such a way as to ensure that no more than four members complete their ordinary term of office at any one shareholders' meeting.

It is intended that new Zurich Financial Services will also have a nominations, remuneration and audit committee. However, these committees would not be constituted or maintained pursuant to contractual undertakings (as is currently the case with Allied Zurich by reason of undertakings in the Governing Agreement), although new Zurich Financial Services will be required to state whether or not it has complied with the Combined Code, which recommends, inter alia, the adoption of such committees.

Before Completion, new Zurich Financial Services will adopt organisational by-laws pursuant to the Swiss Code of Obligations and the new Zurich Financial Services Articles. It is intended that the organisational by-laws of new Zurich Financial Services will include provisions relating to the functions, powers and responsibilities of the board, and the board committees.

(b) Conflicts of interest

Allied Zurich

The Allied Zurich Articles provide that a Director who is in any way interested in a contract or proposed contract with Allied Zurich shall declare his interest to the Board, and, subject to certain exceptions (and unless the approval of shareholders is obtained), shall not be entitled to vote at Board meetings in respect of any contract or arrangements or proposal in which he has a material interest, nor shall he be counted towards the quorum of the relevant board meeting, in respect of any resolution in respect of which he is debarred from voting. Matters on which a Director would not be prohibited from voting include where the matter concerns certain schemes relating to both directors and employees and does not especially advantage directors, such as certain superannuation, retirement, share option or similar schemes, or relates in any way to the purchase of Directors' liability insurance.

Allied Zurich has adopted a code on securities dealings in relation to Allied Zurich Shares and Zurich Allied Shares which is based on the Model Code set out in the Listing Rules published by the UK Listing Authority.

New Zurich Financial Services

The Swiss Code of Obligations does not contain any express provisions regarding transactions in which directors are interested. In particular, there are no provisions requiring the approval of such transactions by the entire board or the shareholders, and there are no provisions prohibiting interested directors from voting on such transactions.

However, directors and officers of a Swiss company have a duty of loyalty and care to the company of which they are a director or officer and it is the general view that these principles require interested directors and officers to refrain from participating in decisions in which they are personally interested. In addition, it is intended that the organisational by-laws of new Zurich Financial Services will require directors subject to any conflict of interest to refrain from voting. Directors and officers are personally liable for any breach of these duties.

New Zurich Financial Services will adopt a code on securities dealings in relation to new Zurich Financial Services Shares which will be based on the Model Code set out in the Listing Rules published by the UK Listing Authority.

(c) Compensation

Allied Zurich

The Allied Zurich Articles provide that the fees of the Directors for holding office as such shall not exceed £1,000,000 per annum in aggregate or such greater sum as shall from time to time be determined by the shareholders. The Directors may also grant special remuneration to a Director who performs special or extra

services to Allied Zurich at its request, and may determine the remuneration of any Director holding executive office. Directors are also entitled to receive reimbursement of expenses properly incurred by them.

New Zurich Financial Services

Directors of new Zurich Financial Services will receive a fixed compensation which is determined by the board of directors in recognition of their services to the company and of their degree of responsibility.

(d) Indemnification of officers and directors

Allied Zurich

Subject to the provisions of the Companies Act, the Allied Zurich Articles provide for the indemnification of Directors and officers against costs, charges, losses, expenses and liabilities (including amounts paid in settlement) incurred by such Directors and officers. The Companies Act does not permit a company to indemnify a director or an officer of a company against any liability which by virtue of any rule of law would otherwise attach to him in respect of negligence, default, breach of duty or breach of trust in relation to the company except liability incurred by such director or officer in defending any legal proceeding (whether civil or criminal) in which judgment is given in his favour or in which he is acquitted or in certain instances where, although he is held liable, a court finds such director or officer acted honestly and reasonably and that having regard to all the circumstances he ought fairly to be excused and relief is granted by the court. However, a company is permitted to purchase insurance for directors and officers against such liability.

New Zurich Financial Services

The Swiss Code of Obligations and the new Zurich Financial Services Articles do not contain any provision regarding the indemnification of directors and officers against costs, charges, losses, expenses and liabilities (including amounts paid in settlement) incurred by such directors. However, it is generally accepted practice that directors of Swiss companies are compensated for such expenses by the company. Based on general principles of Swiss law a company is not permitted to indemnify its directors or officers against any liability which by virtue of any rule of law would otherwise attach to him in respect of a breach of any of his duties to the company. However, a company is permitted to purchase (as part of a director's or officer's compensation) certain insurance for him against risks in connection with his position.

(e) Borrowing powers

Allied Zurich

The Allied Zurich Articles provide that the Directors may exercise all the powers of Allied Zurich to borrow money and to mortgage and charge the property, undertaking, assets and uncalled capital of Allied Zurich. This power is not restricted to any amount of borrowings (although restrictions are contained in the Governing Agreement on the borrowing powers of Zurich Financial Services).

New Zurich Financial Services

Under the Swiss Code of Obligations and under the new Zurich Financial Services Articles, new Zurich Financial Services may borrow money and secure such borrowings by a mortgage, liens or other charges against its assets. This power is not restricted to any amount of borrowings.

(f) Shareholders' actions

Allied Zurich

In addition to having the right to institute proceedings on behalf of a company in certain limited circumstances, English law permits an individual shareholder to bring an action in his own name as the representative of shareholders where his (and their) rights as shareholders are threatened or to petition the court for relief where the company's affairs are being or have been conducted in a manner unfairly prejudicial to the interests of the shareholders generally or of some part of the shareholders, including at least the petitioning shareholder, or where any actual or proposed act or omission of a company is or would be so prejudicial. A court when granting relief in an action complaining of unfair prejudice has wide discretion, including authorising civil proceedings to be brought in the name of a company by a shareholder against the persons responsible for the prejudicial actions.

New Zurich Financial Services

Under the Swiss Code of Obligations, an individual shareholder may bring in his own name (but for and on behalf of the company) an action against the directors and/or officers of that company to allow the company to recover any damages it has incurred due to the intentional or negligent breach by such directors or officers of their duties. In the event that the shareholder does not prevail with his action, the court has discretion to order the company to bear some or all of the costs of bringing the action.

Part V – Principal differences between holding Allied Zurich Shares and new Zurich Financial Services Shares

(g) Disclosure of interests in shares

Allied Zurich

Section 198 of the Companies Act provides that a person or connected person or persons acting in concert (including a company and other legal entities) who acquires an interest of 3 per cent. or more of any class of shares comprised in a public company's "relevant share capital" (which, for these purposes, means that company's issued share capital carrying rights to vote in all circumstances at general meetings of the company) is obliged to notify that company of his interest within two business days following the day on which the obligation arises. After the 3 per cent. level is exceeded, similar notifications must be made, in respect of whole percentage figure increases or decreases in the relevant person's holding, rounding down to the next whole number. Following receipt of any such notification, a company with a primary listing on the Official List must make a public announcement.

In addition, section 212 of the Companies Act provides that a public company may by notice in writing require a person whom the company knows or has reasonable cause to believe to be, or to have been at any time during the three years immediately preceding the date on which the notice is issued, interested in shares comprised in the company's relevant share capital (as defined above) to confirm that fact or (as the case may be) to indicate whether or not that is the case, and where he holds or has during the relevant time held an interest in such shares, to give such further information as may be required relating to his interest and any other interest in the shares of which he is aware. The disclosure must be made within such reasonable period as may be specified in the relevant notice (which may, depending on the circumstances, be as short as one or two days). The Allied Zurich Articles provide for the suspension of the right to be present and to vote at any general meeting of Allied Zurich Shareholders conferred by any shares in respect of which a notice has been served under these provisions and the required information has not been provided to Allied Zurich within 28 days and, in respect of a holding of not less than 0.25 per cent. of the relevant class of shares, the sanctions also include the withholding of payment of dividends and, in the case of certificated shares, the restriction on transfer of the relevant shares. Furthermore, where notice is served by a company under these provisions on a person who is or was interested in shares of the company and that person fails to give the company any information required by the notice within the time specified in the notice, the company may apply to the court for an order directing that the shares in question be subject to restrictions prohibiting, among other things, any transfer of those shares, the exercise of voting rights in respect of such shares, the taking up of rights in respect of such shares and, other than in a liquidation, the making of payments in respect of such shares. In addition, a person who fails to fulfil the obligations described above may be subject to criminal penalties.

New Zurich Financial Services

Under the applicable provisions of the SESTA, any shareholder or group of shareholders acting in concert who reaches or exceeds or then falls below the thresholds of 5 per cent., 10 per cent., 20 per cent., 33⅓ per cent., 50 per cent. or 66⅔ per cent. of the voting rights of a Swiss listed company must notify the company and the exchange(s) in Switzerland on which such shares are listed of such holdings, whether or not the voting rights can be exercised. Following receipt of such notification, the company must make a public announcement.

A shareholder who intentionally fails to comply with these notification obligations is liable to pay a fine in an amount of up to twice the acquisition price or sale price of the shares in question (as the case may be).

Under the Swiss Code of Obligations, a listed company is required to state in the notes to its financial statements the interests of persons, or persons acting in concert, owning in excess of 5 per cent. of its voting share capital.

(h) Shareholder rights of inspection of accounting records and board minutes

Allied Zurich

Except when closed in accordance with the provisions of the Companies Act, the register and index of names of shareholders of an English company, together with certain other registers required to be maintained, may be inspected by shareholders during business hours without charge (and by other persons upon payment of a charge). Copies of such registers may be obtained on payment of an appropriate charge.

A shareholder in an English company may, without charge, also inspect the minutes of meetings of the shareholders during business hours and obtain copies of such minutes upon payment of a charge.

The published directors' report and audited annual accounts of an English company are required to be laid before the shareholders in general meeting and a shareholder is entitled to a copy of such report and accounts. Copies are filed with the Registrar of Companies in England and Wales, from whom copies are publicly available upon

payment of the appropriate fee. The shareholders have no further statutory rights to inspect the accounting records of a company or the minutes of meetings of directors.

New Zurich Financial Services

Under the Swiss Code of Obligations, a shareholder may inspect his own registration in the share register of a company. However, the prevailing view is that he is not entitled to review the details of other shareholders.

Upon application to the company, a shareholder may, without charge, also inspect the minutes of shareholders' meetings.

The business report and the auditors' report of a Swiss company is required to be made available for inspection at the company's registered address no later than twenty days prior to the ordinary shareholders' meeting. Any shareholder may request that a copy of these documents be immediately sent to him.

6. INCLUSION IN STOCK MARKET INDICES

As a Swiss company with a secondary listing, new Zurich Financial Services will not be included in the major UK stock market indices, such as the FTSE 100 Index. It is anticipated, however, that as a result of the weighting of new Zurich Financial Services it will be included in major European indices. It is expected that new Zurich Financial Services will replace Zurich Allied in the Swiss Market Index which represents up to the 25 most important Swiss companies listed on the SWX Swiss Exchange.

7. UNITED KINGDOM TAX

(a) Disposal of Shares

Any disposal by a UK resident Allied Zurich Shareholder of new Zurich Financial Services Shares (and/or CDIs) following the Scheme who is holding shares as an investment will result in the same tax treatment as would have applied to a disposal of Allied Zurich Shares at that same date and will depend on the individual shareholder's personal circumstances. UK tax resident shareholders will not generally be subject to Swiss tax on any disposal of new Zurich Financial Services Shares (and/or CDIs).

Any disposal of Allied Zurich Shares by a UK resident Allied Zurich Shareholder would result in a UK stamp duty or stamp duty reserve tax charge (generally payable by the purchaser) at a rate of 0.5 per cent. of the consideration received. A disposal by such a shareholder of new Zurich Financial Services Shares (and/or CDIs representing them) should, generally, result in no charge to UK stamp duty or stamp duty reserve tax. No Swiss transfer tax will apply to transfers of new Zurich Financial Services Shares (and/or CDIs).

(b) Dividends

General Swiss withholding tax on new Zurich Financial Services dividends

In the case of dividends paid on new Zurich Financial Services Shares the Swiss withholding tax rate described below is the rate applicable under the UK/Switzerland double tax treaty. As a matter of practice the amount of tax withheld in Switzerland will be 35 per cent. of the dividend paid and it is necessary for the beneficial owner of the new Zurich Financial Services Shares to submit a claim to have the 20 per cent. repaid. This repayment by the Swiss tax authority will be made in Swiss francs. The repayment can be claimed irrespective of the shareholders liability to UK income or corporation tax on the dividend declared. The directors are advised that this repayment can take several weeks from the submission of the claim. The company is examining the possibility of entering into arrangements to assist those Allied Zurich Shareholders who will hold CDIs through the Lloyds TSB corporate nominee arrangement.

The tax treatment of dividends paid in respect of Allied Zurich Shares is as described in relation to the Special Cash Dividend at paragraph 8 of Part VI of this document.

For UK resident holders of new Zurich Financial Services Shares (and/or CDIs representing them) the tax treatment of dividends received on new Zurich Financial Services Shares will differ from the tax treatment of dividends received on Allied Zurich Shares. This is primarily because new Zurich Financial Services is a Swiss tax-resident company whereas Allied Zurich is a UK tax-resident company. There will be Swiss withholding tax on dividends paid by new Zurich Financial Services to UK resident holders of its shares. In addition, dividends paid by Allied Zurich generally carry a UK tax credit which will not be available on dividends paid by new Zurich Financial Services.

With regard to UK resident Allied Zurich Shareholders who hold their interest in Allied Zurich (and, following the Proposals, in new Zurich Financial Services) as an investment and will not hold (legally or beneficially) more

Part V – Principal differences between holding Allied Zurich Shares and new Zurich Financial Services Shares

than 10 per cent. of new Zurich Financial Services' issued share capital, a comparison of the UK tax treatment of dividends is as follows:

Non-taxpaying individual and tax-exempt institutions (other than charities)

Allied Zurich Shares: the dividend paid is not subject to tax. The UK tax credit attaching to the dividend is not recoverable.

New Zurich Financial Services Shares: the dividend paid is subject to Swiss withholding tax of 15 per cent. The Swiss withholding tax is not recoverable. The shareholder or tax exempt institution therefore receives, after tax, 15 per cent. less on the same dividend paid.

Basic or lower rate taxpaying individual

Allied Zurich Shares: the dividend paid is subject to UK income tax at the rate of 10 per cent. on the amount of the dividend and the tax credit attaching to the dividend (together the "gross dividend"). The tax credit attaching to the dividend sets off any UK tax liability so that the dividend is not subject to further UK tax.

New Zurich Financial Services Shares: the dividend paid is subject to Swiss withholding tax at the rate of 15 per cent. The dividend is also liable to UK income tax at a rate of 10 per cent. on the dividend paid. However, credit is given for the Swiss withholding tax of 15 per cent. which would mean the dividend is not subject to further UK tax. The excess of the Swiss withholding tax, not credited, is not recoverable. The individual therefore receives, after tax, 15 per cent. less on the same dividend paid.

Higher rate taxpaying individual

Allied Zurich Shares: the dividend paid is subject to UK income tax at the rate of 32.5 per cent. on the amount of the dividend and the tax credit attaching to the dividend (together the "gross dividend"). The tax credit attaching to the dividend sets off in part the UK income tax liability. There is further UK tax at a rate equal to 22.5 per cent. of the gross dividend (equal to 25 per cent. of the dividend paid).

New Zurich Financial Services Shares: the dividend paid is subject to Swiss withholding tax at the rate of 15 per cent. The dividend is also liable to UK income tax at a rate of 32.5 per cent. on the dividend paid. However, credit is given for the Swiss withholding tax of 15 per cent. There is further tax at the rate of 17.5 per cent. of the dividend paid. The individual therefore receives, after tax, 10 per cent. less on the same dividend paid.

Individuals holding through a PEP or an ISA

Allied Zurich Shares: the dividend is not subject to tax. The UK tax credit attaching to the dividend (on dividends paid before 6 April 2004) can generally be recovered on behalf of the PEP or ISA holder.

New Zurich Financial Services Shares: if new Zurich Financial Services Shares (and/or CDIs) are held in an ISA the dividend paid is subject to Swiss withholding tax of 15 per cent. but is not subject to tax in the UK. The Swiss withholding tax is not recoverable. The former Allied Zurich Shareholder will receive, after tax, 23.5 per cent. less on the same dividend declared. New Zurich Financial Services Shares (and/or the CDIs) cannot be held in a PEP and (assuming they are transferred to the beneficiary of the PEP) will be taxed in the UK in accordance with the marginal UK income tax rate applicable to the individual (see above).

Corporate Shareholder

Allied Zurich Shares: the dividend paid is not generally subject to tax.

New Zurich Financial Services Shares: the dividend paid is subject to Swiss withholding tax of 15 per cent. Assuming the shareholder is subject to UK corporation tax at the full rate, the dividend is subject to UK corporation tax at the rate of 30 per cent. However, credit is given for the Swiss withholding tax of 15 per cent. A corporate shareholder therefore receives, after tax, 30 per cent. less on the same dividend declared.

Paying and collection agents

The Directors are advised that the UK paying and collecting rules (which would require the CREST Depository to withhold lower rate income tax on dividends paid to a CDI holder) should not apply. To the extent that the Inland Revenue did seek to apply these rules, any requirement for the CREST Depository to withhold income tax should be set off in full by the Swiss withholding tax on dividends. The paying and collecting agent rules are intended to be abolished in relation to dividends paid from April 2000.

Comparative analysis

In respect of the 1999 financial year, Allied Zurich proposes to pay an annual dividend of 15.11p per share (payable on 31 May 2000). A chart comparing the after-tax position for UK investors had this amount been

received from new Zurich Financial Services is set out below (the chart assumes that no shareholder holds more than 10 per cent. of the issued share capital of the company, that full reclaim under the double tax treaty of Swiss withholding tax (see above) on dividends on new Zurich Financial Services Shares has been made and that, therefore, the applicable Swiss withholding tax rate is 15 per cent., and that the applicable UK corporation tax rate is 30 per cent.)

Type of Shareholder	Dividend from Allied Zurich	Dividend from new Zurich Financial Services	Percentage reduction in after-tax receipt
Individual — (who holds shares in an ISA)*	16.79p	12.84	23.5%
Individual (non-taxpayer)	15.11p	12.84p	15%
Individual (basic and lower rate taxpayers)	15.11p	12.84p	15%
Individual (higher rate taxpayer)	11.33p	10.20p	10%
Corporates	15.11p	10.58p	30%
Tax-Exempt Institutions	15.11p	12.84p	15%

* new Zurich Financial Services Shares cannot be held in a PEP and (assuming they are transferred to the beneficiary of the PEP) will be taxed in accordance with the marginal UK income tax rate applicable to the individual.

8. UNITED STATES TAX

(a) Disposal of Shares

Any disposal by a US citizen or US resident Allied Zurich Shareholder or Allied Zurich ADR Holder of new Zurich Financial Services Shares (and/or CDIs or ADRs) following the Scheme should result in the same tax treatment as would have applied to a disposal of Allied Zurich Shares or Allied Zurich ADRs at the same date and will depend on the individual's particular circumstances. US tax resident shareholders will not generally be subject to Swiss tax on any disposal of new Zurich Financial Services Shares and/or CDIs or ADRs.

(b) Dividends

For US citizen or US resident holders of new Zurich Financial Services Shares (and/or CDIs or ADRs) the tax treatment of dividends received on the new Zurich Financial Services Shares will generally be similar to the tax treatment of dividends received on Allied Zurich Shares.

With regard to US citizens or US residents who hold their interest in Allied Zurich (and subsequently, new Zurich Financial Services) as a capital asset and do not and will not hold (legally or beneficially) more than 10 per cent. of Allied Zurich Shares or new Zurich Financial Services Shares, a comparison of the US tax treatment of dividends would be as follows:

Individuals

Allied Zurich Shares: the gross amount of the dividends paid and any UK tax credit attached to the dividend is included in the gross income of the US shareholder or ADR holder for US Federal income tax purposes as ordinary income (before deduction of any UK withholding tax). A US shareholder or ADR holder is entitled to a credit against his or her US Federal income tax liability for UK taxes withheld on the aggregate amount of the dividend and any attached UK tax credit to the extent that the US shareholder or ADR holder is not entitled to a refund under UK law for such UK taxes. Under the UK/US double tax treaty, the UK may impose a withholding tax of up to 15 per cent. of the aggregate amount of the value of the dividend and the attached UK tax credit. In practice, this means that the amount of the UK withholding tax for these purposes equals the amount of the UK tax credit.

New Zurich Financial Services Shares: the gross amount of dividends paid is included in the gross income of the US shareholder, CDI or ADR holder for US Federal income tax purposes as ordinary income (before deduction of any Swiss withholding tax). A US shareholder, CDI or ADR holder will be entitled to claim the Swiss tax withheld from the dividend as a credit against his or her US Federal income tax liability, except to the extent that the US shareholder, CDI or ADR holder is eligible for a refund of such tax under Swiss law or pursuant to the double taxation treaty between the US and Switzerland. Tax is currently withheld on all dividends paid by Swiss registered companies at the rate of 35 per cent., while the US/Switzerland double tax treaty provides a mechanism for obtaining a refund of such Swiss taxes withheld in excess of 15 per cent. of the gross value of the dividend

Part V – Principal differences between holding Allied Zurich Shares and new Zurich Financial Services Shares

paid. Thus eligible US holders will, in practice, be able to reclaim 20 per cent. of the gross value of the dividends paid to them from the Swiss tax authorities and will generally be entitled to a credit against US Federal income tax liability with respect to the remaining 15 per cent.

Corporations

Allied Zurich Shares: the tax effect of dividends to US corporations will generally be the same as described above for individual holders of Allied Zurich Shares and corporations will not be eligible to claim a dividends received deduction with respect to such dividends.

New Zurich Financial Services Shares: the tax effect of dividends to US corporations will generally be the same as described above for individual holders of new Zurich Financial Services Shares, and corporations will not be eligible to claim a dividends received deduction with respect to such dividends.

9. SWISS TAX

(a) Disposal of shares

Any disposal by a Swiss resident Allied Zurich Shareholder of new Zurich Financial Services Shares following the Scheme will generally result in the same tax treatment as would have applied for a disposal of Allied Zurich Shares.

Individual Swiss resident shareholders who hold their shares as part of their private property realise a tax-free capital gain on the disposal. Corporate Swiss resident shareholders and individual Swiss resident Shareholders who hold their shares as a business asset realise taxable income in the amount of any gain.

(b) Dividends

Swiss resident shareholders receiving dividends from new Zurich Financial Services Shares will generally be taxed the same way as receiving a dividend from Allied Zurich. The gross amount of dividends paid by new Zurich Financial Services must be included in the income of Swiss resident shareholders in the same way as would have been the case if Allied Zurich is paying such dividend. However, corporate Swiss resident shareholders may be entitled to benefit from a participation relief, if the conditions for such relief are satisfied.

Under Swiss law a Swiss resident Zurich Financial Services Shareholder is entitled to a full refund of the 35 per cent. Swiss withholding tax due on dividends paid on new Zurich Financial Services Shares. However, for corporate Swiss resident shareholders benefiting from certain cantonal tax privileges or the participation relief, the tax treatment may differ with regard to taxation of dividends on Allied Zurich Shares and dividends on Zurich Financial Services Shares. Such shareholders are recommended to consult an appropriate professional adviser.

Part VI

Additional Information

1. DIRECTORS' RESPONSIBILITIES

- (a) The Directors accept responsibility for the information contained in this document with the exception of:
- (i) in the case of R Hüppi, HCM Bodmer, MD Feinstein, F Humer, AP Leitch and LC van Wachem, any views and opinions of the Independent Directors (including their recommendation of the Proposals and the statements relating to advice received by them from Cazenove and Goldman Sachs), for which the Independent Directors accept responsibility;
 - (ii) in the case of MD Feinstein, REJ Gilmore, AP Leitch and G Schulmeyer, the information contained in this document relating to Zurich Allied and its directors, their interests and the interests of persons connected with them (within the meaning of section 346 of the Companies Act); and
 - (iii) in the case of Lord Cairns, MD Feinstein, REJ Gilmore, AP Leitch, VL Sankey, G Schulmeyer and CK Yeutter, the information contained in this document relating to new Zurich Financial Services and its directors, their interests and the interests of persons connected with them (within the meaning of section 346 of the Companies Act).

To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

(b) R Hüppi, Lord Cairns, HCM Bodmer, F Humer, DG Mead, PO Pidoux, DP de Pury, VL Sankey, LC van Wachem and CK Yeutter (the directors of Zurich Allied as at the date of this document) accept responsibility for the information contained in this document relating to Zurich Allied, its directors (in that capacity) and persons connected with them (within the meaning of section 346 of the Companies Act). To the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case) the information for which they are responsible contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

(c) R Hüppi, LC van Wachem, HCM Bodmer, F Humer, DG Mead, PO Pidoux and DP de Pury (the directors of new Zurich Financial Services as at the date of this document) accept responsibility for the information contained in this document relating to new Zurich Financial Services, its directors (in that capacity) and persons connected with them (within the meaning of section 346 of the Companies Act). To the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case) the information for which they are responsible contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

(d) Lord Cairns, R Hüppi, REJ Gilmore, F Humer, PO Pidoux, DP de Pury, VL Sankey, G Schulmeyer, LC van Wachem and CK Yeutter (the directors of Zurich Financial Services as at the date of this document) accept responsibility for the information contained in this document relating to Zurich Financial Services, its directors (in that capacity) and persons connected with them (within the meaning of section 346 of the Companies Act). To the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case) the information for which they are responsible contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

(e) The Independent Directors accept responsibility for their views and opinions set out in this document, including their recommendation of the Proposals. To the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case) the information for which they are responsible contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Part VI – Additional Information

2. DIRECTORS OF ALLIED ZURICH, ZURICH ALLIED, ZURICH FINANCIAL SERVICES AND NEW ZURICH FINANCIAL SERVICES AS AT THE DATE OF THIS DOCUMENT

(a) Allied Zurich

The Rt. Hon. The Earl Cairns (Chairman)

Rolf Hüppi (Deputy Chairman)

Henry C.M. Bodmer

Martin D. Feinstein

Rosalind E.J. Gilmore

Franz Humer

Alexander P. Leitch

Vernon L. Sankey

Gerhard Schulmeyer

Lodewijk C. van Wachem

Clayton K. Yeutter

(b) Zurich Allied

Rolf Hüppi (Chairman)

The Rt. Hon. The Earl Cairns (Vice Chairman)

Henry C.M. Bodmer

Franz Humer

Dana G. Mead

Phillipe O. Pidoux

David P. de Pury

Vernon L. Sankey

Lodewijk C. van Wachem

Clayton K. Yeutter

(c) Zurich Financial Services

The Rt. Hon. The Earl Cairns (Chairman)

Rolf Hüppi (Deputy Chairman)

Rosalind E.J. Gilmore

Franz Humer

Phillipe O. Pidoux

David P. de Pury

Vernon L. Sankey

Gerhard Schulmeyer

Lodewijk C. van Wachem

Clayton K. Yeutter

(d) new Zurich Financial Services

Rolf Hüppi (Chairman)

Lodewijk C. van Wachem (Proposed Vice Chairman)

Henry C.M. Bodmer

Franz Humer

Dana G. Mead

Phillipe O. Pidoux

David P. de Pury

Franz Humer was appointed a director of Zurich Allied, Zurich Financial Services and new Zurich Financial Services on 25 May 2000 and as a Director on 26 May 2000.

3. DIRECTORS' FEES

The Directors, the Zurich Allied directors and the new Zurich Financial Services directors are entitled, as at the date of this document, to the following annual aggregate directors' fees in respect of the directorships listed in paragraph 2 above:

Lord Cairns	–	USD 400,000	DP de Pury	–	USD 125,000
HCM Bodmer	–	USD 25,000	VL Sankey	–	USD 200,000
REJ Gilmore	–	USD 125,000	G Schulmeyer	–	USD 135,000
F Humer	–	USD 200,000	LC van Wachem	–	USD 175,000
DG Mead	–	USD 35,000	CK Yeutter	–	USD 185,000
PO Pidoux	–	USD 125,000			

R Hüppi, M Feinstein and AP Leitch have agreed to waive their fees in respect of the directorships listed in paragraph 2 above.

On Completion, the Directors, the Zurich Allied directors and the new Zurich Financial Services directors will cease to be entitled to fees as directors of Allied Zurich, Zurich Allied and/or Zurich Financial Services but will become entitled to fees as directors of new Zurich Financial Services on the following basis:

- (i) All directors of new Zurich Financial Services, except the Vice Chairman, will receive annual fees of USD125,000 with an additional annual fee of USD25,000 in respect of each committee of which they are a member. Membership of the audit, nominations and remuneration committees of new Zurich Financial Services will be determined following Completion.

- (ii) Directors resident in North America will receive an additional fee of USD10,000 per annum in continuation of current Group practice.
- (iii) The Chairman of new Zurich Financial Services, who will on Completion be the only director of new Zurich Financial Services employed by the Group, has agreed to waive his fees as a director of new Zurich Financial Services.
- (iv) The Vice Chairman of new Zurich Financial Services will receive an annual fee of USD250,000. No additional payment will be made in respect of any committee membership of the Vice Chairman. It is intended to appoint LC van Wachem as Vice Chairman following Completion.
- (v) Lord Cairns, MD Feinstein and AP Leitch will not be appointed as directors of new Zurich Financial Services and, accordingly, will not be entitled to receive any directors' fees from that company following Completion.

4. DISCLOSURE OF INTERESTS AND DEALINGS

For the purposes of this paragraph 4, "disclosure period" means the period commencing on 17 April 1999 and ending on 22 May 2000 (the last practicable date prior to the publication of this document).

Where a director is a director of Allied Zurich and/or Zurich Allied and/or new Zurich Financial Services any disclosures made below have been made in respect of his or her position as a director of Allied Zurich and not repeated in respect of his or her position as a director of Zurich Allied and/or new Zurich Financial Services.

(a) Allied Zurich Shares

- (i) As at the close of business on 22 May 2000 (the last practicable date prior to the publication of this document) the interests of the Directors in the share capital of Allied Zurich (a) which are required to be notified by each Director to Allied Zurich pursuant to section 324 or section 328 of the Companies Act, or (b) which are required to be entered in the register of directors' interests of Allied Zurich pursuant to section 325 of the Companies Act, or (c) which are interests of a connected person (within the meaning of section 346 of the Companies Act) of a Director which would, if the connected person were a Director, be required to be disclosed under (a) and (b) above, and the existence of which is known to or could, with reasonable due diligence, be ascertained by that Director, were as set out in the table below:

	Number of Allied Zurich Shares
Lord Cairns	30,000
MD Feinstein	17,564
REJ Gilmore	7,800
AP Leitch	35,909
VL Sankey	10,973
G Schulmeyer	7,500
CK Yeutter	2,800 in Allied Zurich ADRs*

* 1 Allied Zurich ADR represents 2 Allied Zurich Shares.

- (ii) The following Directors had Options over Allied Zurich Shares as at 22 May 2000 (the last practicable date prior to the publication of this document):

	Number of Allied Zurich Shares	Date of grant	Exercise price (pence)
R Hüppi			
Global Share Option Plan	73,282	1 February 1999	1034
Global Share Option Plan	98,706	1 February 2000	706
MD Feinstein			
Global Share Option Plan	40,835	1 February 1999	1034
Global Share Option Plan	66,548	1 February 2000	706
AP Leitch			
Global Share Option Plan	20,676	1 February 1999	1034
Global Share Option Plan	33,457	1 February 2000	706
UK Share Save Plan	2,442	11 March 1999	690.8
UK Share Option Plan	160	16 October 1998	625

Part VI – Additional Information

- (iii) The target number of Allied Zurich Shares to be awarded to the Directors (for nil consideration) under the Long Term Performance Share Plans for 1999 and 2000 are as follows:

	Long Term Performance Share Plan for 1999	Long Term Performance Share Plan for 2000
R Hüppi	22,374	28,751
MD Feinstein	12,468	19,384
AP Leitch	6,313	9,745
Year of award	2002	2003

The actual number of Allied Zurich Shares to be awarded will depend on the financial performance of the Group in excess of minimum defined targets during the three-year performance period commencing on 1 January in the year in which the target number of shares is established. Depending on the actual performance, the range of Allied Zurich Shares to be actually awarded in the year following the end of the three-year performance period will vary from 0 per cent. to 200 per cent. of the target numbers shown above. As a further condition, the individual must remain employed by the Group throughout the performance period. One half of the Allied Zurich Shares awarded at the end of each performance period will be sales restricted for a further period of three years.

- (iv) The following dealings for value in Allied Zurich Shares by the Directors and members of their immediate families and related trusts or connected persons (within the meaning of section 346 of the Companies Act) or in respect of Allied Zurich Shares in which the Directors are interested (including upon the exercise of Options) have taken place during the disclosure period:

Name	Date	Nature of transaction	Number of Allied Zurich Shares	Price per Allied Zurich Share (pence)
REJ Gilmore	30 June 1999	Acquisition	3,000	798
AP Leitch	28 June 1999	Acquisition	12,722	786
	16 July 1999	Reinvestment within a PEP	6	783.5
	6 October 1999	Reinvestment within a PEP	29	739
	22 December 1999	Reinvestment within a PEP	3	720
VL Sankey	15 October 1999	Acquisition	3,521	699.5
CK Yeutter	15 June 1999	Acquisition	400 (in Allied Zurich ADRs)*	USD25 per Allied Zurich ADR*

* 1 Allied Zurich ADR represents 2 Allied Zurich Shares.

- (v) As at 22 May 2000 (the last practicable date prior to the publication of this document) Zurich Financial Services, Zurich Insurance Company, Farmers Group, Inc., Allied Zurich Holdings Limited, Zurich Financial Services (UKISA) Limited, Eagle Star Holdings Limited, Scudder Investments Holdings Limited, Allied Dunbar Assurance p.l.c. and the members of the groups of which the financial advisers to Allied Zurich, Zurich Allied and new Zurich Financial Services form a part, owned or controlled the following Allied Zurich Shares or securities convertible into, rights to subscribe for, options (including traded options) in respect of or derivatives referenced to, such shares:

Name	Number of Allied Zurich Shares
Zurich Financial Services	4,915,686
Scudder Investment Holdings Limited	220,650*
Goldman, Sachs & Co.**	22,305
Morgan Stanley Capital (Luxembourg) SA	429,132
Morgan Stanley & Co. International Limited	5,000
Morgan Stanley & Co. Inc	38,000

* Managed for Zurich Financial Services (AD) Pension Scheme and Eagle Star Tracker Unit Trust

** Discretionary Manager

- (vi) The following dealings for value by Zurich Financial Services, Zurich Insurance Company, Farmers Group, Inc., Allied Zurich Holdings Limited, Zurich Financial Services (UKISA) Limited, Eagle Star Holdings Limited, Scudder Investments Holdings Limited, Allied Dunbar Assurance p.l.c. and the members of the groups of which the financial advisers to Allied Zurich, Zurich Allied and new Zurich Financial Services form a part, in Allied Zurich Shares or any securities convertible into, rights to subscribe for, options (including traded options) in respect of derivatives referenced to, such shares have taken place during the disclosure period:

	Date	Nature of Transaction	Number of Allied Zurich Shares	Price per share (£)
Zurich Financial Services	30 June 1999	Acquisition	3,490,762	0.25
(all dealings for own account, sales include issues of Allied Zurich Shares pursuant to Share Schemes)	12 July 1999	Sell	960	6.25
	12 July 1999	Sell	640	6.25
	16 July 1999	Sell	480	6.25
	19 July 1999	Sell	324	6.91
		Sell	1,280	6.25
	26 July 1999	Sell	320	6.25
	27 July 1999	Sell	21	6.25
	30 July 1999	Sell	612	6.91
	30 July 1999	Sell	468	6.91
	3 August 1999	Sell	458	6.25
		Sell	299	6.25
	5 August 1999	Sell	22	6.25
		Sell	596	6.91
		Sell	320	6.25
	20 August 1999	Sell	568	6.91
	24 August 1999	Sell	160	6.25
	26 August 1999	Sell	160	6.25
	30 August 1999	Sell	259	6.91
	2 September 1999	Sell	160	6.25
	7 September 1999	Sell	160	6.25
		Sell	160	6.25
	9 September 1999	Sell	1,120	6.25
	10 September 1999	Sell	1,080	6.91
	13 September 1999	Acquisition	86,045	0.25
	22 September 1999	Sell	480	6.25
	24 September 1999	Sell	540	6.91
	1 October 1999	Sell	414	6.91
		Sell	160	6.25
	14 October 1999	Sell	160	6.25
	20 October 1999	Sell	640	6.25
		Sell	640	6.25
	21 October 1999	Sell	1,267	6.91
	22 October 1999	Sell	160	6.25
	25 October 1999	Sell	320	6.25
	28 October 1999	Sell	794	6.91
	8 November 1999	Sell	480	6.25
		Sell	160	6.25
	12 November 1999	Sell	642	6.91
		Sell	640	6.25
		Sell	160	6.25
	19 November 1999	Sell	830	6.91
		Sell	800	6.25
	25 November 1999	Sell	160	6.25
	26 November 1999	Sell	534	6.91
	6 December 1999	Sell	320	6.25
	7 December 1999	Sell	988	6.91
	10 December 1999	Sell	320	6.25

Part VI – Additional Information

	Date	Nature of Transaction	Number of Allied Zurich Shares	Price per share (£)
	10 December 1999	Sell	480	6.25
	17 December 1999	Sell	640	6.25
	20 December 1999	Sell	902	6.91
	21 December 1999	Acquisition	477,282	0.25
	4 January 2000	Sell	320	6.25
	5 January 2000	Sell	433	6.91
	7 January 2000	Sell	640	6.25
	11 January 2000	Sell	320	6.25
	12 January 2000	Sell	526	6.91
	14 January 2000	Acquisition	549,887	0.25
		Sell	320	6.25
	14 January 2000	Sell	160	6.25
	20 January 2000	Sell	271	6.91
	31 January 2000	Acquisition	447,682	0.25
	7 February 2000	Sell	79	6.91
	2 March 2000	Sell	320	6.25
	7 March 2000	Sell	17	6.91
	5 April 2000	Sell	12,234	6.89
		Sell	95,088	6.89
	6 April 2000	Sell	160	6.25
	13 April 2000	Sell	320	6.25
	5 May 2000	Sell	160	6.25
	9 May 2000	Sell	186	6.91
	12 May 2000	Sell	160	6.25
	12 May 2000	Sell	160	6.25
Zurich Insurance Company (for own account)	11 November 1999	Sell	308,035	7.90
Scudder Investment Holdings Limited	11 November 1999	Sell*	308,035	7.90
(dealings for Eagle Star	15 June 1999	Sell	3,050	7.59
Tracker Unit Trust except *)	11 February 2000	Sell	6,200	5.59

* Dealing for Zurich Insurance Company

Name	Date	Nature of Transaction	Number of Allied Zurich Shares	Price per share (£)	
				High	Low
Goldman, Sachs & Co.*	17 October 1999 to 16 January 2000	Sell	9,000	\$12.39	\$12.39
	17 January 2000 to 16 March 2000	Sell	6,295	£8.88	£8.88
Goldman, Sachs International	17 April 1999 to 16 July 1999	Sell	10,670	£8.01	£8.01
Goldman, Sachs & Co.	17 July 1999 to 16 October 1999	Sell	753,462	£6.72	£6.72
		Sell	21,520	\$11.38	\$11.31
		Acquisition	7,870	£6.68	£6.68
		Acquisition	425,225	\$11.26	\$11.14
		Sell	135,242	£7.59	£6.53
	17 October 1999 to 16 January 2000	Sell	89,177	\$12.81	\$10.79
		Acquisition	352,736	£7.33	£6.76
		Acquisition	132,550	\$12.74	\$10.68
		Sell	20,800	\$10.52	\$8.73
		Acquisition	20,800	£6.31	£5.49

* Discretionary Manager

Name	Date	Nature of Transaction	Number of Allied Zurich Shares	Price per share (£)
Goldman, Sachs & Co.	23 March 2000	Sell	8,662	£6.09
	23 March 2000	Acquisition	8,662	\$9.63

Name	Date	Nature of Transaction	Number of Allied Zurich Shares	Price per share (£)	
				High	Low
Morgan Stanley & Co. Incorporated	17 April 1999 to 16 July 1999	Acquisition	400,000	7.98	7.59
		Sell	669,400	8.60	7.86
	17 July 1999 to 16 October 1999	Acquisition	76,837	7.64	6.98
		Sell	281,407	7.90	7.15
	17 October 1999 to 16 January 2000	Acquisition	1,886	11.49	7.33
		Sell	1,484,849	12.87	6.57
	17 January 2000 to 16 February 2000	Acquisition	935,312	10.73	6.13
		Sell	98,172	10.73	6.15
	17 February 2000 to 16 March 2000	Acquisition	538,118	8.63	5.33
		Sell	256,769	8.95	5.37

	Date	Nature of Transaction	Number of Allied Zurich Shares	Price per Share (£)
	22 March 2000	Acquisition	21,000	6.27
	23 March 2000	Acquisition	77	6.11
		Acquisition	1,068	6.11
	31 March 2000	Sell	15,990	6.77
		Sell	11,570	6.77
		Sell	14,210	6.77
		Sell	66,010	6.77
		Sell	550	6.77
		Sell	79,850	6.77
	3 April 2000	Acquisition	26,400	6.79
	5 April 2000	Acquisition	4,000	10.95
	12 April 2000	Sell	12,700	6.67

Name	Date	Nature of Transaction	Number of Allied Zurich Shares	Price per share (£)	
				High	Low
Banca Morgan Stanley SpA	17 April 1999 to 16 July 1999	Acquisition	62,500	8.26	7.93
		Sell	66,500	8.26	7.82
	17 July 1999 to 16 October 1999	Acquisition	49,200	7.76	7.14
		Sell	49,200	7.76	7.14
	17 October 1999 to 16 January 2000	Acquisition	393,650	7.96	6.71
		Sell	393,650	7.96	6.71
	17 January 2000 to 16 February 2000	Acquisition	71,150	6.49	5.60
		Sell	79,150	6.49	5.60
	17 February 2000 to 16 March 2000	Acquisition	18,700	5.69	5.29
		Sell	18,700	5.69	5.29

Part VI – Additional Information

Name	Date	Nature of transaction	Number of Allied Zurich Shares	Price per Share (£)
Banca Morgan Stanley SpA	28 March 2000	Acquisition	3,800	6.27
		Acquisition	2,000	6.27
		Acquisition	4,100	6.27
		Sell	9,900	6.27
	4 April 2000	Acquisition	1,800	6.96
		Acquisition	6,700	6.98
		Sell	6,700	6.98
		Sell	1,800	6.96

			Number of Allied Zurich ADRs	Price per ADR		
Name	Date	Nature of Transaction		High	Low	
Goldman, Sachs & Co.*	17 April 1999 to 16 July 1999		Sell	960	£25.72	£25.72
	17 July 1999 to 16 October 1999		Sell	3,860	£23.25	£22.50
	17 October 1999 to 16 January 2000		Sell	17,496	£22.55	£22.55
	17 January 2000 to 16 March 2000		Sell	115	\$18.00	\$18.00

Date	Nature of Transaction	Number of Allied Zurich ADRs	Price per ADR	
			High	Low
11 April 2000	Sell	630	£20.70	

* Discretionary Manager

Name	Date	Nature of Transaction	Number of Allied Zurich ADRs	Price per ADR	
				High	Low
Goldman, Sachs & Co.	17 April 1999 to 16 July 1999	Sell	297,256	£16.89	\$15.56
		Sell	43,270	\$26.75	\$24.50
		Acquisition	35,140	£16.68	£15.64
		Acquisition	304,342	\$26.79	\$24.12
	17 July 1999 to 16 October 1999	Sell	1,405	£16.01	£13.86
		Sell	36,304	\$25.00	\$23.25
		Acquisition	36,004	£15.67	£13.98
		Acquisition	1,705	\$25.27	\$21.94
	17 October 1999 to 16 January 2000	Sell	24,935	£15.87	£13.53
		Sell	24,870	\$26.46	\$22.37
		Acquisition	24,700	£14.85	£13.35
		Acquisition	7,609	\$25.62	\$23.12
	17 January 2000 to 16 March 2000	Sell	14,760	£12.38	£10.01
		Sell	6,567,417	\$21.29	\$17.29
		Acquisition	6,566,717	\$19.00	\$10.91
		Acquisition	15,345	\$20.37	\$14.75

Name	Date	Nature of Transaction	Number of Allied Zurich ADRs	Price per ADR
Goldman, Sachs & Co.	17 March 2000	Sell	330	£12.25
		Acquisition	330	\$19.25
	22 March 2000	Sell	70	\$20.25
		Acquisition	70	£12.80
	31 March 2000	Sell	691	£13.68
		Sell	2,000	\$22.00
		Sell	5,000	\$22.25
		Sell	10,000	\$21.87
		Sell	13,000	\$21.87
		Acquisition	2,120	\$21.81
		Acquisition	28,571	\$21.81
		Acquisition	108	\$20.50
	10 April 2000	Sell	738	£13.05
	11 April 2000	Acquisition	1,300	\$22.25
	12 April 2000	Sell	1,000	\$22.00
	13 April 2000	Sell	1,300	£14.04
		Acquisition	1,000	£13.85
		Sell	3,230	£13.41
		Acquisition	3,230	\$21.25

* Discretionary Manager

(b) Zurich Allied Shares

- (i) As at the close of business on 22 May 2000 (the last practicable date prior to the publication of this document) the interests of the Directors in the share capital of Zurich Allied (a) which would require to be notified by each such Director to Zurich Allied, if Zurich Allied were subject to the Companies Act, pursuant to section 324 or section 328 of the Companies Act, or (b) which would be required to be entered in the register of directors' interests of Zurich Allied, if Zurich Allied were subject to the Companies Act, pursuant to section 325 of the Companies Act, or (c) which are interests of a connected person (within the meaning of section 346 of the Companies Act) of a Director which would, if the connected person were a Director, be required to be disclosed under (a) and (b) above, and the existence of which is known to or could, with reasonable due diligence, be ascertained by that Director, were as set out in the table below:

	Number of Zurich Allied Shares
R Hüppi	26,262
HCM Bodmer	114,530
F Humer	600
LC van Wachem	1,000

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- (ii) The following Directors had Options over Zurich Allied Shares as at 22 May 2000 (the last practicable date prior to the publication of this document):

	Number of Zurich Allied Shares	Date of grant	Exercise price (CHF)
R Hüppi			
Global Share Option Plan	2,408	1 February 1999	1,157.10
Global Share Option Plan	3,262	1 February 2000	901.20
MD Feinstein			
Global Share Option Plan	1,342	1 February 1999	1,157.10
Global Share Option Plan	2,199	1 February 2000	901.20
AP Leitch			
Global Share Option Plan	679	1 February 1999	1,157.10
Global Share Option Plan	1,106	1 February 2000	901.20

- (iii) The target number of Zurich Allied Shares to be awarded to the Directors (for nil consideration) under the Long Term Performance Share Plans for 1999 and 2000 are as follows:

	Long Term Performance Share Plan for 1999	Long Term Performance Share Plan for 2000
R Hüppi	605	777
MD Feinstein	337	524
AP Leitch	171	263
Year of award	2002	2003

The actual number of Zurich Allied Shares to be awarded will depend on the financial performance of the Group in excess of minimum defined targets during the three-year performance period commencing on 1 January in the year in which the target number of Zurich Allied Shares is established. Depending on the actual performance, the range of Zurich Allied Shares to be actually awarded in the year following the end of the three-year performance period will vary from 0 per cent. to 200 per cent. of the target numbers shown above. As a further condition, the individual must remain employed by the Group throughout the performance period. One half of the Zurich Allied Shares awarded at the end of each performance period will be sales restricted for a further period of three years.

- (iv) The following dealings for value in Zurich Allied Shares by the Directors and members of their immediate families and related trusts or connected persons (within the meaning of section 346 of the Companies Act) or in respect of Zurich Allied Shares in which such Directors are interested (including upon the exercise of Options), have taken place during the disclosure period:

Name	Date	Nature of transaction	Number of Zurich Allied Shares	Price per Share (CHF)
R Hüppi	29 April 1999	Award**	6,683*	—
	1 July 1999	Grant***	7	—
	1 July 1999	Acquisition	7	629.30
F Humer	14 May 1999	Acquisition	85	934.00
	2 September 1999	Acquisition	170	923.00
	29 October 1999	Acquisition	195	813.00

* The number of Zurich Allied Shares awarded relates to the value of Zurich Allied Shares at the commencement of the performance cycle in 1996, which was CHF331.00. The market value of Zurich Allied Shares as at 29 April 1999 was CHF904.00.

** Long Term Performance Plan 1999.

*** Swiss Employee Performance Share Plan.

- (v) As at the close of business on 22 May 2000 (the latest practicable date prior to the publication of this document) the interests of the directors of Zurich Allied and new Zurich Financial Services in the share capital of Zurich Allied (a) which would be required to be notified by each such director to Zurich Allied or new Zurich Financial Services (as appropriate), if such company were a company subject to the Companies Act, pursuant to section 324 or section 328 of the Companies Act, or (b) which would be required to be entered into the register of directors' interests of Zurich Allied or new Zurich Financial Services (as appropriate), if such company were a company subject to the Companies Act, pursuant to section 325 of the Companies Act, or (c) which are interests of a connected person (within the meaning of section 346 of the Companies Act) of such a director which would, if the connected person were a director of the relevant company and if the relevant company were subject to the Companies Act, be required to be disclosed under (a) or (b) above, and the existence of which is known to or which with reasonable due diligence, could be ascertained by that director, were as set out in the table below:

	Number of Zurich Allied Shares
DG Mead	76
PO Pidoux	395
DP de Pury	400

- (vi) The following dealings for value in Zurich Allied Shares by the directors of Zurich Allied or new Zurich Financial Services and members of their immediate families and related trusts or connected persons (within the meaning of section 346 of the Companies Act) or in respect of Zurich Allied Shares in which such directors are interested (including upon the exercise of Options), have taken place during the disclosure period:

Name	Date	Nature of transaction	Number of Zurich Allied Shares	Price per Share (CHF)
DP de Pury	17 February 2000	Lapse of entitlement	80	—

- (vii) As at 22 May 2000 (the last practicable date prior to the publication of this document) Zurich Financial Services, Zurich Insurance Company, Farmers Group Inc., Allied Zurich Holdings, Zurich Financial Services (UKISA) Limited, Eagle Star Holdings Limited, Scudder Investments Holdings Limited, Allied Dunbar Assurance Limited or the members of the groups of which the financial advisers to Allied Zurich, Zurich Allied and new Zurich Financial Services form a part, owned or controlled the following Zurich Allied Shares or securities convertible into, rights to subscribe for, options (including traded options) in respect of or derivatives referenced to, such shares:

Name	Number of Zurich Allied Shares
Zurich Financial Services	130,329
Zurich Insurance Company	154,846
Scudder Investment Holdings Limited	330*
Goldman, Sachs & Co. Bank	42,993
Goldman, Sachs & Co.**	14
Goldman Sachs Equity Securities (UK)	(3,910)
Goldman Sachs International	(4,686)
Morgan Stanley Capital (Luxembourg) SA	11,113

* Managed for Zurich Financial Services (AD) Pension Scheme

** Discretionary Manager

- (viii) The following dealings for value by Zurich Financial Services, Zurich Insurance Company, Farmers Group Inc., Allied Zurich Holdings, Zurich Financial Services (UKISA) Limited, Eagle Star Holdings Limited, Scudder Investments Holdings Limited, Allied Dunbar Assurance Limited or the members of the groups of which the financial advisers to Zurich Allied and new Zurich Financial Services form a part, in Zurich Allied Shares or securities convertible into, rights to subscribe for, options (including traded options) in respect of or derivatives referenced to, such shares have taken place during the disclosure period:

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	Date	Nature of transaction	Number of Zurich Allied Shares	Price per Share (CHF)
Zurich Financial Services (all dealings for own account, sales include issues of Zurich Allied Shares pursuant to Share Schemes)	28 May 1999	Sell	462	679.82
	21 June 1999	Sell	46	899.25
	13 July 1999	Sell	346	679.82
	4 October 1999	Sell	462	679.82
	27 October 1999	Sell	924	679.82
	16 November 1999	Sell	462	679.82
	10 December 1999	Acquisition	373	889.38
	23 December 1999	Acquisition	77,600	884.63
	29 December 1999	Sell	1,540	679.82
	25 January 2000	Acquisition	5,000	779.53
	25 January 2000	Acquisition	4,000	780.98
	25 January 2000	Acquisition	10,000	781.08
	25 January 2000	Acquisition	6,000	780.88
	25 January 2000	Sell	203	864.80
	26 January 2000	Acquisition	5,000	773.22
	27 January 2000	Acquisition	1,500	780.52
	31 January 2000	Acquisition	3,500	779.23
	1 February 2000	Acquisition	5,000	768.84
	22 March 2000	Sell	55	864.80
	24 March 2000	Sell	462	679.82
	5 April 2000	Sell	863	738.48
	10 April 2000	Sell	924	679.82
	11 April 2000	Sell	2,000	679.82
	18 April 2000	Sell	2,772	679.82
	13 June 1999	Acquisition	24,103	10.00
	14 June 1999	Sell	924	678.80
	17 June 1999	Sell	231	678.80
	23 June 1999	Sell	22,948	331.24
	28 June 1999	Acquisition	40,187	10.00
	29 June 1999	Sell	40,187	899.25
	30 August 1999	Acquisition	2,657	10.00
	30 August 1999	Sell	462	678.80
	31 August 1999	Sell	578	678.80
	2 September 1999	Sell	1,386	678.80
	8 September 1999	Sell	231	678.80
	30 November 1999	Acquisition	14,738	10.00
	30 November 1999	Sell	231	678.80
	30 November 1999	Sell	693	678.80
	30 November 1999	Sell	686	678.80
	16 December 1999	Sell	2,695	678.80
	16 December 1999	Sell	5,005	678.80
	16 December 1999	Sell	3,272	678.80
	20 December 1999	Sell	2,156	678.80
	4 January 2000	Acquisition	16,980	10.00
	4 January 2000	Sell	4,274	678.80
	4 January 2000	Sell	809	678.80
	6 January 2000	Sell	10,395	678.80
	12 January 2000	Sell	116	678.80
	14 January 2000	Sell	1,386	678.80
	31 January 2000	Acquisition	13,824	10.00
	31 January 2000	Sell	5,200	864.80
	31 January 2000	Sell	7,700	678.80
	31 January 2000	Sell	924	678.80

	Date	Nature of transaction	Number of Zurich Allied Shares	Price per Share (CHF)
	3 April 2000	Sell	462	678.80
	5 April 2000	Sell	924	678.80
	5 April 2000	Sell	863	738.48
	7 April 2000	Sell	2,000	678.80
	12 April 2000	Sell	2,772	678.80
Zurich Insurance Company				
(all dealings for own account)				
	5 May 1999	Sell	139	832.00
	5 May 1999	Sell	53	832.00
	5 May 1999	Sell	5	832.00
	5 May 1999	Sell	15	832.00
	5 May 1999	Sell	23	832.00
	17 May 1999	Acquisition	2,000	890.18
	25 May 1999	Sell	15	843.00
	25 May 1999	Sell	9	843.00
	28 May 1999	Acquisition	1,000	876.96
	7 June 1999	Acquisition	1,200	926.85
	10 June 1999	Acquisition	3,000	916.60
	15 June 1999	Acquisition	400	900.99
	17 June 1999	Acquisition	1,000	898.49
	23 June 1999	Sell	600	921.45
	23 June 1999	Acquisition	600	922.55
	23 June 1999	Acquisition	1,000	899.59
	17 August 1999	Sell	20	846.00
	9 September 1999	Acquisition	2,000	896.18
	4 October 1999	Acquisition	4	832.00
	8 December 1999	Sell	15	846.86
	9 December 1999	Acquisition	300	889.65
	14 December 1999	Acquisition	700	889.28
	12 January 2000	Sell	3,943	846.86
	12 January 2000	Sell	360	846.86
	12 January 2000	Sell	179	846.86
	12 January 2000	Sell	75	846.86
	12 January 2000	Sell	913	846.86
	14 January 2000	Acquisition	2,000	829.18
	21 January 2000	Acquisition	5,000	802.58
	24 January 2000	Acquisition	4,000	798.25
	25 January 2000	Acquisition	5,000	782.46
	26 January 2000	Acquisition	10,000	776.52
	28 January 2000	Acquisition	106	846.86
	31 January 2000	Acquisition	3,000	774.95
	1 February 2000	Acquisition	3,000	771.92
	2 February 2000	Acquisition	500	770.85
	8 February 2000	Acquisition	5,403	846.86
	15 March 2000	Sell	14	846.86
	15 March 2000	Sell	10	846.86

Part VI – Additional Information

	Date	Nature of Transaction	Number of Zurich Allied Shares	Price per Share (CHF)
Scudder Investments				
Holdings Limited	30 August 1999	Acquisition	655	888.48
(dealings for Zurich	7 July 1999	Sell	65	931.00
Financial Services	18 August 1999	Sell	25	851.00
(AD) Pension Scheme)	7 August 1999	Sell	45	898.02
	3 November 1999	Sell	30	888.00
	29 November 1999	Sell	30	916.38
	1 February 2000	Sell	50	775.00
	22 February 2000	Sell	40	715.00
	1 March 2000	Sell	30	717.33
	18 March 2000	Sell	10	755.00
	12 April 2000	Sell	10	822.89

Name	Date	Nature of Transaction	Number of Zurich Allied Shares	Price per share (CHF)	
				High	Low
Morgan Stanley & Co. Incorporated	17 April 1999 to 16 July 1999	Acquisition	66,947	1,009.79	567.68
		Sell	80,867	1,010.19	583.51
	17 July 1999 to 16 October 1999	Acquisition	26,867	926.00	571.52
		Sell	27,407	934.12	557.51
	17 October 1999 to 16 January 2000	Acquisition	96,349	1,000.00	518.70
		Sell	96,093	1,000.00	522.17
	17 January 2000 to 16 February 2000	Acquisition	10,290	824.00	438.87
		Sell	10,290	825.44	467.59
	17 February 2000 to 16 March 2000	Acquisition	42,063	729.77	672.81
		Sell	42,063	732.23	674.29

Name	Date	Nature of Transaction	Number of Zurich Allied Shares	Price per Share (CHF)
Morgan Stanley & Co. Incorporated	17 March 2000	Acquisition	100	795.83
		Sell	100	798.06
	20 March 2000	Acquisition	50	776.17
		Sell	50	777.18
	21 March 2000	Acquisition	50	799.84
		Acquisition	30	768.65
		Sell	50	800.48
		Sell	30	769.19
	24 March 2000	Acquisition	10	799.60
		Acquisition	300	800.11
		Acquisition	30	487.66
		Sell	30	799.16
		Sell	10	800.16
		Sell	20	801.51
		Sell	280	801.51
		Sell	280	801.51
	27 March 2000	Acquisition	10	799.84
		Acquisition	1	802.84
		Acquisition	30	803.84
		Acquisition	30	806.85
		Acquisition	10	809.85
		Acquisition	25	818.86
		Sell	81	805.83
		Sell	25	819.43
	28 March 2000	Acquisition	50	785.62
		Acquisition	15	801.92
		Sell	50	786.17
		Sell	15	802.16
		Acquisition	68	801.80
		Sell	68	799.00
	29 March 2000	Acquisition	40	786.12
		Sell	20	787.00
		Sell	20	787.17
	3 April 2000	Acquisition	10	848.89
		Sell	10	512.58
	4 April 2000	Acquisition	2	868.00
		Acquisition	55	865.49
		Acquisition	180	862.91
		Acquisition	90	864.91
		Acquisition	120	869.91
		Acquisition	90	870.91
		Acquisition	180	871.91
		Acquisition	120	872.92
		Acquisition	120	874.92
		Sell	10	859.10
		Sell	15	863.09
		Sell	30	870.09
		Sell	2	868.09
		Sell	900	870.28
		Acquisition	1,580	878.06
		Sell	500	875.00
		Sell	80	875.00
		Sell	1,000	875.00
	5 April 2000	Acquisition	40	853.90
		Acquisition	320	850.89

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Name	Date	Nature of Transaction	Number of Zurich Allied Shares	Price per Share (CHF)
Morgan Stanley & Co. Incorporated (cont)	5 April 2000	Sell	40	854.58
		Sell	320	853.58
	6 April 2000	Acquisition	90	828.66
		Acquisition	10	822.03
		Sell	40	815.14
		Sell	50	853.10
		Sell	10	503.29
		Acquisition	900	819.86
		Sell	100	817.00
		Sell	700	817.00
		Sell	100	817.00
		Acquisition	191	799.84
	7 April 2000	Acquisition	44	793.96
		Sell	44	793.84
		Sell	191	487.22
		Acquisition	40	800.52
	10 April 2000	Sell	40	801.16
	11 April 2000	Acquisition	60	485.38
		Sell	60	797.16
	12 April 2000	Acquisition	50	812.58
		Sell	50	813.15
	4 May 2000	Sell	1,000	1,004.43

Name	Date	Nature of Transaction	Number of Zurich Allied Shares	Price per Share (CHF)	
				High	Low
Morgan Stanley & Co. International Limited	17 April 1999 to 16 July 1999	Acquisition	455,930	1,004.00	368.99
		Sell	456,438	1,022.00	362.05
	17 July 1999 to 16 October 1999	Acquisition	328,159	922.84	335.64
		Sell	361,497	923.58	334.80
	17 October 1999 to 16 January 2000	Acquisition	346,808	941.55	324.82
		Sell	490,240	942.00	326.29
	17 January 2000 to 16 February 2000	Acquisition	305,400	844.89	276.10
		Sell	200,568	875.00	260.62
	17 February 2000 to 16 March 2000	Acquisition	200,568	875.00	260.62
		Sell	249,834	875.00	272.39

Date	Nature of Transaction	Number of Zurich Allied Shares	Price per Share (CHF)
17 March 2000	Sell	46	778.10
	Acquisition	210	786.92
	Sell	1,059	780.02
20 March 2000	Sell	495	772.00
	Sell	1,720	772.00
	Sell	2,810	772.00
	Acquisition	5,025	772.00
	Sell	50	777.18
	Sell	212	766.22
21 March 2000	Sell	100	759.20
	Acquisition	100	790.83
	Acquisition	648	783.28
	Sell	900	784.51
	Sell	112	802.00

Name	Date	Nature of transaction	Number of Zurich Allied Shares	Price per Share (CHF)	
Morgan Stanley & Co. International (cont.)	22 March 2000	Sell	39	800.00	
		Sell	1,300	797.00	
		Acquisition	1,451	799.43	
	23 March 2000	Sell	2,240	798.95	
		Sell	100	781.00	
		Sell	3,000	788.00	
		Sell	750	786.00	
		Acquisition	5	775.00	
		Acquisition	3,722	788.43	
		Acquisition	124	785.82	
		Sell	124	788.56	
		Acquisition	801	788.70	
		Sell	766	783.26	
		24 March 2000	Sell	10,000	803.15
			Sell	2,670	804.50
			Acquisition	10,000	803.15
			Acquisition	2,670	806.54
			Acquisition	1,206	807.34
			Sell	358	806.61
	27 March 2000		Sell	47	811.00
		Sell	1,601	812.32	
		Sell	2,138	812.32	
		Acquisition	1,187	812.77	
		Acquisition	106	808.41	
		Sell	724	804.07	
		28 March 2000	Sell	283	793.00
	Sell		1,214	799.99	
	Acquisition		1,120	789.96	
	Sell		640	793.73	
	29 March 2000	Sell	300	782.18	
		Sell	50	801.80	
		Sell	1,000	799.40	
		Sell	20	787.17	
	30 March 2000	Sell	2,500	788.53	
		Sell	7,798	798.88	
		Sell	1,000	791.17	
		Acquisition	90	800.84	
	31 March 2000	Sell	274	799.74	
		Sell	500	834.93	
		Sell	880	834.93	
		Sell	920	834.93	
		Sell	21	840.00	
		Sell	3,100	834.93	
		Sell	870	834.93	
		Acquisition	6,270	836.06	
		Acquisition	48	829.87	
		Sell	10,000	818.40	
		Sell	2,500	827.56	
		Acquisition	320	830.59	
		3 April 2000	Sell	1,000	841.42
			Acquisition	625	847.09
	Sell		215	845.41	
	Sell		10	848.89	
	4 April 2000	Sell	5,400	869.40	

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Name	Date	Nature of transaction	Number of Zurich Allied Shares	Price per Share (CHF)
Morgan Stanley & Co. International (cont.)	4 April 2000	Acquisition	5,400	870.44
		Acquisition	1,569	875.85
		Sell	1,000	861.16
	5 April 2000	Acquisition	1,195	869.28
		Sell	57	866.25
		Acquisition	31,000	830.08
	6 April 2000	Sell	33	842.00
		Sell	41,846	830.26
		Sell	1,000	822.54
	7 April 2000	Acquisition	40	843.11
		Sell	370	838.71
		Sell	60	843.89
	8 April 2000	Acquisition	1,275	810.11
		Acquisition	628	810.11
		Acquisition	100	821.00
	9 April 2000	Acquisition	745	821.00
		Acquisition	2,350	810.11
		Acquisition	9,200	810.11
	10 April 2000	Acquisition	10,516	835.85
		Sell	13,453	809.10
		Acquisition	1,305	810.34
	11 April 2000	Sell	2,150	815.89
		Acquisition	166	818.82
		Sell	1,387	820.56
	12 April 2000	Acquisition	600	799.00
		Acquisition	3,595	805.17
		Sell	2,300	804.50
	13 April 2000	Sell	600	798.16
		Acquisition	191	799.84
		Sell	9,523	790.54
	14 April 2000	Sell	1,978	800.18
		Sell	1,000	816.00
		Acquisition	1,062	804.36
	15 April 2000	Sell	62	807.15
		Acquisition	382	811.99
		Sell	1,024	807.44
	16 April 2000	Acquisition	2,100	810.16
		Sell	2,100	809.02
		Sell	50	817.00
	17 April 2000	Sell	400	822.00
		Acquisition	450	822.31
		Acquisition	340	825.04
	18 April 2000	Sell	1,109	821.04
		Sell	92	834.00
		Acquisition	92	834.88
	19 April 2000	Sell	1,645	833.92

Name	Date	Nature of Transaction	Number of Zurich Allied Shares	Price per share (CHF)		
				High	Low	
Banca Morgan Stanley SpA	17 April 1999 to 16 July 1999	Acquisition	423,383	1,002.00	559.91	
		Sell	469,529	1,000.65	560.29	
	17 July 1999 to 16 October 1999	Acquisition	82,933	925.87	798.00	
		Sell	86,672	925.00	544.10	
	17 October 1999 to 16 January 2000	Acquisition	184,584	940.67	798.00	
		Sell	53,903	940.00	804.00	
	17 January 2000 to 16 February 2000	Acquisition	88,378	829.00	719.50	
		Sell	19,814	825.00	719.00	
	17 February 2000 to 16 March 2000	Acquisition	37,433	765.00	678.00	
		Sell	18,080	746.00	673.00	

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Name	Date	Nature of transaction	Number of Zurich Allied Shares	Price per Share (CHF)
Banca Morgan Stanley SpA (cont.)	29 March 2000	Acquisition		
			50	785.00
	30 March 2000	Acquisition	1,000	785.00
		Acquisition	274	800.58
		Acquisition	10,000	800.00
		Acquisition	250	780.00
		Sell	90	800.00
	31 March 2000	Sell	320	829.72
	3 April 2000	Acquisition	28	840.00
		Acquisition	187	845.90
		Sell	300	848.37
		Sell	20	844.00
	4 April 2000	Acquisition	5	862.00
		Acquisition	32	862.00
		Sell	4,000	843.40
	5 April 2000	Acquisition	4,000	319.17
		Acquisition	220	840.00
		Acquisition	100	835.00
		Acquisition	15	853.00
		Sell	36	838.94
		Sell	249	838.94
		Sell	2,948	838.94
		Sell	240	852.06
		Sell	190	844.79
		Sell	150	844.00
	6 April 2000	Acquisition	70	820.00
		Acquisition	1,360	819.86
		Sell	10	822.03
		Sell	96	815.75
		Sell	70	821.50
		Sell	19	822.04
		Sell	104	822.04
	7 April 2000	Acquisition	44	793.84
		Acquisition	2,345	791.98
		Acquisition	1,631	791.98
		Acquisition	205	791.98
		Acquisition	1,408	791.98
		Acquisition	2,280	789.51
		Acquisition	340	799.00
		Acquisition	1,654	790.44
		Sell	340	799.00
	10 April 2000	Acquisition	1,938	801.00
	11 April 2000	Acquisition	920	809.36
		Sell	231	809.00
		Sell	41	816.00
		Sell	110	813.82
	12 April 2000	Acquisition	4,000	316.66
		Acquisition	4,000	826.38
		Acquisition	60	825.00
		Acquisition	10	822.89
		Acquisition	210	826.00
		Acquisition	70	826.00
		Acquisition	130	826.00
		Acquisition	120	826.00
		Acquisition	260	827.87

Name	Date	Nature of Transaction	Number of Zurich Allied Shares	Price per Share (CHF)
Banca Morgan Stanley SpA (cont.)	12 April 2000	Acquisition	80	818.16
		Acquisition	111	818.16
		Acquisition	444	818.16
		Acquisition	103	823.04
		Acquisition	80	823.04
		Sell	4,000	826.38
		Sell	60	827.00
		Sell	200	827.00
		Sell	359	821.49
	13 April 2000	Acquisition	800	834.00
		Acquisition	47	835.00
		Acquisition	10	835.89
		Acquisition	8	835.89
		Acquisition	780	835.41

Name	Date	Nature of Transaction	Number of 1% Convertible Bonds	Price (USD)
Morgan Stanley & Co. International	31 May 1999	Acquisition	50,000	128.25
	1 June 1999	Acquisition	115,000	131.00
	11 June 1999	Acquisition	30,000	130.00
	1 July 1999	Acquisition	500,000	131.00
	14 July 1999	Acquisition	10,000	130.50
	4 August 1999	Acquisition	20,000	129.00
	5 August 1999	Sell	300,000	127.50
	11 August 1999	Acquisition	150,000	120.25
	28 October 1999	Acquisition	5,000	128.38
	3 November 1999	Acquisition	50,000	128.38
	23 December 1999	Acquisition	100,000	124.63
	6 January 2000	Acquisition	223,000	122.00
	19 January 2000	Acquisition	200,000	113.00
	2 February 2000	Acquisition	100,000	103.25
	9 February 2000	Acquisition	40,000	105.00
	21 February 2000	Sell	50,000	101.00
	14 March 2000	Acquisition	20,000	90.25
	17 March 2000	Acquisition	1,000,000	105.00

(c) Negative Statements

Save as disclosed above:

- (i) none of new Zurich Financial Services, Zurich Allied or any of the directors of Zurich Allied or new Zurich Financial Services, their immediate families owns or controls or is interested in any Allied Zurich Shares, Zurich Allied Shares or new Zurich Financial Services Shares or any securities convertible into, rights to subscribe for or options (including traded options) in respect of, or derivatives referenced to, those shares, nor has any such person dealt for value therein during the disclosure period;
- (ii) none of Allied Zurich, the Directors, their immediate families, subsidiaries, pension funds or the advisers of Allied Zurich owns or controls or is interested in any Allied Zurich Shares, Zurich Allied Shares or new Zurich Financial Services Shares or any securities convertible into, rights to subscribe for or options (including traded options) in respect of, or derivatives referenced to, those shares, nor has any such person dealt for value therein during the disclosure period;
- (iii) none of Zurich Financial Services, Zurich Insurance Company, Farmers Group Inc., Allied Zurich Holdings, Zurich Financial Services (UKISA) Limited, Eagle Star Holdings Limited, Scudder Investments Holdings Limited, Allied Dunbar Assurance Limited or the members of the groups of which the financial advisers to Allied Zurich, Zurich Allied and new Zurich Financial Services form a part owns or controls or is interested in any Allied Zurich

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Shares or Zurich Allied Shares or any securities convertible into, rights to subscribe for or options (including traded options) in respect of or derivatives referenced to, such shares nor has such person dealt for value therein during the disclosure period;

In line with an agreement between the Panel and the Group no enquiries have been made of any other members of the Group or other persons who may be considered by the Panel to be acting in concert with any member of the Group.

- (iv) none of Zurich Allied or new Zurich Financial Services or, so far as the Group is aware, any person acting in concert with either of them has any arrangement with any person relating to relevant securities of Allied Zurich, Zurich Allied or new Zurich Financial Services which may be an inducement to deal or to refrain from dealing; and
- (v) neither Allied Zurich nor any associate of Allied Zurich has any arrangement with any person relating to relevant securities of Allied Zurich, Zurich Allied or new Zurich Financial Services which may be an inducement to deal or to refrain from dealing.

5. MARKET QUOTATIONS

Set out below are the closing middle market quotations of Allied Zurich Shares and Zurich Allied Shares as derived from the Official List (in the case of Allied Zurich) and the SWX Swiss Exchange (in the case of Zurich Allied) on:

- (i) the first dealing day of each of the six months immediately before the date of this document;
- (ii) 14 April 2000 (the last Business Day before the announcement of the Proposals); and
- (iii) 22 May 2000 (the last practicable day prior to the publication of this document).

Date	Allied Zurich Shares (pence)	Zurich Allied Shares (CHF)
1 November 1999	737.5	868.0
1 December 1999	760.0	924.0
4 January 2000	712.0	881.0
1 February 2000	587.0	770.0
1 March 2000	568.5	716.0
3 April 2000	698.0	855.0
14 April 2000	684.0	827.0
22 May 2000	710.0	797.0

6. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by Zurich Allied, new Zurich Financial Services and/or Allied Zurich in the period 17 April 1998 to 22 May 2000.

(a) The Governing Agreement

The purpose of the Governing Agreement is to provide for the relationship between Allied Zurich and Zurich Allied and to provide for the joint control of Zurich Financial Services in order to achieve a unified governance of the Zurich Financial Services Group.

The Governing Agreement contains, in summary, the following main terms:

- (i) both parties are to use their best efforts to procure that the respective memberships of the boards of directors of Allied Zurich, Zurich Allied and Zurich Financial Services shall converge as soon as possible and upon becoming identical, remain identical. New directors of Zurich Financial Services, Allied Zurich and Zurich Allied will be proposed by the nominations committees of the respective boards;
- (ii) each of Allied Zurich and Zurich Allied has an effective veto in respect of matters to be voted upon at Zurich Financial Services shareholders' meetings. The majority required for the passing of a shareholder resolution of Zurich Financial Services is a super majority of not less than 58 per cent. of the voting rights attaching to all the shares of Zurich Financial Services (other than a meeting adjourned for lack of quorum, where the majority required at the adjourned meeting is 58 per cent. of the votes cast), subject always to higher majority requirements of the Swiss Code of Obligations;
- (iii) Zurich Financial Services' operations will be managed by the Chief Executive Officer and, under his supervision, a group management board comprising senior executives drawn initially from the existing executive management

teams of Allied Zurich and Zurich Allied; certain reserved matters will be subject to the approval of the Zurich Financial Services board;

- (iv) provisions are included in the Governing Agreement dealing with dividend entitlements. These provisions will ensure that dividends will be received by Allied Zurich and Zurich Allied in such amounts as will enable them to pay dividends to their own shareholders in the proportion 43:57 after adjusting for certain costs and expenses (including tax payable by Allied Zurich and Zurich Allied);
- (v) option arrangements in favour of each party over the other's shares in Zurich Financial Services are included in the Governing Agreement, exercisable in the case of an offer being made for a specified percentage of voting shares of only one of Allied Zurich or Zurich Allied (30 per cent. in the case of Allied Zurich and 33⅓ per cent. in the case of Zurich Allied), without a substantially equivalent offer being made for the other. Under the option, the consideration may take the form of cash, or shares or other marketable securities issued by the party exercising the option;
- (vi) in the case of the insolvency of one of Allied Zurich and Zurich Allied or an unremedied breach of certain important provisions of the Governing Agreement substantially negating the business rationale of the structuring of the Zurich Financial Services Group, the non-defaulting party is to have the option to require the other party to sell to it all or some of the shares which the other party holds in Zurich Financial Services at market price;
- (vii) the Governing Agreement is capable of being terminated if an insolvency event occurs with respect to either Allied Zurich or Zurich Allied, or if either of the options referred to at paragraphs (v) and (vi) above are exercised and either Allied Zurich or Zurich Allied holds more than 58 per cent. of the shares of Zurich Financial Services as a result of such exercise; and
- (viii) the Governing Agreement is governed by Swiss law.

(b) The Transaction Agreement

The Transaction Agreement contains, in summary, the following main terms:

- (i) the parties agree to unify Allied Zurich and Zurich Allied under a single holding company, subject to the terms of the Transaction Agreement and any necessary approvals of the shareholders of Allied Zurich and Zurich Allied;
- (ii) unification shall be effected by the Scheme and the simultaneous completion of the Statutory Merger;
- (iii) completion of the unification shall occur no later than 31 December 2000 unless the Independent Directors and the board of Zurich Allied agree otherwise (such agreement not to be unreasonably withheld);
- (iv) Allied Zurich, Zurich Allied and Zurich Financial Services shall procure that action is taken to ensure that Allied Zurich has sufficient distributable reserves and available funds to enable it to declare and pay the Special Cash Dividend, to enable the Share Repurchase to occur and to pay all fees incurred in effecting the unification. The parties acknowledge that the Independent Directors shall decide whether to proceed with the Special Cash Dividend and the Share Repurchase. The parties also acknowledge that the Share Repurchase will, to the extent possible, be funded by the issue of preference shares by Allied Zurich to one or more members of the Group. Allied Zurich acknowledges that to the extent it receives distributable reserves and funds for the foregoing purposes it will not use them for any other purpose;
- (v) new Zurich Financial Services shall undertake to the Court to be bound by the Scheme to the extent that the Scheme is expressed to bind it;
- (vi) new Zurich Financial Services agrees to seek a primary listing on the SWX Swiss Exchange and a secondary listing on the London Stock Exchange and to put in place CDIs, free of charge to holders of Allied Zurich Shares;
- (vii) new Zurich Financial Services agrees to procure, so far as is possible within CREST regulations and Swiss law, that holders of CDIs are treated in an equivalent manner as new Zurich Financial Services Shareholders in relation to the right to attend and vote at general meetings of new Zurich Financial Services;
- (viii) new Zurich Financial Services has undertaken, for the benefit of holders of Allied Zurich Shares on the share register of Allied Zurich at the Scheme Record Time, to maintain the listings and arrangements set out in paragraph (vi) above, or equivalent listing and trading facilities, for so long as such listings and arrangements are in the reasonable opinion of new Zurich Financial Services, having regard solely to the interests of former Allied Zurich Shareholders, warranted for the benefit of a material number of new Zurich Financial Services Shareholders;

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- (ix) new Zurich Financial Services shall take the name “**Zurich Financial Services**” after completion of the unification, will be domiciled and will have its headquarters in Zurich, Switzerland and will have a capital structure, articles of incorporation, by-laws, board of directors, management and auditors as described in the Transaction Agreement;
- (x) for the benefit of the holders of Allied Zurich Shares on the share register of Allied Zurich at the Scheme Record Time, new Zurich Financial Services undertakes to comply with the requirements of the Listing Rules relating to the Combined Code at 2 May 2000 for so long as such requirements are in the reasonable opinion of new Zurich Financial Services, having regard solely to the interests of former Allied Zurich Shareholders and also to the requirements of any other stock exchange on which new Zurich Financial Services Shares are listed for the time being, warranted for the benefit of a material number of new Zurich Financial Services Shareholders;
- (xi) new Zurich Financial Services agrees to include a statement in the listing particulars relating to the listings referred to in paragraph (vi) above that it will continue, so far as it is in accordance with applicable law, to maintain the current dividend policy of the Zurich Financial Services Group;
- (xii) it is the parties’ intention that new Zurich Financial Services should seek a listing on the New York Stock Exchange;
- (xiii) completion of the Transaction Agreement is subject to the conditions set out in Part III of this document;
- (xiv) the parties agree to procure that the Scheme and the Merger Agreement will be completed at the same time, such that either the Scheme and the Merger Agreement will be completed, or neither will. The parties agree that the Special Cash Dividend should be declared and the Share Repurchase should close before completion of the Transaction Agreement;
- (xv) the parties agree that, subject to any necessary Zurich Allied or Allied Zurich shareholder approval, the Governing Agreement is waived to the extent necessary to give effect to the terms of the Transaction Agreement;
- (xvi) if any share buy-backs by Allied Zurich are effected unconditionally prior to completion of the Transaction Agreement and Completion does not occur as envisaged by the Transaction Agreement, Allied Zurich and Zurich Allied will agree appropriate amendments to the Governing Agreement to take account of the reduced proportion of Zurich Financial Services Shares indirectly held by Allied Zurich Shareholders whilst preserving the principle of joint control set out in the Governing Agreement. The parties may dispense with such adjustments where Allied Zurich issues an appropriate number of shares and contributes the proceeds of such issue to Zurich Financial Services;
- (xvii) the Transaction Agreement is governed by Swiss law; and
- (xviii) the parties agree to consult each other on the terms of any further announcements in relation to the transactions envisaged by the Transaction Agreement with a view to agreeing the terms of such announcement.

The parties agreed to co-operate to ensure the fulfilment of the above provisions.

(c) The Merger Agreement

The Merger Agreement contains, in summary, the following main terms:

- (i) the parties agree to merge in accordance with article 748 of the Swiss Code of Obligations;
- (ii) at Completion, the share capital of new Zurich Financial Services shall be increased from CHF 100,000 to CHF 486,595,170 by issuing 48,649,517 (so calculated on the basis of the total issued capital of Zurich Allied on 2 May 2000) new registered shares of new Zurich Financial Services Shares at a par value of CHF 10 each. The shares shall be issued to Zurich Allied Shareholders as a replacement for their registered shares in Zurich Allied. The exchange ratio shall be one registered share of new Zurich Financial Services for one registered share of Zurich Allied;
- (iii) on Completion former Zurich Allied Shareholders shall own 57 per cent. and former Allied Zurich Shareholders shall own 43 per cent. of new Zurich Financial Services Shares (subject to the effect of the Share Repurchase);
- (iv) completion of the Statutory Merger shall be subject to the following conditions:
 - (1) approval of the Merger Agreement by the general meetings of new Zurich Financial Services and Zurich Allied and the approval of the dissolution without liquidation by the general meeting of Zurich Allied;
 - (2) Court approval of the Scheme;

- (3) all necessary or desirable regulatory or administrative approvals as well as third-party consents (including those relating to asset management activities) in connection with the Proposals being obtained in form and terms satisfactory to Allied Zurich and Zurich Allied and all applicable waiting periods having expired, except to the extent waived by agreement between Allied Zurich and Zurich Allied;
- (4) expiry or termination of any administrative or court ordered prohibitions of consummation or waiting period, if failure to comply with these would, in the view of the parties, have unacceptable consequences for one or all parties;
- (5) the SWX Swiss Exchange having agreed to the primary listing and the UK Listing Authority having agreed to the secondary listing of new Zurich Financial Services Shares and the London Stock Exchange agreeing to admit shares in new Zurich Financial Services to trading, always subject to the completion of the Statutory Merger and the allotment and issue of Allied Zurich Shares in accordance with the Scheme to new Zurich Financial Services; and
- (6) declaration of the Special Cash Dividend.

The boards of directors of Zurich Allied and new Zurich Financial Services may by joint decision waive the above conditions following the general meetings of Allied Zurich and Zurich Allied (with the exception of the approvals by the general meetings of Allied Zurich and Zurich Allied) and determine that the Merger Agreement shall be completed despite non-fulfilment of a condition;

- (v) the Merger Agreement shall automatically terminate if not completed by 31 December 2000, unless the parties agree otherwise; and
- (vi) the Merger Agreement is governed by Swiss law.

(d) Letter of Understanding

The Letter of Understanding records the terms of the understanding which has been reached between Lloyds TSB Registrars Corporate Nominee Limited and new Zurich Financial Services regarding those persons who held their Scheme Shares in certificated form and on whose behalf it is proposed that Lloyds TSB Registrars Corporate Nominee Limited will hold CDIs. The Letter of Understanding provides that in the event that satisfactory arrangements in relation to CDI holders attending and voting at general meetings have not been established by the time the Scheme is due to become effective, and until such time as they are so established, Lloyds TSB Registrars Corporate Nominee Limited will, by agreement with New Zurich Financial Services, procure that equivalent arrangements are provided to those persons on whose behalf it holds CDIs. Further, it provides for Lloyds TSB Registrars Corporate Nominee Limited to disclose details of CDI holders in certain circumstances. The parties to the Letter of Understanding have therefore agreed to negotiate in good faith to agree the terms of an agreement under English law on the basis set out in the Letter of Understanding pursuant to which Lloyds TSB Registrars Corporate Nominee Limited will hold CDIs on behalf of the CDI holders and, if relevant, put in place the equivalent arrangements referred to above.

7. EFFECT OF PROPOSALS ON GOVERNING AGREEMENT

The Special Resolution to be approved at the Extraordinary General Meeting will, if passed authorise the Directors to agree terms for the amendment or variation of the Governing Agreement for the purposes of facilitating the Proposals. Under the Transaction Agreement it has been agreed that the Governing Agreement is waived to the extent necessary to give effect to the express terms of the Transaction Agreement.

The following is a summary of the principal ways in which it is currently envisaged the Governing Agreement will require to be varied as a result.

- (i) the Governing Agreement provides for Allied Zurich and Zurich Allied to pay dividends to their shareholders in accordance with the Equalisation Ratio. Under the Proposals, Allied Zurich Shareholders are to receive a Special Cash Dividend which is not also to be paid to Zurich Allied Shareholders;
- (ii) the Governing Agreement provides that Allied Zurich and Zurich Allied will not engage in activities or incur obligations of any sort other than investing in Zurich Financial Services (save in very limited circumstances). The two companies will however, be engaging in other activities pursuant to the terms of the Transaction Agreement;
- (iii) the Governing Agreement provides that neither Allied Zurich nor Zurich Allied should acquire (directly or indirectly) or deal in shares of the other or any rights in shares of the other. The issue of preference shares by Allied Zurich to one or more members of the Group in order to finance the Share Repurchase is inconsistent with this provision;

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- (iv) the Governing Agreement provides that, save in limited circumstances, Allied Zurich and Zurich Allied should not consolidate, sub-divide, convert, alter the rights attaching to any class of their issued share capital or in any way change their capital structure or raise further capital. This is inconsistent with, inter alia, the proposed cancellation of the Allied Zurich Shares and the allotment of new shares in Allied Zurich to new Zurich Financial Services pursuant to the Scheme, as well as the proposed allotment of preference shares by Allied Zurich;
- (v) the Governing Agreement provides that neither Allied Zurich nor Zurich Allied should alter their organisational rules or articles of association in any material way or otherwise in any way which is inconsistent with the Governing Agreement. The Special Resolution is inconsistent with this;
- (vi) the Governing Agreement provides, inter alia, that Allied Zurich and Zurich Allied should not solicit or encourage any other persons or enter into an agreement or arrangement with any other person for such other person to do any act or thing which could result in that person acquiring control of Allied Zurich or Zurich Allied. The Special Resolution approves Proposals which will result in new Zurich Financial Services becoming the holder of the entire issued share capital of Allied Zurich pursuant to the Scheme;
- (vii) the Governing Agreement prohibits Allied Zurich and Zurich Allied from proposing any resolution or action to its shareholders which is, inter alia, inconsistent with the provisions set out at (ii) or (vi) above. As such, the Special Resolution will be inconsistent with this; and
- (viii) the Governing Agreement contains provisions designed to defeat any move by a third party or third parties acting in concert to make a take-over offer for the shares of or obtain control of one of Allied Zurich or Zurich Allied without the other. This may be inconsistent with new Zurich Financial Services acquiring the entire issued share capital of Allied Zurich and Zurich Allied pursuant to the Proposals.

8. TAXATION

(a) UK Taxation

The following paragraphs are intended as a general guide only and are based on current UK law and current Inland Revenue practice. They summarise advice received by the Directors as to the position of Allied Zurich Shareholders who receive the Special Cash Dividend and participate in the Scheme and who (unless the position of non-UK resident Allied Zurich Shareholders is expressly referred to) are resident or ordinarily resident in the United Kingdom for tax purposes and who hold their Allied Zurich Shares as an investment.

Please refer to Part V of this document regarding the comparative tax treatment of future disposals of shares and the ongoing taxation of dividends.

Special Cash Dividend

Allied Zurich Shareholders receiving the Special Cash Dividend will generally be taxed in the same way as if they had received an ordinary dividend on their Allied Zurich Shares.

There is no withholding tax on dividends paid by Allied Zurich.

An individual holder of Allied Zurich Shares who is resident in the UK should generally be entitled to a tax credit in respect of the Special Cash Dividend which can be offset against his or her total income tax liability. The amount of the tax credit equals 10 per cent. of the aggregate of the dividend and the tax credit (the “**gross dividend**”) which equals one-ninth of the net cash dividend. The gross dividend is included in calculating an individual’s income for UK tax purposes.

For individual taxpayers liable to UK income tax at a rate not exceeding the basic rate, the rate of income tax on dividends is 10 per cent.. Accordingly, the tax credit will discharge the tax liability of such taxpayers in relation to the Special Cash Dividend. An individual holder of Allied Zurich Shares who is liable to UK income tax at the higher rate will be liable to tax on the Special Cash Dividend at 32.5 per cent. of the gross dividend. The tax credit will be set against this liability and the taxpayer will have to account for additional tax equal to 22.5 per cent. of the gross dividend (equal to 25 per cent. of the net dividend), to the extent the Special Cash Dividend, being treated as the top slice of his or her income, falls above the threshold for higher rate income tax.

Individuals not liable to income tax, pension funds and charities (being UK resident or ordinarily resident holders of Allied Zurich Shares who are not liable to UK tax on the Special Cash Dividend received), will generally not be entitled to claim repayment of the tax credit attaching to the Special Cash Dividend, subject to tapering relief for charities. The tax credit attaching to the Special Cash Dividend in respect of Allied Zurich Shares held in a PEP or an ISA will generally be repayable.

A UK resident corporate holder of Allied Zurich Shares will not normally be liable to UK corporation tax in respect of the Special Cash Dividend. Such a holder will not be able to reclaim the tax credit attaching to the dividend paid.

Receipt of entitlement to new Zurich Financial Services Shares

The Directors have been advised that the Proposals should constitute a scheme of reconstruction or amalgamation for the purposes of section 136 of the Taxation of Chargeable Gains Act 1992 ("**TCGA 1992**"). Allied Zurich Shareholders who, either alone or together with persons connected with them hold more than 5 per cent. of Allied Zurich Shares, are advised that clearance has been applied for under section 138 TCGA 1992 to the effect that the ability to roll-over any gain arising on the disposal of Allied Zurich Shares under section 136 TCGA 1992 will not be prevented from applying.

To the extent that an Allied Zurich Shareholder receives an interest in new Zurich Financial Services Shares under the Proposals, they should not be treated as having made a disposal of his Allied Zurich Shares. Instead any gain or loss which would otherwise have arisen on a disposal of the Allied Zurich Shares will be "rolled-over" into the new Zurich Financial Services Shares or CDIs so that the new Zurich Financial Services Shares or CDIs will be treated as the same asset as the Allied Zurich Shares, acquired at the same time as the Allied Zurich Shares and for the same acquisition cost. For corporate Allied Zurich Shareholders indexation allowance will continue to be available in respect of the acquisition cost of the Allied Zurich Shares until the new Zurich Financial Services Shares are disposed of. For individual Allied Zurich Shareholders who were deemed to have acquired their Allied Zurich Shares prior to 1 April 1998 indexation allowance will be available in respect of the appropriate proportion of the acquisition cost of the Allied Zurich Shares until April 1998. Indexation allowance cannot be used to create or increase a loss for tax purposes. No indexation allowance will be available where an individual Allied Zurich Shareholder acquired or was deemed to have acquired his Allied Zurich Shares after 31 March 1998. For all individual Allied Zurich Shareholders taper relief will apply in relation to periods after 5 April 1998 so that the effective rate of capital gains tax on any gain on a disposal by an individual Allied Zurich Shareholder of the new Zurich Financial Services Shares will be reduced the longer the Allied Zurich Shares and then the CDIs are held after 5 April 1998. Whether any gain realised on a future disposal of new Zurich Financial Shares will give rise to a liability to taxation will depend on the personal circumstances of the holder of new Zurich Financial Services Shares and/or CDIs.

Holders of Allied Zurich Shares who participate in the Scheme will receive a cash payment to the extent of any fractional entitlement to new Zurich Financial Services Shares. Generally, to the extent an Allied Zurich Shareholder receives a "small" cash payment in respect of any fractional entitlement, he or she will not be treated as making a disposal for capital gains tax purposes but the amount received shall be deducted from that Allied Zurich Shareholder's acquisition cost in the CDIs. The Inland Revenue regard a payment as small if either (i) it does not exceed five per cent. of the value of the Allied Zurich Shares held; or (ii) it is £3000 or less, regardless of whether it satisfies the five per cent. test.

To the extent a holder of Allied Zurich Shares is unable to receive any new Zurich Financial Services Shares and/or CDIs under the Scheme and instead receives cash, that Allied Zurich Shareholder will be treated as making a disposal for capital gains tax purposes and will, depending on his or her personal circumstances, be subject to capital gains tax on the cash receipt.

The CDIs will not be able to be held in a PEP. To the extent Allied Zurich Shares are held in a single company PEP, the PEP holder shall be able to either (i) have the CDIs transferred directly to him or her, terminating the PEP; or (ii) have the CDIs sold, designate an alternative single company which is a qualifying PEP investment and have the proceeds of sale invested in the new designated company. **A Shareholder holding Allied Zurich Shares in a PEP should contact their independent financial adviser or PEP Manager for advice.**

CDIs representing new Zurich Financial Services Shares may be held in an ISA.

Section 703 of the Income and Corporation Taxes Act 1988 ("ICTA")

Under the provisions of section 703 ICTA, the Inland Revenue can, in certain circumstances, counteract tax advantages arising in relation to transactions in securities.

The following are examples of circumstances in which the Inland Revenue may seek to apply the terms of Section 703 ICTA. It is possible that the Inland Revenue may seek to apply the provisions of section 703 ICTA in the case of those persons who would otherwise be entitled to repayment of the whole or part of the tax credit attaching to the Special Cash Dividend (see above or, in the case of companies with surplus advance corporation tax ("**ACT**") to prevent the Special Cash Dividend being taken into account in calculating their ACT). If section 703 ICTA were to be applied to such persons repayment of the tax credit or, in the case of companies, such taking into account of the Special Cash Dividend may be denied. It is also possible that the Inland Revenue may seek to apply the provisions of section 703 ICTA to persons who dispose of their Allied Zurich shares prior to the declaration of the Special Cash Dividend. If

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section 703 ICTA were to be applied to those persons, the Inland Revenue may effectively seek to tax as income some or all of the chargeable gains which would otherwise arise on such disposal.

No clearance will be sought from the Inland Revenue to the effect that the provisions of section 703 ICTA will not be applied. However, there is an exemption from the application of those provisions. Those provisions will not apply where a person shows that the relevant transaction or transactions were carried out either for bona fide commercial reasons or in the ordinary course of making or managing investments, and that none of them had as their main object, or one of their main objects, to enable tax advantages to be obtained.

The Directors have been advised that, by reason of the application of the exemption referred to above, the provisions of section 703 ICTA are not likely to apply in respect of a person who was a holder of Allied Zurich Shares on the date of announcement of the unification plan (17 April 2000) and who (in respect of those shares) receives the Special Cash Dividend and new Zurich Financial Services shares pursuant to the Proposals. All other persons are strongly recommended to consult an appropriate professional adviser in respect of the possible application of the provisions of section 703 ICTA in their own particular circumstances.

(b) US Taxation

The following paragraphs summarise the US Federal income tax consequences for Allied Zurich Shareholders or Allied Zurich ADR Holders who own, or are entitled to, less than 10 per cent. of the voting shares of Allied Zurich and who are citizens of, or resident in, the US, US domestic corporations or US domestic partnerships, trusts or estates (a “**US Holder**” and, collectively, “**US Holders**”). This summary is based on current US Federal income tax law and administrative rulings and does not address any aspects of state, local or non-US tax law that may be applicable to US Holders, and does not discuss all aspects of US Federal income taxation that may be relevant to a US Holder in light of such person’s particular circumstances, or to US Holders subject to special taxation rules. This summary assumes that Allied Zurich Shares or Allied Zurich ADRs have been held as capital assets at all relevant times and that the new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs will be held as capital assets. This summary assumes that a holder of CDIs will be entitled (i) to receive dividends paid on new Zurich Financial Services Shares represented by CDIs, (ii) to have full voting rights with respect to the new Zurich Financial Services Shares represented by CDIs, and (iii) to exchange CDIs for the new Zurich Financial Services Shares represented by them. The agreement governing the arrangement for holding CDIs has not yet been executed, and to the extent such agreement is inconsistent with the foregoing assumption, the following analysis of the US Federal income tax consequences with respect to holders of CDIs may differ. **The following is intended as a general guide only. US Holders are strongly urged to consult their own US tax advisers without delay.**

Special Cash Dividend

If the Special Cash Dividend is distributed out of Allied Zurich’s current or accumulated earnings and profits (as determined for US Federal income tax purposes), Allied Zurich Shareholders receiving the Special Cash Dividend will generally be taxed in the same way as if they received an ordinary dividend on their Allied Zurich Shares. A US Holder will be required to include in his or her gross income for US Federal income tax purposes as ordinary income the gross amount of the Special Cash Dividend paid to him or her (before deduction of any UK withholding tax). The amount to be included in gross income for these purposes will be at the US dollar value of the Special Cash Dividend, determined at the spot rate on the date such dividend payment is includible in the income of the US Holder (regardless of whether the Special Cash Dividend is in fact converted into US dollars).

To the extent that the Special Cash Dividend is not distributed from the current or accumulated earnings and profits of Allied Zurich, the Special Cash Dividend will only be includible in the US Holder’s income to the extent that it exceeds the US Holder’s basis in his or her Allied Zurich Shares. Such excess will be treated as capital gain, and will be long term capital gain if the US Holder’s holding period for such shares exceeds one year.

A US Holder may receive a tax credit under UK law with respect to the Special Cash Dividend and the gross amount of such UK tax will also be included in the gross income of the US Holder (before deduction of any UK withholding tax). A US Holder receiving the Special Cash Dividend will generally be entitled to claim UK taxes withheld from the aggregate amount of the Special Cash Dividend and UK credit as a credit against his or her US Federal income tax liability, except to the extent that the US Holder is eligible under UK law for a refund of UK taxes withheld.

Receipt of Entitlement to new Zurich Financial Services Shares

The Directors have been advised that the Scheme should be treated as a tax-free transaction for US Federal income tax purposes. A US Holder will realise neither gain nor loss upon receipt of new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs (except as described below in relation to cash received in respect of fractional entitlements). The new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs should be treated

as the same asset as the Allied Zurich Shares or Allied Zurich ADRs. Accordingly, the aggregate tax basis of the new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs received by the US Holder will be the same as the aggregate tax basis of the Allied Zurich Shares or Allied Zurich ADRs for which they are exchanged (adjusted to account for cash received in respect of fractional entitlements) and the holding period of the new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs will include the holding period of the Allied Zurich Shares or Allied Zurich ADRs for which they are exchanged.

Holders of Allied Zurich Shares or Allied Zurich ADRs who participate in the Scheme will receive a cash payment to the extent of any fractional entitlements to new Zurich Financial Services Shares or new Zurich Financial Services ADRs. To the extent that the US Holder receives such a payment in respect of a fractional entitlement he or she will be treated as having received such fractional entitlement and subsequently as having sold such fractional entitlement for cash. Such sale may realise a capital gain or loss equal to the difference between the cash received and the portion of the tax basis of the Allied Zurich Shares attributable to the fractional entitlement.

To the extent that a US Holder is unable to receive any new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs under the Scheme and instead receives cash, that US Holder will be treated as having received his or her fractional entitlement and subsequently as having sold such fractional entitlement for cash. Such sale may realise a capital gain or loss equal to the difference between the cash received and the tax basis of the Allied Zurich Shares attributable to the fractional entitlements.

There can be no assurance, however, that the distribution and receipt of the new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs will be characterised by the IRS as part of a tax-free exchange. Should the Scheme not be treated as a tax-free transaction for US Federal income tax purposes, a US Holder may realise a capital gain or loss equal to the difference between the aggregate fair market value of the new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs and the aggregate tax basis of the Allied Zurich Shares or Allied Zurich ADRs for which they are exchanged. Any such gain or loss will be treated as long-term capital gain or loss if the US Holder's holding period in respect of the Allied Zurich Shares or Allied Zurich ADRs exceeds one year.

Consequences to US Holders of holding new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs

A US Holder will, as a holder of new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs, be required to include in his or her gross income for US Federal income tax purposes as ordinary income the gross amount of any dividend paid to him or her (before deduction of any Swiss withholding tax) by new Zurich Financial Services (or to which he or she is entitled as a result of his or her holding of CDIs or new Zurich Financial Services ADRs). The amount to be included in gross income for these purposes will be the USD value of the dividend, determined at the spot rate on the date such dividend payment is included in the income of the US Holder (regardless of whether the dividend payment is in fact converted into USD).

A US Holder receiving a dividend from new Zurich Financial Services will generally be entitled to claim Swiss tax withheld from the dividend as a credit against his or her US Federal income tax liability. However, a US Holder will not be entitled to a credit for Swiss tax withheld to the extent that the US Holder is eligible for a refund of such tax under Swiss law or pursuant to the double taxation treaty between the US and Switzerland (the "**Treaty**"). The Treaty provides a mechanism whereby those US Holders acquiring new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs under the scheme qualify under the Treaty may seek a refund from the Swiss Federal Tax Administration of a portion of the Swiss tax withheld on dividends paid to them. US Holders will generally be able to reclaim tax withheld in excess of 15 per cent. of the gross value of the dividend paid. Tax is currently withheld on all dividends paid by Swiss registered companies at the rate of 35 per cent. meaning that US Holders will, in practice, be able to reclaim 20 per cent. of the gross value of the dividends paid to them and will generally only be entitled to a credit (subject to the limitations applicable under US tax law) against his or her US Federal income tax liability with respect to the remaining 15 per cent. Such refunds must be sought directly from the Swiss Federal Tax Administration (Eigerstrasse 65, 3003 Bern, Switzerland) on Tax Form 82 (available from the Swiss consulate in the US).

A US Holder will generally recognise a gain or loss for US Federal income tax purposes upon the sale or exchange of new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs in an amount equal to the difference between the USD value of the amount realised and the US Holder's tax basis (determined in USD) in such new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs. Generally, such gain or loss will be a capital gain or loss and will be a long term capital gain or loss if the US Holder's holding period for the new Zurich Financial Services Shares, CDIs or new Zurich Financial Services ADRs exceeds one year.

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(c) Swiss Taxation

The following paragraphs summarise the Swiss tax position of Allied Zurich Shareholders resident for tax purposes in Switzerland (a “**Swiss Holder**” and, collectively, “**Swiss Holders**”). Non-Swiss resident shareholders of Allied Zurich should consult their own tax advisors as to the tax consequences related to their shareholding.

Special Cash Dividend

Swiss Holders receiving the Special Cash Dividend will generally be taxed in the same way as if they had received an ordinary dividend. Corporate Swiss Holders may be entitled to benefit from the participation exemption.

Receipt of entitlement to new Zurich Financial Services Shares

The Directors have been advised that the exchange of Allied Zurich Shares for new Zurich Financial Services Shares pursuant to the Scheme for individual Swiss Holders who hold their Allied Zurich Shares as part of their private property should be treated as a tax-free transaction for Swiss tax purposes. The exchange is also tax-free for corporate Swiss Holders and individual Swiss Holders holding their Allied Zurich Shares as business assets, provided the new Zurich Financial Services Shares are recorded in the Swiss Holder’s books at the same book value as the Allied Zurich Shares.

(d) Other non-residents

The tax treatment of Allied Zurich Shareholders who are not resident in Switzerland, the UK or the US may differ from that described in the preceding paragraphs.

Persons who are not resident in Switzerland, the United Kingdom or the US should consult their own tax advisers concerning their tax liabilities.

The above paragraphs are general in character and not exhaustive. If you are in any doubt as to your taxation position you should consult an appropriate professional adviser without delay.

9. OVERSEAS SHAREHOLDERS AND ADR HOLDERS

(a) Overseas Shareholders

The implications of the Scheme for Allied Zurich Shareholders resident in, or citizens of, jurisdictions outside the United Kingdom (“**Overseas Shareholders**”) may be affected by the laws of the relevant jurisdictions. Such Overseas Shareholders should inform themselves about and observe all applicable legal requirements. It is the responsibility of each Overseas Shareholder to satisfy himself in all circumstances as to the full observance of the laws of the relevant jurisdiction in connection with the Scheme, including the obtaining of any governmental, exchange control or other consents which may be required and/or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes in such jurisdiction.

In any case, where new Zurich Financial Services is advised that the allotment and issue of new Zurich Financial Services Shares and/or the crediting of CDIs representing new Zurich Financial Services Shares to a holder of Allied Zurich Shares with a registered address outside the United Kingdom would infringe the laws of any jurisdiction outside the United Kingdom, or necessitate compliance with any special requirements, the Scheme provides that new Zurich Financial Services may determine that the Allied Zurich Shareholder’s entitlement to new Zurich Financial Services Shares shall be issued (either in certificated or uncertificated form in its absolute discretion) to a nominee for such holder and then sold, with the net proceeds of sale being remitted to the Overseas Shareholder concerned.

This document has been prepared for the purposes of complying with English law and the rules of the London Stock Exchange and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

Allied Zurich Shareholders who are resident in the Canadian province of Quebec are advised that the allotment and issue of new Zurich Financial Services Shares or CDIs representing new Zurich Financial Services Shares to a resident of Quebec is subject to the approval of the Quebec Securities Commission.

The new Zurich Financial Services Shares and CDIs, including those new Zurich Financial Services Shares and/or CDIs to be deposited in respect of the new Zurich Financial Services ADRs, will not be registered under the US Securities Act, in reliance upon the exemption from the registration requirements thereof provided by Section 3(a)(10) thereof. For the purpose of qualifying for such exemption, Allied Zurich will advise the Court that its sanction of the Scheme will be relied upon by Allied Zurich as an approval of the Scheme following a hearing on its fairness to Allied Zurich Shareholders at which hearing all such holders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such shareholders.

(b) ADR Holders

Holders of Allied Zurich ADRs have the right under the deposit agreement to instruct the Allied Zurich ADR Depositary to exercise the voting rights for the Allied Zurich Shares represented by such Allied Zurich ADRs. The Allied Zurich ADR Depositary has established 13 June 2000 as the date by which it must receive voting instructions from holders of Allied Zurich ADRs. If the Allied Zurich ADR Depositary receives voting instructions by such time from a holder of Allied Zurich ADRs it will endeavour to vote the Allied Zurich Shares represented by the holder's Allied Zurich ADRs in accordance with such voting instructions. Allied Zurich ADRs for which no voting instructions are received by such time will not be voted.

At the Extraordinary General Meeting, voting will be on a show of hands, unless a poll is duly demanded in accordance with the memorandum and articles of association of Allied Zurich. On a vote by show of hands, the Allied Zurich ADR Depositary will only have one vote and will vote in accordance with instructions received by a majority of the holders of Allied Zurich ADRs. Voting at the Court Meeting will be on a poll, in which case the Allied Zurich ADR Depositary will vote the underlying Allied Zurich Shares in accordance with the instructions received from each holder of Allied Zurich ADRs who properly submits such instructions.

It should be noted that the ability of the Allied Zurich ADR Depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the Allied Zurich Shares on deposit.

If a holder of Allied Zurich ADRs wishes to appear in person to vote at the Extraordinary General Meeting or the Court Meeting, such holder will need to cancel his Allied Zurich ADRs in accordance with the deposit agreement and become an Allied Zurich Shareholder on the register of members of Allied Zurich before the Voting Record Time. Upon cancellation, such holder will be entitled to receive the underlying Allied Zurich Shares. Allied Zurich ADR holders will be required to pay to the Allied Zurich ADR Depositary cancellation fees and any charges and taxes payable upon the transfer of the Allied Zurich Shares being withdrawn. The withdrawal of the Allied Zurich Shares represented by the Allied Zurich ADRs may be delayed until the Allied Zurich ADR Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. It should be noted that the Allied Zurich ADR Depositary may refuse to accept Allied Zurich ADRs for cancellation that represent a number other than a whole number of Allied Zurich Shares on deposit. Once cancelled, the Allied Zurich ADRs will not have any rights under the deposit agreement.

Currently, new Zurich Financial Services has no ADR programme. However, it is expected that such a programme will be established by the Scheme Record Time. Accordingly it is intended that all Allied Zurich ADRs will automatically be cancelled on the Scheme Effective Date in exchange for new Zurich Financial Services ADRs. Holders of Allied Zurich ADRs who hold their Allied Zurich ADRs directly in certificated form will be required to submit their Allied Zurich ADRs with a letter of transmittal to the new Zurich Financial Services depositary bank in order to receive the new Zurich Financial Services ADRs in exchange for them.

To the extent that fractional entitlements to new Zurich Financial Services Shares or new Zurich Financial Services ADRs arise, Allied Zurich currently intends to sell, or arrange the sale of, for cash in the market, the underlying new Zurich Financial Services Shares and distribute the sales proceeds, net of fees, to those otherwise entitled to those fractional entitlements.

The new Zurich Financial Services Shares and new Zurich Financial Services ADRs will not be listed on a securities exchange in the US or quoted on NASDAQ or any other automated inter-dealer quotation system in the US. The new Zurich Financial Services Shares and new Zurich Financial Services ADRs are expected to be traded in the over-the-counter market in the US and quoted in the "pink sheets" maintained by the National Quotation Bureau, Inc.

10. SHARE SCHEMES

Set out below is a summary of the effect of the Proposals upon the Share Schemes.

(a) Share Participation Schemes

Under the Share Participation Schemes there were, as at 22 May 2000, 2,174,848 Allied Zurich Shares held by trustees on behalf of participants.

Under the Scheme, the trustees will on behalf of participants receive new Zurich Financial Services Shares on the basis of 1 new Zurich Financial Services Share for every 42.928 Allied Zurich Shares held. Such shares will then be held under the terms of the Share Participation Schemes. Fractional entitlements will arise. Subject to approval by the Inland Revenue and, where relevant, B.A.T Industries, it is intended that the trustees will sell in the market the new Zurich Financial Services Shares which represent those fractional entitlements and distribute the resulting cash to participants.

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Zurich Financial Services will compensate participants (who are current or former employees of the Group) for any income tax which will arise in respect of such cash payments.

(b) Transitional Plan

As at 22 May 2000, there were 2,023,840 Allied Zurich Shares under option pursuant to the Transitional Plan.

Under the Transitional Plan, options may be exercised early as a result of the Proposals, any such exercises becoming effective on the date on which the Court sanctions the Scheme. Optionholders who exercise early will be liable to income tax. Furthermore, such optionholders will not be entitled to the Special Cash Dividend.

The rules of the Transitional Plan allow optionholders to exchange their options over Allied Zurich Shares for equivalent options over new Zurich Financial Services Shares ("**replacement options**") in the six month period following the Court's sanction of the Scheme. New Zurich Financial Services has agreed that, as an alternative to early exercise, optionholders under the Transitional Plan may, if they so wish, exchange their existing options for replacement options. Such replacement options would be approved by the Inland Revenue. The number of replacement options will need to be rounded down to the nearest whole share. Therefore this exchange will give rise to a fractional entitlement. To compensate optionholders for this it is proposed to grant each optionholder an option over one new Zurich Financial Services Share with an option price identical to the option price of the replacement option. Such options would be exercisable at the same time as the replacement options. However, unlike the replacement options, these options would not be approved by the Inland Revenue and would, therefore, be subject to income tax and national insurance contributions (employer's and, where relevant, employee's) on the gain made (if any) on exercise.

(c) Sharesave Plan

As at 22 May 2000, there were 9,282,099 Allied Zurich Shares under option pursuant to the Sharesave Plan. Optionholders may hold 3 and/or 5 year savings contracts.

Under the Sharesave Plan options may be exercised early in the six month period following the Court's sanction of the Scheme. Any such early exercise will be limited to the number of Allied Zurich Shares which can be bought with the optionholder's savings and accrued interest at the date of exercise. Optionholders who exercise early will be liable to income tax. Furthermore, such optionholders will not be entitled to the Special Cash Dividend.

Two possible alternative arrangements for optionholders under the Sharesave Plan have been identified. The favoured alternative ("**continuation of options**") is subject to agreement with the Inland Revenue. The other alternative, grant of replacement options, will be implemented in the event Inland Revenue agreement to the continuation of options is not obtained.

Continuation of Options

Subject to receiving approval from the Inland Revenue, it is proposed that the rules of the Sharesave Plan be amended so that options do not lapse at the expiry of the six month period following Court sanction. Thus optionholders would retain Inland Revenue approved options over Allied Zurich Shares. To ensure that, following any exercise of such continued options, new Zurich Financial Services Shares are provided to optionholders, the Allied Zurich Articles would be amended so that optionholders who exercised their options after the Court sanctions the Scheme would receive new Zurich Financial Services Shares using the same exchange ratio as applies to Allied Zurich Shareholders under the terms of the Scheme. Optionholders will be entitled to receive a cash sum in Sterling in respect of any fractional entitlement calculated by reference to the published closing market price on the SWX Swiss Stock Exchange of a new Zurich Financial Services Share and to the Swiss Franc/Sterling exchange rate (as published in the Financial Times as the closing mid-point under the "**pound spot forward against the pound**" section) for the day on which new Zurich Financial Services Shares are transferred or allotted to the optionholder.

Replacement Options

If the Inland Revenue do not approve the continuation of options, new Zurich Financial Services has agreed that, as an alternative to early exercise, optionholders may, if they so wish, exchange their existing options for replacement options in the same way as described above in relation to the Transitional Plan. To compensate optionholders for the fractional entitlements which would arise, each optionholder would be granted an option over one, two or three new Zurich Financial Services shares (depending on various factors including the size of the fractional entitlement and taxation). The option price would be identical to the option price of the replacement option. Such options would be exercisable at the same time as the replacement options. However, unlike the replacement options, these options would not be approved by the Inland Revenue and would, therefore, be subject to income tax and national insurance contributions (employer's and, where relevant, employee's) on the gain made (if any) on exercise.

(d) Allied Dunbar Franchise Share Option Scheme

As at 22 May 2000, there were 15,413,075 Allied Zurich Shares under option pursuant to the Allied Dunbar Franchise Share Option Scheme.

The rules of the scheme provide that as a result of the Proposals options would have become exercisable if specified pre-exercise conditions had been, in the opinion of the Chief Executive of Allied Dunbar Assurance plc, sufficiently satisfied as at 22 May 2000. As this is a 5 year scheme and options were only granted in January 2000, the Chief Executive has advised that those conditions have not been sufficiently satisfied and that there will, therefore, be no right of early exercise. This decision has been endorsed by the board of Allied Dunbar Assurance plc.

Optionholders will retain their options over Allied Zurich Shares. To ensure that, following any exercise of such continued options, new Zurich Financial Services Shares are provided to optionholders, the Allied Zurich Articles will be amended so that optionholders who exercise their options after the court sanctions the Scheme would receive new Zurich Financial Services Shares using the same exchange ratio as applies to Allied Zurich Shareholders under the terms of the Scheme. Optionholders will be entitled to receive a cash sum in Sterling in respect of any fractional entitlement calculated by reference to the published closing market price on the SWX Swiss Stock Exchange of a new Zurich Financial Services Share and to the Swiss Franc/Sterling exchange rate (as published in the Financial Times as the closing mid-point under the "**pound spot forward against the pound**" section) for the day on which new Zurich Financial Services Shares are transferred or allotted to the optionholder.

(e) Allied Dunbar Managers Share Option Scheme

As at 22 May 2000 there were 3,864,385 Allied Zurich Shares under option pursuant to the Allied Dunbar Managers Share Option Scheme. Under the original rules of the scheme options did not become exercisable under a scheme of arrangement which would create a new holding company for Allied Zurich, provided that such holding company would have substantially the same shareholders and proportionate shareholdings as those of Allied Zurich immediately prior to the scheme of arrangement.

The board of Allied Dunbar Assurance plc and the board of Zurich Financial Services are both of the opinion that a corporate reorganisation such as the Proposals was not intended to give a right of early exercise and have used their powers under the scheme rules to amend the rules. There is no requirement to obtain Inland Revenue approval, unlike in relation to the Sharesave Plan. Under the rules as amended it is at the discretion of the board of Allied Dunbar Assurance plc whether the options become exercisable under a corporate reorganisation such as the Proposals. The board of Allied Dunbar Assurance plc has resolved that the options do not become exercisable by virtue of the Proposals. This ensures that the scheme continues to run its course and continues to operate in parallel with the Allied Dunbar Franchise Share Option Scheme that was launched concurrently.

Optionholders will retain their options over Allied Zurich Shares. To ensure that, following any exercise of such continued options, new Zurich Financial Services Shares are provided to optionholders, the articles of association of Allied Zurich will be amended so that optionholders who exercise their options after the court sanctions the Scheme would receive new Zurich Financial Services Shares using the same exchange ratio as applies to Allied Zurich Shareholders under the terms of the Scheme. Optionholders will be entitled to receive a cash sum in Sterling in respect of any fractional entitlement calculated by reference to the published closing market price on the SWX Swiss Stock Exchange of a new Zurich Financial Services Share and to the Swiss Franc/Sterling exchange rate (as published in the Financial Times as the closing mid-point under the "**pound spot forward against the pound**" section) for the day on which new Zurich Financial Services Shares are transferred or allotted to the optionholder.

(f) Zurich Financial Services Group Share Option Plan for Selected Executives and Zurich Financial Services Group Share Option Plan for Employees

As at 22 May 2000, there were 2,392,711 Allied Zurich Shares and 79,472 Zurich Allied Shares under option pursuant to the Zurich Financial Services Group Share Option Plan for Selected Executives. Options granted under this plan do not become exercisable by virtue of the Proposals. Options over Zurich Allied Shares will, as a result of the statutory merger of Zurich Allied, automatically be converted into options to acquire new Zurich Financial Services Shares. Holders of options to acquire Allied Zurich Shares will have the opportunity to exchange their options into (as far as practicable) equivalent options to acquire new Zurich Financial Services Shares.

No options have been granted pursuant to the Zurich Financial Services Group Share Option Plan for Employees.

(g) Zurich Financial Services Group Performance Share Plan for Selected Executives (known as the Global Share Option Plan) and Zurich Financial Services Group Long-Term Performance Share Plan for Employees

Rights to receive Allied Zurich Shares and Zurich Allied Shares in the future depending on performance are not accelerated by virtue of the Proposals. Future rights to receive Zurich Allied Shares will, as a result of the statutory

Part VI – Additional Information

merger of Zurich Allied, automatically be converted into rights to receive new Zurich Financial Services Shares. It is intended that holders of future rights to receive Allied Zurich Shares will have the opportunity to exchange their rights into (as far as practicable) equivalent rights in respect of new Zurich Financial Services Shares.

(h) Scudder Kemper Investments Warrant Agreement

As at 22 May 2000 there were 667,309 Zurich Allied Shares under warrants granted under the Scudder Kemper Investments Warrant Agreement for employees of Scudder Kemper Investments. The warrants do not become exercisable by virtue of the Proposals. It is intended that the warrants will, as a result of the statutory merger of Zurich Allied, be converted into warrants over new Zurich Financial Services Shares.

The total cost of the Proposals in relation to all of the Zurich Financial Services Share Schemes is not expected to exceed £3 million.

11. OTHER INFORMATION

(a) The new Zurich Financial Services Shares to which Allied Zurich Shareholders are entitled under the Scheme, and the CDIs representing them, will be issued without regard to any lien, right of set-off, counterclaim or other analogous right.

(b) There has been no material change in the financial or trading position of Allied Zurich, Zurich Allied or Zurich Financial Services since 31 December 1999 (the date of their respective last published audited accounts). Save for entering into the material contracts referred to above new Zurich Financial Services has not traded since its incorporation.

(c) No arrangements of the kind referred to in Note 6(b) on Rule 8 of the Code exist between new Zurich Financial Services and/or Zurich Allied, any person acting in concert with new Zurich Financial Services and/or Zurich Allied and any other person or between Allied Zurich, any associate of Allied Zurich and any other person.

(d) No proposal exists in relation to the Proposals whereby any payment or other benefit will be made or given by new Zurich Financial Services or Zurich Allied to any Director as compensation for loss of office or as consideration for, or in connection with, his retirement from office.

(e) There is no arrangement or understanding (including any compensation arrangement) that exists between new Zurich Financial Services and/or Zurich Allied or any person acting in concert with either of them and any of the Directors or recent directors, shareholders or recent shareholders of Allied Zurich having any connection with or dependence on, or which is conditional on the outcome of the Proposals, save that the appointment of the Independent Directors (other than Lord Cairns) to the board of new Zurich Financial Services is subject to Completion.

(f) No Director or proposed director of Allied Zurich has a service contract with Allied Zurich.

(g) There is no agreement, arrangement or understanding whereby the beneficial ownership of the Allied Zurich Shares to be allotted and issued to new Zurich Financial Services under the Scheme following cancellation of the Scheme Shares will be transferred to any other person save that new Zurich Financial Services reserves the right to transfer any such shares to a nominee.

(h) The total number of Allied Zurich Shares over which Options exist as at 22 May 2000 (the last practicable date prior to publication of this document) was 32,976,110 representing 2.09 per cent. of the issued ordinary share capital of Allied Zurich as at that date. If the full authority sought to make purchases of Allied Zurich Shares were used, the outstanding Options would represent 2.46 per cent. of the issued ordinary share capital of Allied Zurich.

(i) Goldman Sachs and Cazenove, which are regulated in the United Kingdom by The Securities and Futures Authority Limited, are acting exclusively for the Independent Directors and no one else in connection with the Proposals and will not be responsible to anyone other than the Independent Directors for providing the protections afforded to customers of Goldman Sachs International and Cazenove & Co., or for giving advice in relation to the Proposals.

(j) UBS Warburg, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting exclusively for Zurich Financial Services and new Zurich Financial Services and no one else in connection with the Proposals and will not be responsible to anyone other than Zurich Financial Services and new Zurich Financial Services for providing the protections afforded to customers of UBS Warburg, or for giving advice in relation to the Proposals.

(k) Morgan Stanley & Co. Limited, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting exclusively for Zurich Allied and no-one else in connection with the Proposals and will not be responsible to anyone other than Zurich Allied for providing the protections afforded to customers of Morgan Stanley & Co. Limited, or for giving advice in relation to the Proposals.

(l) Each of Goldman Sachs and Cazenove have given and have not withdrawn their consent to the issue of this document with the inclusion of their respective names and their respective opinions in relation to the Proposals in the form and context in which they appear.

12. DOCUMENTS ON DISPLAY

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS from the date of this document until the Scheme Effective Date.

- (a) the Memorandum and Articles of Association of Allied Zurich and the Articles of Incorporation of new Zurich Financial Services and Zurich Allied together with English translations, where applicable;
- (b) the Swiss Code of Obligations, the SESTA and its implementing ordinances referred to in Parts IV and V of this document, together with English translations;
- (c) the published audited consolidated accounts of Allied Zurich and Zurich Allied for the two financial years ended 31 December 1998 and 31 December 1999;
- (d) the material contracts referred to in paragraph 6 of this Part VI;
- (e) the written consents referred to in paragraph 11 of this Part VI; and
- (f) full details of all holdings as at 22 May 2000 and all dealings in the disclosure period (as defined in paragraph 4 above) by the members of the groups of which Goldman Sachs and Morgan Stanley & Co. Limited form a part in the shares of each of Allied Zurich and Zurich Allied and (a) securities convertible into; (b) rights to subscribe for; (c) options (including traded options) in respect of; and (d) derivatives referenced to any such shares.

Part VII

Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

Set out below is the financial information relating to:

- A. Zurich Financial Services
- B. Allied Zurich
- C. Zurich Allied

This information has been extracted without material adjustment from the audited financial statements of Zurich Financial Services, Allied Zurich and Zurich Allied for the year ended 31 December 1999.

The financial information relating to Allied Zurich does not constitute full statutory accounts within the meaning of section 240 of the Companies Act. Full statutory accounts of Allied Zurich for the year ended 31 December 1999, on which the auditors gave an unqualified report and which did not contain a statement under either section 237 (2) or (3) of the Companies Act, will be delivered to the Registrar of Companies for England and Wales following the annual general meeting of Allied Zurich on 26 May 2000. Full statutory accounts of Allied Zurich for the period ended 31 December 1998, on which the auditors gave an unqualified report and which did not contain a statement under either section 237 (2) or (3) of the Companies Act, have been delivered to the Registrar of Companies for England and Wales.

The financial information relating to Zurich Financial Services and Zurich Allied does not constitute full financial statements prepared in accordance with International Accounting Standards ("IAS") or Swiss Law. Full financial statements of Zurich Financial Services, on which the auditors have given unqualified reports, were prepared in accordance with IAS and Swiss Law for the years ended 31 December 1998 and 31 December 1999. Full financial statements of Zurich Allied, on which the auditors have given unqualified reports, were prepared in accordance with Swiss Law for the period ended 31 December 1998 and the year ended 31 December 1999, and in accordance with IAS for the years ended 31 December 1998 and 31 December 1999.

The full financial statements of Zurich Financial Services, Allied Zurich and Zurich Allied are available from the Company Secretary of Allied Zurich, at 22 Arlington Street, London SW1A 1RW.

A. Zurich Financial Services

Consolidated statement of income for the years ended 31 December

	Notes	1999	1998
Revenues			
Gross written premiums and policy fees	5	29,216	29,265
Less premiums ceded to reinsurers		- 4,184	- 3,203
Net written premiums and policy fees		25,032	26,062
Net change in reserve for unearned premiums		- 196	177
Net earned premiums and policy fees		24,836	26,239
Farmers management fees and other related revenue	6	1,490	1,358
Asset management fee income		1,450	1,385
Net investment income		6,142	6,423
Net realized capital gains		3,169	3,637
Net gains attributable to reclassified trading assets		1,647	-
Other income		1,228	914
Total revenues		39,962	39,956
Benefits, losses and expenses			
Non-life losses and loss adjustment expenses	7	- 12,832	- 13,691
Death and other life insurance benefits		- 5,489	- 4,785
Increase in future life policyholders' benefits		- 3,131	- 3,865
Policyholder dividends and participation in profits		- 2,765	- 683
Underwriting and policy acquisition costs		- 3,066	- 4,495
Farmers management expenses and other related expenses		- 663	- 674
Other operating and administrative expenses		- 5,603	- 6,234
Interest expense		- 1,069	- 1,129
Total benefits, losses and expenses		- 34,618	- 35,556
Operating income before amortization of intangibles and before merger, restructuring and other related charges		5,344	4,400
Amortization of goodwill, present value of profits of acquired insurance contracts (PVP) and other intangible assets		- 184	- 340
Operating income before merger, restructuring and other related charges		5,160	4,060
Merger, restructuring and other related charges	4	-	- 2,365
Operating income after merger, restructuring and other related charges		5,160	1,695
Income tax expense		- 1,847	- 876
Net income before minority interests		3,313	819
Net income applicable to minority interests		- 53	- 17
Net income		3,260	802
in USD millions			

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

A. Zurich Financial Services

Consolidated balance sheet at 31 December

Assets	Notes	1999	1998
Investments			
Fixed maturities:			
Held to maturity		1,116	401
Available for sale		67,834	73,659
Trading		1,959	608
Equity securities:			
Available for sale		22,714	25,220
Trading		5,182	109
Real estate		6,905	7,416
Mortgage loans		4,601	5,274
Policyholder, collateral and other loans		3,261	4,561
Investments in associates		996	493
Other investments		926	355
Short-term investments		1,857	3,788
Cash and cash equivalents		4,422	4,307
Total investments		121,773	126,191
Other assets			
Receivables from policyholders		2,054	2,380
Receivables from agents, brokers and intermediaries		2,488	2,232
Other receivables		3,618	3,685
Accrued investment income		1,542	1,715
Reinsurance assets	9	12,680	11,442
Deferred policy acquisition costs		9,160	7,786
Real estate held for own use and fixed assets		2,653	2,731
Goodwill		1,008	1,082
Present value of profits of acquired insurance contracts (PVP)		1,411	1,393
Other intangible assets		1,580	1,637
Attorney-in-fact contracts		1,709	1,709
Other assets		2,708	2,873
Separate account (unit-linked) assets		56,794	46,209
Total other assets		99,405	86,874
Total assets		221,178	213,065
in USD millions			

A. Zurich Financial Services

Liabilities and shareholders' equity	Notes	1999	1998
Liabilities			
Reserve for losses and loss adjustment expenses, gross	7	37,904	40,562
Reserve for unearned premiums, gross		8,128	8,303
Future life policyholders' benefits, gross	8	45,580	47,166
Policyholders' contract deposits and other funds	8	17,878	17,378
Funds held under reinsurance contracts		2,027	2,213
Obligation to repurchase securities		748	32
Deferred income taxes		4,446	4,884
Accrued expenses		2,489	2,931
Deferred front-end fees		2,237	1,733
Other liabilities		11,188	11,347
Debt related to banking and capital markets activities	10	1,649	792
Senior debt	10	2,812	2,537
Subordinated debt	10	1,590	1,601
Separate account (unit-linked) liabilities		58,719	48,075
Total liabilities		197,395	189,554
Minority interests		1,546	517
Shareholders' equity			
Common stock (USD 74.50 (CHF 100) par value Authorized and issued: 16,000,000 shares)	11	1,192	1,192
Additional paid-in capital (capital reserve)		7,798	7,727
Net unrealized gains on investments		4,512	7,409
Cumulative translation adjustments		419	833
Retained earnings		8,316	5,833
Total shareholders' equity		22,237	22,994
Total liabilities and shareholders' equity		221,178	213,065
in USD millions			

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

A. Zurich Financial Services

Consolidated statement of cash flows for the years ended 31 December

	1999	1998
Cash flows from operating activities		
Operating income after merger, restructuring and other related charges	5,160	1,695
Adjustments for:		
Net realized capital gains on investments	-3,169	-3,637
Net gains attributable to reclassified trading assets	-1,647	-
Equity in income of investments in associates	-35	-18
Interest credited to policyholder contract deposits	516	511
Universal life and investment contract policy fee income	-355	-362
Depreciation and amortization	497	641
Share based compensation expense	149	-11
Changes in operational assets and liabilities:		
Deferred policy acquisition costs	-1,661	-208
Reinsurance assets	736	-2,451
Other receivables and payables	713	-1,322
Reserve for unearned premiums	249	-257
Reserve for losses and loss adjustment expenses	-2,018	3,869
Future life policyholders' benefits	4,094	5,476
Other policyholders' funds	959	973
Separate account (unit-linked)	-94	-
Net changes in all other operational assets and other liabilities	1,074	-831
Cash provided by operating activities	5,168	4,068
Income taxes paid	-1,111	-1,110
Net cash provided by operating activities	4,057	2,958
in USD millions		
Supplemental disclosures of operating cash flow information		
Other interest income received	5,461	5,603
Dividend income received	623	663
Other interest expense paid	-909	-1,034
in USD millions		

A. Zurich Financial Services

	1999	1998
Cash flows from investing activities		
Proceeds from sales and maturities of investments in fixed maturities	62,227	56,662
Purchases of fixed maturities	- 69,494	- 59,719
Proceeds from sales of equity securities	23,953	10,356
Purchases of equity securities	- 24,538	- 9,901
Proceeds from sales of investment real estate	395	149
Additions to investment real estate	- 332	- 49
Proceeds from sales of other investments	2,309	1,576
Purchases of other investments	- 1,390	- 945
Net decrease in short-term investments	1,819	1,541
Net additions to fixed assets	- 626	- 734
Acquisitions of other companies, net of cash acquired	-	- 174
Disposals of companies, net of their cash balances	326	-
Investments in associates, net	- 308	- 101
Dividends from associates	6	4
Net cash used in investing activities	- 5,653	- 1,335
Cash flows from financing activities		
Deposits on universal life and investment contracts	1,961	1,794
Withdrawals from universal life and investment contracts	- 1,484	- 1,311
Proceeds from gilt sale and repurchase agreements	495	- 646
Dividends paid to shareholders	- 777	- 792
Issuance of preferred stock	513	-
Proceeds from issuance of debt	6,787	996
Payments on debt outstanding	- 5,524	- 1,438
Net cash provided by (used in) financing activities	1,971	- 1,397
Effect of exchange rate changes on cash and cash equivalents	- 260	80
Change in cash and cash equivalents	115	306
Cash and cash equivalents at 1 January	4,307	4,001
Cash and cash equivalents at 31 December	4,422	4,307

in USD millions

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

A. Zurich Financial Services

Consolidated statement of shareholders' equity for the years ended 31 December

	Number of shares issued	Common stock	Additional paid-in capital	Net unrealized gains on investments	Cumulative translation adjustments	Retained earnings	Total shareholders' equity
Balance, 31 December 1997	16,000,000	1,192	6,865	6,737	796	5,823	21,413
Change in net unrealized gains on investments (excl. translation adjustments)	–	–	–	385	–	–	385
Translation adjustments	–	–	–	287	37	–	324
Change in net gains and losses not recognized in the income statement	–	–	–	672	37	–	709
Changes due to merger	–	–	284	–	–	–	284
Exercise of convertible bonds	–	–	578	–	–	–	578
Net income	–	–	–	–	–	802	802
Dividends	–	–	–	–	–	–792	–792
Balance, 31 December 1998	16,000,000	1,192	7,727	7,409	833	5,833	22,994
Change in net unrealized gains on investments (excl. translation adjustments)	–	–	–	–2,151	–	–	–2,151
Translation adjustments	–	–	–	–746	–414	–	–1,160
Change in net gains and losses not recognized in the income statement	–	–	–	–2,897	–414	–	–3,311
Contributions by shareholders	–	–	59	–	–	–	59
Exercise of convertible bonds	–	–	12	–	–	–	12
Net income	–	–	–	–	–	3,260	3,260
Dividends	–	–	–	–	–	–777	–777
Balance, 31 December 1999	16,000,000	1,192	7,798	4,512	419	8,316	22,237

in USD millions

A. Zurich Financial Services

Notes to the consolidated financial statements

1. BASIS OF PREPARATION

Zurich Financial Services Group (the Group) was formed on 7 September 1998 through the merger of the financial services businesses of B.A.T Industries (B.A.T FS) with the Zurich Group. The transaction was structured as a merger of equals. Pursuant to a scheme of arrangement under UK law, the holders of B.A.T Industries shares received shares in Allied Zurich p.l.c., the new UK top holding company. Former shareholders of Zurich Insurance Company were made an offer to exchange their shares for shares in Zurich Allied AG, the new Swiss top holding company. Allied Zurich and Zurich Allied then contributed their businesses to Zurich Financial Services in exchange for 43 per cent. and 57 per cent. of the shares of Zurich Financial Services, respectively.

Zurich Financial Services Group published consolidated financial statements were prepared using the uniting of interests method; therefore, all transactions of B.A.T FS and the Zurich Group have been included in the published consolidated financial statements as if both entities had been part of the Zurich Financial Services Group since 1 January 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group is involved in a wide range of non-life and life insurance, reinsurance, management services, asset management and related businesses and comprises insurance and financial services companies. The holding company, Zurich Financial Services, is incorporated in Zurich, Switzerland. The Group operates in 68 countries worldwide through subsidiaries, branch offices and affiliates. The consolidated financial statements of the Group have been prepared under the historical cost convention as modified by the revaluation of certain investments, in accordance with International Accounting Standards (IAS) and comply with Swiss Law. IAS has no insurance industry guidelines; therefore, for the insurance industry-specific items in the consolidated financial statements, the Group has adopted the requirements of United States generally accepted accounting principles (US GAAP).

(a) Consolidation principles

The Group's consolidated financial statements include the assets, liabilities, equity, revenues and expenses of Zurich Financial Services and its subsidiaries. A subsidiary is an entity in which Zurich Financial Services owns, directly or indirectly, more than 50 per cent. of the outstanding voting rights, or which it otherwise has the power to control. The results of subsidiaries acquired are included in the consolidated financial statements from the effective date of acquisition. The results of subsidiaries which have been sold during the year are included up to the date of disposal. The profit and loss on sale is calculated by reference to the net asset value at the date of disposal, adjusted for purchased goodwill previously written off upon acquisition and cumulative translation adjustments. All significant intercompany balances, profits and transactions have been eliminated.

Associates and partnerships where the Group has the ability to exercise significant influence as well as joint ventures where there is joint control are accounted for using the equity method providing its ownership interest is not held exclusively for resale.

(b) Foreign currency translation and transactions

Foreign currency translation: In view of the international nature of the Group and the fact that more of its business is transacted in United States Dollars (USD) than in any other currency, the consolidated financial information is reported in USD. With the exception of goodwill which is translated at historical rates, the assets and liabilities and statement of income of all branches and entities (including the holding company) expressed in currencies other than USD are translated at the end-of-period exchange rates and average exchange rates for the period, respectively. The resulting translation differences are recorded directly in shareholders' equity as cumulative translation adjustments, net of any related taxes, if applicable, with the exception of available for sale fixed maturities and available for sale equity securities where hedging has occurred. For these, the translation differences, net of any related taxes, if applicable, are recorded in the income statement.

Foreign currency transactions: Outstanding balances in foreign currencies arising from foreign currency transactions are translated at end-of-period exchange rates. Revenues and expenses are translated using the exchange rate at the date of the transaction or a weighted average rate. The resulting exchange differences are recorded in the consolidated statement of income.

(c) Non-life insurance operations

Premiums: Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage.

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Deferred policy acquisition costs: Acquisition costs, representing commissions, premium taxes and other underwriting expenses which vary with and are directly related to the production of business, are deferred and amortized over the period in which the related written premiums are earned. Deferred policy acquisition costs are periodically reviewed to determine that they do not exceed recoverable amounts, after considering future investment income.

Losses: Losses and loss adjustment expenses are charged to income as incurred. Unpaid losses and loss adjustment expenses represent the accumulation of estimates for ultimate losses and include provisions for losses incurred but not yet reported (IBNR). The methods of determining such estimates and establishing the resulting reserves are continually reviewed and updated. Resulting adjustments are reflected in current income. The Group does not discount its loss reserves, other than for settled claims with fixed payment terms.

(d) Life insurance operations

Recognition of insurance income and related expenses: Premiums from traditional life and annuity policies with life contingencies are generally recognized as revenue when due from the policyholder. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies. Moreover, for single premium and limited pay contracts, premiums are recorded as income when due with any excess profit deferred and recognized in income in a constant relationship to the insurance in force or, for annuities, the amount of expected benefit payments.

Amounts collected as premiums from investment type contracts such as universal life, unit-linked and unitized with profit contracts, are reported as deposits. Revenue from these contracts consists of policy fees for the cost of insurance, administration and surrenders during the period. Front-end fees are recognized over the estimated life of the contracts. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policyholder contract deposits and interest credited to policyholder deposits.

Deferred policy acquisition costs: The costs of acquiring new business including commissions, underwriting, marketing and policy issue expenses which vary with and are directly related to the production of new business are deferred. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period.

Deferred policy acquisition costs for participating traditional life contracts where the contribution principle method applies to the allocation of policyholder dividends are amortized over the expected life of the contracts as a constant percentage of estimated gross margins. Estimated gross margins include anticipated premiums and investment results less benefits and administration expenses, changes in the net level premium reserve and expected policyholder dividends, as appropriate. Estimated gross margins are estimated regularly with deviations of actual results from estimated experience reflected in earnings.

Deferred policy acquisition costs for other traditional life and annuity policies are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless premium deficiency occurs.

Deferred policy acquisition costs for investment type contracts such as universal life, unit-linked and unitized with profit contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in earnings.

The impact on the deferred policy acquisition cost asset of the change in unrealized gains or losses on investments is recognized through an offset to unrealized gains or losses at the balance sheet date.

Future life policyholders' benefits and policyholders' contract deposits: These represent the estimated future policyholder benefit liability for traditional life insurance policies and non unit-linked investment contracts respectively.

For participating traditional life insurance policies where the contribution principle method applies to the allocation of policyholder dividends, future policy benefit liabilities are calculated using a net level premium method on the basis of actuarial assumptions equal to guaranteed mortality and interest rates.

Future life policyholders' benefits for other traditional life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses and investment return including a margin for adverse deviation. The assumptions are established at policy issue and remain unchanged except where premium deficiency occurs.

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Future life policyholders' benefits include the value of accumulated declared bonuses or dividends that have been vested to policyholders.

Policyholders' contract deposits represent the accumulation of premium received less charges plus declared dividends.

Terminal policyholder bonuses or dividends which are not guaranteed and which reflect market conditions at the time of claim are not anticipated in computing the change in policyholder benefits or contract deposits over the year except where the assets in respect of these liabilities are classified as trading.

For balance sheet purposes the policyholders' share of unrealized gains or losses which may be paid in the future in respect of assets is included in future life policyholders' benefits offsetting the policyholders' share of the change in unrealized gains and losses during the year.

Separate account (unit-linked) assets and liabilities: These represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. Investment income and investment gains and losses generally accrue directly to policyholders. Also the assets of each account are segregated and are generally not subject to claims that arise out of any other business of the company. The assets and liabilities are carried at market value. Deposits, withdrawals, net investment income, realized and unrealized capital gains and losses are included in the separate account assets and liabilities and are not reflected in the consolidated statement of income. The costs of insurance, policy administration, investment management and surrender charges assessed against the policyholders' account balances are included in policy fee revenue.

(e) Reinsurance

The Group's insurance and reinsurance subsidiaries assume and/or cede reinsurance in the normal course of business. Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums, ceded future life policy benefits and funds held under reinsurance treaties. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet unless a right of offset exists.

Reinsurance contracts that do not transfer insurance risk are accounted for using the deposit method. A deposit asset or liability is recognized based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured. These contracts are primarily accounted for using the interest method and future cash flows are estimated to calculate the effective yield.

(f) Farmers Management Services

Operations: Farmers Group, Inc. (Farmers), a wholly owned subsidiary of the Group, provides management services to the Farmers Insurance Exchange, Fire Insurance Exchange and Truck Insurance Exchange, their respective subsidiaries and Farmers Texas County Mutual Insurance Company (the Farmers Exchanges). The Group has no ownership interest in the Farmers Exchanges.

Farmers provides the following management services to the Farmers Exchanges: risk selection, preparation and mailing of policy forms and invoices, premium collection, management of the investment portfolios and certain other administrative and managerial functions. The Farmers Exchanges are responsible for their own claims functions, including the settlement and payment of claims and claims adjustment expenses. They are also responsible for the payment of agent commissions and the payment of their premium and income taxes.

Management fee income: Fee revenue for the provision of management services to the Farmers Exchanges is calculated as a percentage of gross premiums earned by the Farmers Exchanges.

Management expenses: These expenses consist primarily of salaries and employee benefits, property and equipment expenses and other general and administrative expenses.

(g) Asset management operations

Revenue consists principally of investment management fees, distribution fees and mutual funds, commission revenue from the sale of mutual fund shares and transfer agent fees for shareholder record keeping. Revenue from investment management fees, distribution fees and transfer agent fees is recognized when earned. Commission revenue is recognized on the trade date.

Commissions and certain operating expenses related to the sale of certain mutual funds have been deferred. These costs are amortized in relation to revenues earned on these mutual funds. The Group periodically reviews and updates its assumptions made in determining projected revenues and amortization periods are adjusted accordingly.

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Certain front-end fees assessed against mutual fund holders have been deferred. These fees are amortized in proportion to the related expenses, which have also been deferred.

(h) Investments

Fixed maturities classified as held to maturity are those which the Group has the ability and positive intent to hold to maturity; these investments are carried at amortized cost. Fixed maturities and equity securities which the Group buys with the intention to resell in the near term are classified as trading and are carried at fair value with the related unrealized gains or losses reflected in current period income. The remaining fixed maturities and equity securities are classified as available for sale; these investments are carried at fair value.

When declines in values of securities below cost or amortized cost are considered to be other than temporary, a charge is recorded in the consolidated statement of income for the difference between cost or amortized cost and estimated net realizable value.

The realized gain or loss on disposal is based on the difference between the proceeds received and the carrying value of the investment plus any unrealized gains or losses of the investment using the specific identification method. The amortization of premium and accretion of discount on available for sale and held to maturity investments in fixed maturities is computed using the effective interest method and is recorded in current period income. Dividends on equity securities are recorded as revenue on the ex-dividend date.

Real estate held for investment purposes is recorded at fair value. Fair values are determined internally by professionally qualified valuers on an annual basis with reference to current market conditions. Periodically, external valuations are performed. No depreciation is recorded for real estate held for investment. The gain or loss on disposal is based on the difference between the proceeds received and the carrying value of the investment.

Unrealized gains or losses on investments carried at fair value, except those designated as trading which are recorded in current period income, are recorded in shareholders' equity net of deferred income taxes, certain life policyholder dividends and other policyholder liabilities, certain life deferred acquisition costs and minority interest.

Policyholder loans, mortgage loans on real estate, collateral loans and other loans are carried at unpaid principal balances. Impairment of mortgage loans on real estate and collateral loans is generally measured based on the present value of expected future cash flows discounted at the loan's effective interest rate subject to the fair value of the underlying collateral. When a decline in the value of these assets is considered to be other than temporary, a charge is recorded in the consolidated statement of income for the difference between carrying value and estimated net realizable value. Interest income on impaired loans is recognized as cash when received.

Certain partnerships, accounted for under the equity method, are engaged exclusively in making investments in direct private equity, private equity funds, and hedge funds. In the partnerships, these investments are carried at fair value, with changes in fair value being taken to income.

Short-term and other investments are recorded at cost, which approximates fair value.

(i) Derivative instruments

General

Derivative financial instruments include swaps, futures, forwards and option contracts, all of which derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments.

A derivative contract may be traded on an exchange or over-the-counter ("OTC"). Exchange-traded derivatives are standardized and include futures and certain option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, caps, floors and swaps. Derivatives are subject to various risks similar to those related to the underlying financial instruments, including market, credit and liquidity risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet as they do not represent the potential for gain or loss associated with such transactions.

Interest rate and currency swaps: Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating interest payments. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

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Interest rate futures, forward and options contracts: Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC where two parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending on what rate in fact prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate. For interest rate futures and exchange-traded options, the Group's exposure to off-balance sheet credit risk is limited, as these transactions are executed on organized exchanges that assume the obligation of the counterparty and generally require security deposits and daily settlement of margins.

Foreign exchange contracts: Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rates option contracts, except that they are based on currencies, rather than interest rates. Exposure to loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate. For exchange traded foreign exchange contracts, the Group's exposure to off-balance sheet credit risk is limited, as these transactions are executed on organized exchanges that assume the obligation of counterparties and generally require security deposits and daily settlement of margins.

The Group uses certain of the above derivatives for hedging purposes and others for non-hedging purposes. The accounting treatment for hedging and non-hedging derivatives is discussed below.

Non-hedging derivative instruments

Trading assets and trading liabilities include option premiums paid and received and receivables from and payables to counterparties which relate to unrealized gains and losses on futures, forwards, options and swaps and balances due from and to clearing brokers and exchanges. Futures, forwards and options purchased and written, as well as swaps purchased, are accounted for as contractual commitments on a trade date basis. The instruments are measured at fair value. Realized and unrealized gains and losses are reflected in current period income. Fair values of these instruments are based on closing exchange quotations. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of similar instruments with similar characteristics or discounted cash flows. The Group's trading activities involve the use of derivative financial instruments in the normal course of business. These instruments generally include forwards, futures, options and swaps.

Derivative instruments for hedging

Derivatives and other financial instruments are used principally to hedge exposures or modify exposures to interest rate and foreign currency risks. These instruments are accounted for on an accrual basis when they are designated to hedge a specific asset or liability and they reduce the exposure to the interest rate or foreign currency risk of the hedged item. Revenues and expenses from hedging instruments are recorded in the category appropriate to the related hedged asset or liability. Once the hedging relationship has been terminated, the gain or loss on the financial instrument is recognized in income. Gains and losses on derivatives designated as hedges are recognized in income in the period in which they are settled along with the gains and losses on the hedged item.

(j) Obligation to repurchase securities

Sales of securities under agreements to repurchase are accounted for as collateralized transactions and are recorded at their contracted repurchase amount plus accrued interest. The Group minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral value and generally requiring additional collateral to be deposited with the Group when deemed necessary.

(k) Cash and cash equivalents

Cash amounts represent cash on hand and demand deposits. Cash equivalents are short-term, highly-liquid investments with original maturities of 90 days or less.

(l) Real estate held for own use and fixed assets

Real estate (buildings) held for own use and fixed assets are carried at cost less accumulated depreciation and any necessary write-downs. The costs of these assets are depreciated principally on a straight-line basis over the following estimated useful economic lives: buildings 25 to 50 years, furniture and fixtures 5 to 10 years, computer equipment and software 3 to 5 years. Real estate (land) is carried at cost less any necessary write-downs. Maintenance and repair costs

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are charged to income as incurred; costs incurred for major improvements are capitalized and depreciated. Gains and losses on disposal of fixed assets and real estate held for own use are determined by reference to their carrying amount.

(m) Goodwill, present value of profits of acquired insurance contracts and other intangibles

The Group's acquisitions of other companies are accounted for under the purchase method, whereby the purchase price is allocated to the fair value of assets and liabilities acquired at the date of acquisition with any residual amount allocated to goodwill. Goodwill on acquisitions prior to 1995 has been charged directly against shareholders' equity. Goodwill recorded by foreign subsidiaries is translated at the exchange rate on the date of acquisition. Goodwill is amortized using the straight-line method over its estimated economic life. Goodwill is presumed to have a five-year economic life but can be extended to a twenty-year maximum if justifiable. In determining the period of amortization, the Group considers the expected period of benefits to be received from the acquired company which is based on factors such as the type of business, the duration of the underlying insurance contracts, customer relationships and distribution networks.

The present value of profits of acquired insurance contracts is amortized over the premium recognition period or the expected life of the policies acquired.

Other intangibles primarily consist of brand names and are amortized using the straight-line method over their estimated economic life, currently 20 years.

(n) Attorney-in-fact contracts

When Farmers Group, Inc. was acquired in December 1988 by B.A.T Industries p.l.c., a portion of the purchase price was assigned to the attorney-in-fact contract relationships. The carrying value of the attorney-in-fact contracts reflects the fair value at the date of acquisition. This value is reviewed annually and is written down when a permanent diminution in value is deemed to have occurred.

(o) Income taxes

Deferred income taxes are provided for all temporary differences, which are based on the difference between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws. Deferred tax assets are recognized to the extent that their recoverability is deemed to be probable. Losses for tax purposes are treated as a deferred tax asset to the extent that the possibility of offsetting these losses against probable future taxable income exists and is allowed by the applicable local tax laws and regulations.

Taxes payable by either the holding company or its subsidiaries on distribution to the holding company of the undistributed profits of subsidiaries are recognized as deferred income taxes unless a distribution of those profits is not intended or would not give rise to a tax liability.

(p) Employee benefits

The operating companies in the Group provide employee retirement benefits under principally two types of arrangements: defined benefit plans providing specified benefits and defined contribution plans. The assets of these plans are generally held separately from the Group's general assets in trustee-administered funds. The Group has adopted IAS 19 (revised 1998) as of 1 January 1999. The significant changes relate to the discount rate being linked to long-term rates at the balance sheet date as opposed to an estimate of long-term rates. Additionally, the transitional provisions require that any unrecognized surpluses/deficiencies, using the appropriate revised actuarial assumptions, are recognized immediately. As permitted by the transitional provisions of IAS, the Group has chosen to account for the impact of this change as a credit to the statement of income in 1999. Defined benefit plan obligations and contributions are determined periodically by qualified actuaries using the projected unit credit method. The Group's expense related to these plans is accrued over the employees' service periods based upon the actuarially determined cost for the period. Actuarial gains and losses are normally spread over the average remaining service lives of employees. Contributions to the defined contribution pension plans are charged to the consolidated statement of income as they become due.

Post-retirement benefits are also provided for certain employees and are primarily funded internally. The cost of such benefits is accrued over the service period of the employee based upon the actuarially determined cost for the period.

The Group recognizes the expense related to incentive plans over the relevant performance period. With regard to share-based compensation, the expense takes into account changes in the value of the shares to be awarded.

(q) Convertible debt and debt with stock purchase warrants

Both convertible debt and debt with stock purchase warrants include a liability component and an equity component for the right to convert the liability into Zurich Allied's shares. At the time of issuance, the equity component is recorded as shareholders' equity. The difference between the carrying amount of the liability and its nominal value is amortized until maturity as a component of interest expense.

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(r) Recognition and measurement of impaired assets

The Group reviews its assets annually to determine potential impairment. If the recoverable amount is less than the carrying amount of the asset, an impairment loss is recognized. The recoverable amount is measured as the higher of an asset's net selling price or its value in use.

(s) Use of estimates

The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period, therefore, actual results could differ from those estimates.

3. CHANGE OF ACCOUNTING ESTIMATES

A change in estimate occurred in the calculation of amortization of deferred acquisition costs and unearned revenue for United Kingdom and Australian unit-linked and investment life business. The interest rates used to calculate the present value of expected gross profits are the actual investment returns since inception and the current investment return estimate for the remainder of the benefit period rather than investment return determined at inception.

Investments backing the United Kingdom with profit and Australian life liabilities were reclassified from available for sale to trading during 1999. The change in unrealized gains and the corresponding movement in the provision for policyholder dividends are now shown in the income statement. Improved estimates have been applied for the amortization of index linked government bonds and for the allocation of unrealized gains between different classes of life business in the United Kingdom.

The mortality and economic estimates underlying the United Kingdom pension redress provisions were revised following the issuance of new industry wide guidance on redress calculations by the UK Financial Services Authority.

The net impact of these changes was a credit of USD 174 million to the statement of income in 1999.

4. MERGER, RESTRUCTURING AND OTHER RELATED CHARGES

Merger, restructuring and other related charges set up in 1998 primarily relate to the merger of B.A.T FS and the Zurich Group. One major component of these costs was the increase of non-life reserves of USD 1,595 million. This increase resulted from a post-closing review of all non-life insurance liabilities. These include US and UK asbestos and pollution hazards, exposures which are very long-tail in nature with durations exceeding 20 years.

The other major component totaling USD 770 million was costs relating to the restructuring of the operations of the Group and to the completion of the merger such as closing down operations, terminating contracts, unwinding joint ventures, writing off associated goodwill and other related costs, which are all intended to achieve cost savings in the future. The remaining amount of these costs accrued as liabilities was USD 183 million and USD 438 million at 31 December 1999 and 1998, respectively.

These costs were recorded after a specific restructuring plan was formulated and the amounts were determined to be estimable.

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5. SEGMENT INFORMATION

Table 5.1

Gross written premiums and policy fees by line of business (before eliminations)

	1999	1998
Non-life insurance		
Accident and health	1,262	1,184
Automobile	5,259	5,474
Fire and other property	3,785	3,594
General liability	2,747	3,130
Other non-life lines	2,836	2,530
Assumed reinsurance	1,683	1,606
Total non-life gross written premiums and policy fees	17,572	17,518
Life insurance (incl. policy fees)		
Individual life		
Single premiums	2,293	2,959
Periodic premiums	2,568	2,384
Group life		
Single premiums	1,238	1,000
Periodic premiums	1,195	1,158
Accident, health and other	218	287
Policy fees on unit-linked and other investment-type products	574	645
Total life gross written premiums and policy fees	8,086	8,433

in USD millions

Table 5.2

Gross written premiums and policy fees by geographical area (before eliminations)

	Non-life insurance		Life insurance		Total	
	1999	1998	1999	1998	1999	1998
United States	6,672	6,736	983	902	7,655	7,638
United Kingdom	2,802	3,061	1,779	2,083	4,581	5,144
Switzerland	1,685	1,688	2,824	3,162	4,509	4,850
Europe (excluding UK and Switzerland)	4,565	4,517	2,053	1,885	6,618	6,402
Rest of the world	2,404	1,923	461	428	2,865	2,351
Other	- 556	- 407	- 14	- 27	- 570	- 434
Total	17,572	17,518	8,086	8,433	25,658	25,951

in USD millions

Table 5.3

Revenues and assets by geographical area (before eliminations)

	Revenues		Assets	
	1999	1998	1999	1998
United States	11,578	11,900	54,281	51,205
United Kingdom	8,505	8,111	79,757	71,974
Switzerland	6,601	6,862	27,906	30,268
Europe (excluding UK and Switzerland)	8,456	8,356	34,380	37,925
Rest of the world	4,613	3,377	17,967	14,815
Other	209	1,350	6,887	6,878
Total	39,962	39,956	221,178	213,065

in USD millions

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6. FARMERS MANAGEMENT FEES AND OTHER RELATED REVENUE

Farmers is entitled to receive a management fee of up to 20 per cent. (25 per cent. in the case of Fire Insurance Exchange) of the gross premiums earned by the Farmers Exchanges. In order to enable the Farmers Exchanges to maintain appropriate capital and surplus while offering competitive insurances rates, Farmers has historically charged a lower management fee than the maximum allowed. The range of fees has varied by line of business over time and from year to year. During the past five years, aggregate management fees have averaged between 12 per cent. and 13 per cent. of gross premiums earned by the Farmers Exchanges. Gross premiums earned by the Farmers Exchanges were USD 10,805 million and USD 10,331 million for the years ended 31 December 1999 and 1998, respectively. These premiums gave rise to management fee revenue of USD 1,402 million and USD 1,272 million in the corresponding years. Other related revenue totalled USD 88 million in 1999 and USD 86 million in 1998. Gross premiums written by the Farmers Exchanges were USD 11,107 million and USD 10,528 million for the years ended 31 December 1999 and 1998, respectively.

7. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Significant delays occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The reserve for unpaid losses and loss adjustment expenses is determined on the basis of information currently available; however, it is inherent to the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Table 7.1

Loss and loss adjustment reserves and expenses

	1999	1998
At 1 January		
Gross reserve for loss and loss adjustment expenses	40,562	36,189
Reinsurance recoverable	- 6,734	- 4,932
Net reserve for losses and loss adjustment expenses	33,828	31,257
Losses and loss adjustment expenses incurred		
Current year	12,845	13,218
Prior years	- 13	473
Total	12,832	13,691
Losses and loss adjustment expenses paid		
Current year	- 5,265	- 5,587
Prior years	- 8,208	- 7,539
Total	- 13,473	- 13,126
Merger-related expenses (Note 4)	-	1,595
Disposal of companies	- 789	-
Foreign currency translation effects	- 1,655	411
At 31 December		
Net reserve for losses and loss adjustment expenses	30,743	33,828
Reinsurance recoverable	7,161	6,734
Gross reserve for losses and loss adjustment expenses	37,904	40,562
in USD millions		

Where applicable, reserves were discounted using average interest rates of 3.8 per cent. for both years which has reduced reserves by USD 314 million and USD 326 million at 31 December 1999 and 1998, respectively. In addition, deferred charges relating to retrospective reinsurance assumed and structured settlements totalling USD 813 million and USD 1,022 million at 31 December 1999 and 1998, respectively, have been deducted from loss and loss adjustment expense reserves.

Management has considered environmental and latent injury claims and claims expenses in establishing the reserve for losses and loss adjustment expenses. The Group continues to be advised of claims asserting injuries from toxic waste, hazardous materials and other environmental pollutants and alleged damages to cover the clean-up costs of hazardous waste dump sites relating to policies written in prior years and indemnity claims asserting injuries from asbestos. Coverage and claim settlement issues, such as determination that coverage exists and the definition of an occurrence, may

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cause the actual loss development to exhibit more variation than the remainder of the Group's book of business. Such claims cannot be estimated with traditional reserving techniques and, accordingly, the uncertainty with respect to the ultimate cost of these types of claims has been greater than the uncertainty relating to standard lines of business. The uncertainties arise out of changes or potential changes in various laws. While the Group believes that it has made adequate provision for these claims, it is possible that future adverse development could have a material effect on the Group's results of operations, cash flows and financial position. At 31 December 1999 and 1998, the net reserve amounts related to these claims included above were USDS 2,955 million and USD 3,173 million, respectively.

Table 7.2

Loss and loss adjustment reserves and expenses for asbestos and environmental

	1999		1998	
	Gross	Net	Gross	Net
Asbestos:				
At 1 January	2,233	1,675	1,672	1,218
Losses and loss adjustment expenses incurred	- 93	- 78	636	524
Losses and loss adjustment expenses paid	- 99	- 66	- 54	- 44
Foreign currency translation effects	- 1	-	- 21	- 23
At 31 December	2,040	1,531	2,233	1,675
Environmental:				
At 1 January	1,915	1,498	1,521	1,193
Losses and loss adjustment expenses incurred	-	13	434	341
Losses and loss adjustment expenses paid	- 121	- 86	- 47	- 44
Foreign currency translation effects	- 1	- 1	7	8
At 31 December	1,793	1,424	1,915	1,498
Combined:				
At 1 January	4,148	3,173	3,193	2,411
Losses and loss adjustment expenses incurred	- 93	- 65	1,070	865
Losses and loss adjustment expenses paid	- 220	- 152	- 101	- 88
Foreign currency translation effects	- 2	- 1	- 14	- 15
At 31 December	3,833	2,955	4,148	3,173

in USD millions

8. FUTURE LIFE POLICYHOLDERS' BENEFITS AND POLICYHOLDERS' CONTRACT DEPOSITS AND OTHER FUNDS

Long-duration contract liabilities included in future policyholders' benefits result primarily from traditional participating and non-participating life products. Short-duration contract liabilities are primarily accident and health products. The liability for future life policyholder benefits has been established based upon the following:

- Interest rates which vary by territory, year of issuance and product.
- Mortality and surrender rates based upon actual experience by geographical area modified to allow for variations in policy form.

The amount of policyholder dividends to be paid is determined annually by each Group life company. Policyholder dividends include policyholders' share of net income and unrealized appreciation of investments that are required to be allocated by the insurance contract or by local insurance regulations. Experience adjustments, relating to future policyholders' benefits and policyholders' contract deposits, vary according to the type of contract and the territory. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory provisions.

A. Zurich Financial Services

Table 8

Future life policyholders' benefits and policyholders' contract deposits and other funds

	1999	1998
Future life policyholders' benefits		
Long-duration contracts	44,984	46,879
Short-duration contracts	596	287
Total	45,580	47,166
Policyholders' contract deposits and other funds		
Annuities	654	674
Universal life and other investment contracts	11,303	10,783
Policyholder dividends	5,921	5,921
Total	17,878	17,378

in USD millions

9. REINSURANCE

Ceded reinsurance arrangements do not relieve the Group from its direct obligations to its insureds. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. The Group holds substantial collateral as security under related reinsurance agreements in the form of deposits, securities and/or letters of credit.

A provision has been recorded for estimated unrecoverable reinsurance. No single reinsurer is a material reinsurer to the Group, nor is the Group's business substantially dependent upon any reinsurance contract.

The life operations limit exposure to loss on any single life. Retention limits vary by territory and product line. Approximately 4.6 per cent. and 3.7 per cent. of gross written premium and policy fees were ceded at 31 December 1999 and 1998, respectively.

Table 9.1

Underwriting reserves and reinsurance assets

	Gross		Reinsurance assets		Net of reinsurance	
	1999	1998	1999	1998	1999	1998
Reserve for losses and loss adjustment expenses	37,904	40,562	7,161	6,734	30,743	33,828
Reserve for unearned premiums	8,128	8,303	1,026	815	7,102	7,488
Future life policyholders' benefits	45,580	47,166	952	788	44,628	46,378
Policyholders' contract deposits and other funds	17,878	17,378	319	351	17,559	17,027
Total underwriting reserves	109,490	113,409	9,458	8,688	100,032	104,721
Premiums and insurance balances receivable, net			943	1,427		
Funds held for the benefit of reinsurers			2,279	1,327		
Total reinsurance assets			12,680	11,442		

in USD millions

Table 9.2

Premiums and policy fees earned

	Non-life		Life		Reinsurance		Intersegment elimination		Total	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Direct premiums and policy fees	15,894	16,079	8,004	8,471	369	364	233	95	24,500	25,009
Assumed premiums	1,682	1,636	49	46	3,500	3,148	-1,045	-454	4,186	4,376
Ceded premiums	-3,576	-2,774	-371	-309	-882	-596	979	533	-3,850	-3,146
Net premiums and policy fees earned	14,000	14,941	7,682	8,208	2,987	2,916	167	174	24,836	26,239

in USD millions

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

A. Zurich Financial Services

10. DEBT

Table 10

	1999	1998
(a) Debt related to banking and capital markets activities		
Zurich Capital Markets	1,212	334
Dunbar Bank p.l.c.	437	458
Total	1,649	792
(b) Senior debt		
Zurich Finance (USA) Inc. (EMTN issues)	978	657
Zurich International (Bermuda) Ltd.	314	364
Zurich Reinsurance Centre Holdings Inc.	197	197
Centre Group Holdings Ltd.	100	100
Kemper Corp.	230	231
Zurich Holding Company of America (loans payable)	100	221
Eagle Star Holdings Ltd.	—	341
Zurich Insurance Company (credit facility)	—	109
Zurich Financial Services (UKISA) Limited	291	—
INZIC AG	151	—
Other (including Scudder Kemper Investments)	451	317
Total	2,812	2,537
(c) Subordinated debt		
Capital Securities (Zurich Holding Company of America)	1,031	1,031
Convertible Bond (Zurich Insurance Jersey Ltd.)	59	70
QUIPS (Farmers Group, Inc.)	500	500
Total	1,590	1,601
Total debt	6,051	4,930

in USD millions

11. SHAREHOLDERS' EQUITY

During 1999 and 1998, Zurich Financial Services had 16 million shares of USD 74.50 (CHF 100) par value common stock issued, authorized and fully paid. Of the 16 million shares, Allied Zurich owns 6,880,000 shares and Zurich Allied owns 9,120,000 shares. Pursuant to the Governing Agreement there are restrictions with respect to disposing or charging these shares.

12. ASSETS UNDER MANAGEMENT

Table 12 shows the aggregate market value of the Group's third-party assets under management at 31 December.

Table 12

	Institutional		Individual		Total	
Third-party assets under management	1999	1998	1999	1998	1999	1998
Fixed maturities	55,954	61,980	37,230	39,261	93,184	101,241
Equity securities	47,905	36,024	88,231	72,147	136,136	108,171
Cash and short-term investments	3,069	4,087	28,265	20,941	31,334	25,028
Real estate	1,887	323	174	155	2,061	478
Other	25	—	896	853	921	853
Total	108,840	102,414	154,796	133,357	263,636	235,771

in USD millions

B. Allied Zurich

Profit and loss account

	1999 Year to 31 December	1998 5 March to 31 December
Income from fixed asset investments	240	204
Expenditure	–	–
Profit on ordinary activities before taxation	240	204
Tax on profit on ordinary activities	–	–
Profit on ordinary activities after taxation	240	204
Dividends	– 238	– 204
Retained profit for the period	2	–
in GBP millions		
Earnings per share (see below)	15.3p	33.2p
Diluted earnings per share	15.3p	33.2p
in GBP		

The historical cost equivalents of the profit on ordinary activities before taxation and the retained profit for the period are the same as stated above.

All the amounts in the profit and loss account derive from continuing activities.

Note 4 provides information in respect of the company's 43 per cent. share of the net income, total assets and liabilities of the Zurich Financial Services Group for the years ended 31 December 1999 and 1998.

Note 5 sets out the basis of calculation of each earnings per share figure in more detail and shows a pro-forma measure of earnings per share which the directors consider to be more meaningful.

Statement of total recognized gains and losses

	1999 Year to 31 December	1998 5 March to 31 December
Profit on ordinary activities after taxation	240	204
Opening adjustment to the carrying value of the investment in Zurich Financial Services	–	– 7,597
Revaluation of investment in Zurich Financial Services	– 30	262
Total recognized gains and losses relating to the period	210	– 7,131
in GBP millions		

In 1998, the opening adjustment to the carrying value of the investment in Zurich Financial Services arose due to a change in the method of valuing the investment which does not give rise to any economic loss. On 4 September 1998 the investment was valued by reference to the market value of Zurich Insurance Company and a change was made to value the investment as Allied Zurich's 43 per cent. share of the net asset value of the Zurich Financial Services Group.

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

B. Allied Zurich

Balance sheet at 31 December

	Notes	1999	1998
Fixed asset investments		5,909	5,939
Current assets			
Amounts due from Allied Zurich Holdings		240	204
Cash at bank and in hand		1	–
Creditors: amounts due within one year			
Dividend payable		– 238	– 204
Net current assets		3	–
Net assets		5,912	5,939
Capital and reserves			
Called up share capital	6	394	393
Revaluation reserve	7	232	262
General reserve	7	5,284	5,284
Profit and loss account	7	2	–
Equity shareholders' funds		5,912	5,939

in GBP millions

Cash flow statement

	1999 Year to 31 December	1998 5 March to 31 December
Net cash flow from operating activities	–	–
Dividends from the Zurich Financial Services Group	204	–
Equity dividends paid	– 204	–
Cash flow from financing activities		
Issue of shares	1	–
Increase in cash		
Cash at start of period	–	–
Cash at end of period	1	–

in GBP million

B. Allied Zurich

Notes to the financial statements

1. THE COMPANY

Allied Zurich is a holding company which owns 43 per cent. of the ordinary shares and one income share (Genussschein) in Zurich Financial Services, incorporated in Switzerland. Zurich Allied owns the other 57 per cent. of the ordinary shares and one income share (Genussschein) in Zurich Financial Services. The governing agreement sets out the relationship between Allied Zurich and Zurich Allied and provides for the governance of the Zurich Financial Services Group.

The company also owns two GBP 1 income shares in Allied Zurich Holdings, which is incorporated in Jersey and is a wholly owned subsidiary of Zurich Financial Services. The amount of dividends to be paid on the income shares is determined having regard to the overall position of the Zurich Financial Services Group and the principle of dividend equalization referred to below.

The company is incorporated in England and Wales as a public limited company under registered number 3525388.

2. INCOME FROM FIXED ASSET INVESTMENTS

Dividends are received by Allied Zurich and Zurich Allied in such amounts as will enable them to pay dividends to their own shareholders in the proportions 43:57 after adjusting for their respective expenses, including tax payable. The governing agreement sets out the manner in which dividends may be paid to Allied Zurich and Zurich Allied from the various members of the Zurich Financial Services Group. It provides that Allied Zurich and Zurich Allied may each pay one dividend per annum following their respective annual general meetings and that Allied Zurich and Zurich Allied shall synchronize, to the fullest extent possible, the dates of announcement of dividends, the dates of their annual general meetings and their dividend payment dates.

3. ACCOUNTING POLICIES

The published financial statements were prepared in accordance with the UK Companies Act 1985 and with applicable UK accounting standards. They were prepared under the historical cost convention modified by the revaluation of the investment in Zurich Financial Services. Consolidated financial statements were not prepared as Zurich Financial Services is not a subsidiary undertaking according to UK law.

Income from the shareholdings in Allied Zurich Holdings and Zurich Financial Services, in the form of dividends, is recorded in the profit and loss account.

Fixed asset investments are stated at directors' valuation. The investment in Zurich Financial Services is stated at an amount equivalent to Allied Zurich's 43 per cent. interest in the net assets of the Zurich Financial Services Group as disclosed in its published financial statements. The difference between cost and the amount at which the investment is stated in the balance sheet including unrealized currency exchange gains and losses is taken to the revaluation reserve.

Deferred tax is not provided on the revaluation of fixed asset investments as the revaluation does not constitute a timing difference for the purposes of Standard Statement of Accounting Practice 15 – Accounting for deferred tax.

4. SUPPLEMENTARY INFORMATION ON THE ZURICH FINANCIAL SERVICES GROUP

Allied Zurich has no operating activities. The company's only material source of income is distributions from the Zurich Financial Services Group.

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

B. Allied Zurich

The following supplementary information is provided in respect of Allied Zurich's 43 per cent. share of the net income, total assets and liabilities of the Zurich Financial Services Group for the years ended 31 December.

	1999	1998 (as restated)
Total revenues	10,618	10,345
Total benefits, losses and expenses	-9,247	-9,293
Operating income before merger, restructuring and other related charges	1,371	1,052
Merger, restructuring and other related charges	-	-612
Income tax expense	-491	-227
Minority interests	-14	-5
Net income	866	208
Investments	32,360	32,592
Other assets	26,416	22,437
Total assets	58,776	55,029
Liabilities	52,456	48,956
Minority interests	411	134
Shareholders' equity	5,909	5,939
Total liabilities and shareholders' equity	58,776	55,029
Profit on ordinary activities of Allied Zurich after taxation	240	204
Share of net income retained by the Zurich Financial Services Group	626	4
Share of net income of the Zurich Financial Services Group	866	208
Share of other recognized gains and losses	-880	183

in GBP millions

The above information has been derived from the Zurich Financial Services Group published consolidated financial statements.

5. EARNINGS PER SHARE

Basic earnings per ordinary share shown in the profit and loss account have been calculated based on the weighted average of 1,572,728,432 shares in issue during the year to 31 December 1999, and on the profit after taxation of Allied Zurich for the period. For 1998, the basic earnings per ordinary share was based on the weighted average of 615,734,307 shares in issue during the period from 5 March to 31 December 1998 and on the profit after taxation for the period from incorporation to 31 December 1998.

For diluted earnings per share, there is no increase in 1999 in the average number of shares in issue. In 1998, the average number of shares in issue was increased by 583,010 to reflect the potential dilution on the exercise of employee share options.

In the opinion of the directors, the pro-forma earnings per share shown below are a more meaningful measure of earnings per share since they reflect the company's 43 per cent. share in the income of the Zurich Financial Services Group. The pro-forma earnings in 1998 also show the effect of the merger, restructuring and other related charges. There were no such charges in the year ended 31 December 1999.

	1999	1998
Earnings per share before merger, restructuring and other related charges		
Pro-forma basic earnings per share	55.1p	46.3p
Pro-forma diluted earnings per share	55.1p	46.3p
Earnings per share after merger, restructuring and other related charges		
Pro-forma basic earnings per share	55.1p	13.2p
Pro-forma diluted earnings per share	55.1p	13.2p

in GBP

B. Allied Zurich

Earnings after merger, restructuring and other related charges have been calculated as 43 per cent. of the net income of the Zurich Financial Services Group of GBP 2,014 million or USD 3,260 million (1998: GBP 483 million/USD 802 million). In 1998 earnings were pro-rated on the same basis as the shares in issue in order to provide the most meaningful analysis of earnings per share. This calculation provides the same earnings per share figure as using Allied Zurich's 43 per cent. share of the net income in 1998 of the Zurich Financial Services Group of GBP 208 million and the 1,570,644,284 ordinary shares in issue.

In 1998, earnings before merger, restructuring and other related charges were calculated as 43 per cent. of the income of the Zurich Financial Services Group before merger, restructuring and other related charges of GBP 1,694 million (USD 2,812 million), again pro-rated on the same basis as the shares in issue in order to provide the most meaningful analysis of earnings per share.

6. CALLED UP SHARE CAPITAL

	1999	1998
Authorized		
2,000,000,000 ordinary shares of 25p each	500	500
Issued and fully paid		
1,574,812,580 (1998: 1,570,644,284) ordinary shares of 25p each	394	393
in GBP millions		

7. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up share capital	Share premium account	Revaluation reserve	General reserve	Profit and loss account	Total shareholders' funds
At 1 January 1999	393	—	262	5,284	—	5,939
Issue of share capital	1	—	—	—	—	1
Reduction of share premium account	—	—	—	—	—	—
Revaluation of investment in Zurich Financial Services at 31 December 1999	—	—	—30	—	—	—30
Profit for the year	—	—	—	—	240	240
Dividends	—	—	—	—	—238	—238
Shareholders' funds at 31 December 1999	394	—	232	5,284	2	5,912
in GBP millions						

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

C. Zurich Allied

Statement of income for the periods ended 31 December

	Zurich Allied Group of Companies ¹			Zurich Allied AG Holding Company ²		
	Notes	1999	1998	Notes	1999	1998
Income						
Share in the Zurich Financial Services Group's earnings after taxes and minority interests		2,789,024	663,483		—	—
Dividend income		—	—		840,000	670,000
Other financial income		1,023	14		1,023	14
Total income		2,790,047	663,497		841,023	670,014
Expenses						
Administrative expenses		1,180	180		1,180	180
Other financial expenses		642	15		642	15
Taxes		4,573	3		4,573	3
Total expenses		6,395	198		6,395	198
Net income		2,783,652	663,299		834,628	669,816
in CHF thousands						
Earnings per share						
Basic earnings per share (in CHF)	A3	57.31	13.68		—	—
Diluted earnings per share (in CHF)	A3	57.04	13.66		—	—

1 The Zurich Allied Group of Companies published financial statements were prepared in accordance with International Accounting Standards for the years ended 31 December.

2 The Zurich Allied AG Holding Company published financial statements were prepared in accordance with Swiss Law for the year ended 31 December 1999 and for the period 25 February 1998 (date of formation) to 31 December 1998.

C. Zurich Allied

Balance sheet at 31 December (before appropriation of available earnings)

	Zurich Allied Group of Companies ¹		Zurich Allied AG Holding Company ²	
Assets	1999	1998	1999	1998
Fixed assets				
Investment in the Zurich Financial Services Group	20,162,266	18,006,017	6,064,302	6,064,302
Equity securities	500	500	500	500
Total fixed assets	20,162,766	18,006,517	6,064,802	6,064,802
Current assets				
Cash and cash equivalents	163	248	163	248
Dividends receivable	—	—	840,000	670,000
Short-term investments	10,675	—	10,675	—
Other receivables	1	107	1	107
Total current assets	10,839	355	850,839	670,355
Total assets	20,173,605	18,006,872	6,915,641	6,735,157
Liabilities				
Short-term liabilities				
Liabilities to affiliates	338	531	338	531
Other short-term liabilities	155	8	155	8
Total short-term liabilities	493	539	493	539
Shareholders' equity (before appropriation of available earnings)				
Common stock, CHF 10 par value				
Authorized ³ : 64,125,000 shares				
Issued: 48,628,713 shares in 1999				
48,500,000 shares in 1998	486,287	485,000	486,287	485,000
General legal reserve	—	—	5,382,124	5,403,670
Reserve for Zurich Allied shares held by Zurich Financial Services Group companies	—	—	197,678	176,132
Additional paid-in capital	1,268,790	1,204,414	—	—
Net unrealized gains on investments	6,474,619	9,101,326	—	—
Cumulative translation adjustments	2,791,990	192,434	—	—
Retained earnings, beginning of period	6,367,774	6,359,860	14,431	—
Net income	2,783,652	663,299	834,628	669,816
Retained earnings, end of period	9,151,426	7,023,159	849,059	669,816
Total shareholders' equity (before appropriation of available earnings)	20,173,112	18,006,333	6,915,148	6,734,618
Total liabilities and shareholders' equity	20,173,605	18,006,872	6,915,641	6,735,157

in CHF thousands

- 1 The Zurich Allied Group of Companies published financial statements were prepared in accordance with International Accounting Standards for the years ended 31 December.
- 2 The Zurich Allied AG Holding Company published financial statements were prepared in accordance with Swiss Law for the year ended 31 December 1999 and for the period 25 February 1998 (date of formation) to 31 December 1998.
- 3 Includes issued stock of 48,628,713 shares, authorized stock of 12,125,000 shares and contingent stock of 3,371,287 shares for the year ended 31 December 1999.

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

C. Zurich Allied

Statement of cash flows for the periods ended 31 December

	Zurich Allied Group of Companies ¹		Zurich Allied AG Holding Company ²	
	1999	1998	1999	1998
Cash flows from operating activities				
Net income	2,783,652	663,299	834,628	669,816
Adjustment for share in the Zurich Financial Services Group's earnings after taxes and minority interests	-2,789,024	-663,483	—	—
Changes in operational assets and liabilities:				
Increase in dividends receivable	—	—	-170,000	-670,000
Decrease (increase) in other receivables	106	-107	106	-107
Increase (decrease) in liabilities to affiliates	-193	531	-193	531
Increase in other short-term liabilities	147	8	147	8
Net cash provided by (used in) operating activities	-5,312	248	664,688	248
Cash flows from investing activities				
Dividends received from Zurich Financial Services	670,000	—	—	—
Increase in short-term investments	-10,675	—	-10,675	—
Net cash provided by (used in) investing activities	659,325	—	-10,675	—
Cash flows from financing activities				
Increase in share capital	1,287	—	1,287	—
Dividends paid	-655,385	—	-655,385	—
Net cash used in financing activities	-654,098	—	-654,098	—
Change in cash and cash equivalents	-85	248	-85	248
Cash and cash equivalents, beginning of period	248	—	248	—
Cash and cash equivalents, end of period	163	248	163	248

in CHF thousands

- 1 The Zurich Allied Group of Companies published financial statements were prepared in accordance with International Accounting Standards for the years ended 31 December.
- 2 The Zurich Allied AG Holding Company published financial statements were prepared in accordance with Swiss Law for the year ended 31 December 1999 and for the period 25 February 1998 (date of formation) to 31 December 1998.

C. Zurich Allied

Statement of shareholders' equity for the periods ended 31 December¹

	Number of shares issued (CHF 10 par value each)	Common stock	Additional paid-in capital	Net unrealized gains on investments	Cumulative translation adjustments	Retained earnings	Total shareholders' equity
Balance, beginning of period	48,500,000	485,000	529,404	8,575,100	1,195,200	6,359,860	17,144,564
Change in net unrealized gains on investments (excl. translation adjustments)	—	—	—	301,484	—	—	301,484
Translation adjustments	—	—	—	224,742	-1,002,766	—	-778,024
Change in net gains and losses not recognized in the income statement	—	—	—	526,226	-1,002,766	—	-476,540
Changes due to merger	—	—	222,393	—	—	—	222,393
Exercise of convertible bonds	—	—	452,617	—	—	—	452,617
Net income	—	—	—	—	—	663,299	663,299
Balance, 31 December 1998	48,500,000	485,000	1,204,414	9,101,326	192,434	7,023,159	18,006,333
Change in net unrealized gains on investments (excl. translation adjustments)	—	—	—	-1,950,310	—	—	-1,950,310
Translation adjustments	—	—	—	-676,397	2,599,556	—	1,923,159
Changes in net gains and losses not recognized in the income statement	—	—	—	-2,626,707	2,599,556	—	-27,151
Issuance of common stock	128,713	1,287	53,495	—	—	—	54,782
Dividends	—	—	—	—	—	-655,385	-655,385
Exercise of convertible bonds	—	—	10,881	—	—	—	10,881
Net income	—	—	—	—	—	2,783,652	2,783,652
Balance, 31 December 1999	48,628,713	486,287	1,268,790	6,474,619	2,791,990	9,151,426	20,173,112

in CHF thousands, except number of shares

1 The Zurich Allied Group of Companies published financial statements were prepared in accordance with International Accounting Standards.

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

C. Zurich Allied

Notes to the financial statements

THE COMPANY

Zurich Allied AG was incorporated on 25 February 1998. Pursuant to the reorganization of the Zurich Group for the purpose of the merger between the financial services businesses of B.A.T. Industries and the Zurich Group, the Zurich Insurance Company shares were exchanged for Zurich Allied shares in 1998. Holders of Zurich Insurance Company shares received the same number of Zurich Allied shares at no charge. Upon the merger on 7 September 1998, Zurich Allied contributed its businesses to Zurich Financial Services in exchange for 57 per cent. of the shares of that company, while Allied Zurich contributed its businesses (the former financial services businesses of B.A.T. Industries) in exchange for 43 per cent. of the shares of Zurich Financial Services. In addition, Allied Zurich and Zurich Allied each hold one income share (Genussschein) in Zurich Financial Services.

The governing agreement sets out the relationship between Allied Zurich and Zurich Allied and provides for the governance of the Zurich Financial Services Group.

The company has no employees.

BASIS OF PREPARATION

The published financial statements presented the holding company Zurich Allied AG (Zurich Allied AG Holding Company) as well as the group of companies of Zurich Allied AG (Zurich Allied Group of Companies). Zurich Allied Group of Companies comprises Zurich Allied AG and its 57 per cent. interest in the Zurich Financial Services Group.

Zurich Allied Group of Companies presented its published financial statements in accordance with International Accounting Standards (IAS). Zurich Allied AG Holding Company presented its financial statements in accordance with Swiss Law.

Zurich Allied Group of Companies (International Accounting Standards)

A 1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of preparation

The published financial statements of Zurich Allied Group of Companies have been prepared under the historical cost convention, in accordance with International Accounting Standards (IAS), and complied with Swiss Law and the listing rules of the Swiss Exchange.

(b) Accounting for investment in the Zurich Financial Services Group

Since as defined by IAS 27, neither Zurich Allied nor Allied Zurich has control of Zurich Financial Services, the equity method is used to account for Zurich Allied's interest in the Zurich Financial Services Group. Consequently, Zurich Allied reports only its 57 per cent. share of the Zurich Financial Services Group's earnings and shareholders' equity. Dividends received reduce the carrying amount of the investment. Unrealized gains on the investment in the Zurich Financial Services Group are recorded directly in shareholders' equity.

The merger of the financial services businesses of B.A.T. Industries with the Zurich Group, to create Zurich Financial Services, was accounted for as a uniting of interests; accordingly, the financial statements of the Zurich Financial Services Group, and therefore Zurich Allied's interest in the Zurich Financial Services Group, reflect the activity of both combining enterprises on a historical basis as though they had been combined as of the beginning of the earliest period presented.

A 2. SHARE IN THE ZURICH FINANCIAL SERVICES GROUP'S EARNINGS AFTER TAXES AND MINORITY INTERESTS

This amount represents 57 per cent. of the Zurich Financial Services Group's earnings after taxes and after minority interests translated at the respective CHF/USD average exchange rates for the years ended 31 December.

A 3. EARNINGS PER SHARE

For the purpose of computing earnings per share, the shares held by the Zurich Financial Services Group companies (448,779 in 1999 and 473,724 in 1998) are considered outstanding. Earnings per share is calculated in accordance with the equity accounting method considering Zurich Allied's 57 per cent. share in the Zurich Financial Services Group's net income. Diluted earnings per share is computed by considering the potential numbers of shares to be issued under share

C. Zurich Allied

compensation and incentive plans. The potential number of shares is calculated based on the difference between the fair value and the exercise price.

Earnings per share (EPS)	Net income in CHF thousands		Shares outstanding Weighted average		Per share amount in CHF	
	1999	1998	1999	1998	1999	1998
Basic EPS	2,783,652	663,299	48,570,837	48,500,000	57.31	13.68
Effect of dilutive share compensation and incentive plans	–	–	226,763	47,612	–0.27	–0.02
Diluted EPS	2,783,652	663,299	48,797,600	48,547,612	57.04	13.66

Zurich Allied AG Holding Company (Swiss Law)

B 1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of preparation

The published financial statements of Zurich Allied AG Holding Company were prepared in accordance with Swiss law and complied with the listing rules of the Swiss Exchange.

(b) Exchange rates

Foreign currency expenditures and income are converted at exchange rates ruling at the relevant transaction dates. Assets and liabilities in foreign currencies are converted at year-end exchange rates.

(c) Equity securities

Equity securities are valued at cost.

B 2. DIVIDEND INCOME

Dividends are received by Allied Zurich and Zurich Allied in such amounts as will enable them to pay dividends to their own shareholders in the proportions 43:57 after adjusting for their respective expenses, including tax payable. The governing agreement sets out the manner in which dividends may be paid to Allied Zurich and Zurich Allied from the various members of the Zurich Financial Services Group. It provides that Allied Zurich and Zurich Allied may each pay one dividend per annum following their respective annual general meetings and that Allied Zurich and Zurich Allied shall synchronize, to the fullest extent possible, the dates of announcement of dividends, the dates of their annual general meetings and their dividend payment dates.

Both top holding companies hold one income share (Genussschein) in Zurich Financial Services, which confers the right to receive dividends pursuant to a decision of the shareholders' meeting to this effect. The income shares confer no other shareholders' rights such as voting rights or the right to subscribe for new shares.

Dividend income of Zurich Allied consists of the dividends of CHF 840,000,000 for the financial year 1999 as approved by the general shareholders' meeting of Zurich Financial Services on 4 April 2000.

B 3. INVESTMENT IN THE ZURICH FINANCIAL SERVICES GROUP

This investment represents a 57 per cent. interest in Zurich Financial Services (share capital CHF 1.6 billion), domiciled in Zurich, Switzerland, which is the holding company of the Zurich Financial Services Group.

The carrying value corresponds to the book value of Zurich Insurance Company as at 31 December 1997 after appropriation of profit. It was contributed to Zurich Allied and thereafter to Zurich Financial Services pursuant to the contribution agreements.

B 4. AUTHORIZED AND CONTINGENT SHARE CAPITAL

Zurich Allied has the following authorized and contingent share capital:

– Authorized share capital

- (a) Authorized share capital not exceeding CHF 48,500,000 (up to 4,850,000 shares with a par value of CHF 10 each). The board of directors is authorized to restrict or withdraw the pre-emptive rights of shareholders and allocate them to third parties if the shares are to be used:

Part VII – Financial Information on Allied Zurich, Zurich Allied and Zurich Financial Services

C. Zurich Allied

- (i) for the take-over of an enterprise, of parts of an enterprise or of participations or if issuing shares for the financing of such transactions; or
 - (ii) for the purpose of expanding the scope of shareholders in connection with the quotation of shares on foreign stock exchanges.
- (b) Authorized share capital not exceeding CHF 121,250,000 (up to 12,125,000 shares with a par value of CHF 10 each). The pre-emptive rights of shareholders are withdrawn in relation to such shares issued. The issued shares are to be used only as consideration for, or in connection with, the financing of the purchase of shares of Zurich Financial Services, from Allied Zurich in circumstances under which a take-over offer is made for the shares of Allied Zurich without a take-over offer being made on substantially equivalent terms for the shares of Zurich Allied.

The number of shares issued by the board of directors pursuant to (a) and (b) may in the aggregate not exceed 12,125,000. The number of shares pursuant to either (a) or (b) shall be deducted from the aggregate number.

– Contingent share capital

- (a) Contingent share capital not exceeding CHF 25,000,000 (up to 2,500,000 shares with a par value of CHF 10 each) through exercise of conversion and/or option rights that are granted in connection with the issuance of bonds or similar debt instruments by the company or one of its group companies in national or international capital markets and/or by exercising option rights which are granted to the shareholders. The right of shareholders for advance subscription may be restricted or withdrawn.
- (b) Contingent share capital not exceeding CHF 10,000,000 (up to 1,000,000 shares with a par value of CHF 10) for the purpose of employee share ownership of the company or one of its Group companies. The pre-emptive rights of shareholders as well as the right of advance subscription are excluded. For share issues under the contingent capital see note B 5.

B 5. COMMON STOCK

During the year 1999 Zurich Allied issued 128,713 shares out of the contingent share capital at a par value of CHF 10 for the purpose of share compensation and incentive plans of several companies of the Zurich Financial Services Group. The additional paid-in capital on these shares issued is accounted for in Zurich Financial Services and therefore reflected in the shareholders' equity of the Zurich Financial Services Group.

In accordance with legal requirements, the articles of Zurich Allied were modified on 2 March 2000. The share capital now amounts to CHF 486,287,130 and the contingent share capital for the purpose of share compensation and incentive plans has been reduced from CHF 10,000,000 to CHF 8,712,870.

B 6. ZURICH ALLIED SHARES HELD BY GROUP COMPANIES OF ZURICH FINANCIAL SERVICES

This reserve fund corresponds to the purchase value of all Zurich Allied shares held by Group companies of Zurich Financial Services as shown in the table below.

Zurich Allied shares held by Zurich Financial Services Group companies	Number of shares		Purchase value ¹	
	1999	1998	1999	1998
Opening balance	473,724	1,656,197	176,132	163,071
Conversion of convertible debt	-33,011	-1,211,267	—	—
Additions during the period	102,977	102,459	92,765	76,503
Sales during the period	-94,911	-73,665	-71,219	-63,442
Final total on 31 December	448,779	473,724	197,678	176,132
Average purchase price of additions	CHF 901	CHF 747	—	—
Average selling price	CHF 849	CHF 745	—	—

1 in CHF thousands

Part VIII

The Scheme

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

No 2526 of 2000

In the matter of

Allied Zurich p.l.c.

and in the matter of

The Companies Act 1985

Scheme of arrangement

(under section 425 of the Companies Act 1985)

Between

Allied Zurich

and **the Scheme Shareholders**

(each as hereinafter defined)

SCHEME OF ARRANGEMENT

Preliminary

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall have the following meanings namely:

Act means the Companies Act 1985 (as amended);

Allottees has the meaning set forth in clause 2;

Allied Zurich means Allied Zurich p.l.c.;

Allied Zurich ADR Depositary means Citibank N.A.;

Allied Zurich Certificate has the meaning set forth in clause 1(c)(i);

Allied Zurich Shares means ordinary shares of 25 pence each in the capital of Allied Zurich;

Business Day means a day (excluding Saturday and Sunday) on which banks generally are open for business in the City of London;

CDIs means CREST Depository Interests representing entitlements to new Zurich Financial Services Shares;

certificated or **in certificated form** means not in uncertificated form;

Conditions means the conditions set out in Part III of the document of which this Scheme forms part;

Court means The High Court of Justice in England and Wales;

Court Meeting means the meeting of members of Allied Zurich convened by order of the Court pursuant to section 425 of the Act to consider and, if thought fit, approve this Scheme, including any adjournment thereof;

Part VIII – The Scheme

Court Order means the order of the Court sanctioning this Scheme under section 425 of the Act and confirming the reduction of capital under section 137 of the Act;

CREST means the UK system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the CREST Regulations;

CRESTCo means CRESTCo Limited;

CREST Regulations means the Uncertificated Securities Regulations 1995;

Extraordinary General Meeting means the extraordinary general meeting of Allied Zurich Shareholders, notice of which is set out in Part X of the document of which this Scheme forms part, and any adjournment thereof;

holder includes any person entitled to shares of Allied Zurich by transmission;

Lloyds TSB means Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA;

members means members of Allied Zurich on the register of members at any relevant date;

new Zurich Financial Services means New Zurich Financial Services, a company incorporated on 26 April 2000 as a joint stock company as defined in articles 620ss of the Swiss Code of Obligations and registered in the Register of Commerce of the Canton of Zurich with registered number CH-020.3.0323.083-6;

new Zurich Financial Services Shares means the ordinary shares of CHF 10 each in the share capital of new Zurich Financial Services;

New Allied Zurich Shares has the meaning set forth in clause 1(b)(i);

Scheme means this scheme of arrangement in its present form or with any modification thereof, addition thereto or condition approved or required by the Court;

Scheme Effective Date means the date on which this Scheme becomes effective in accordance with clause 6(a) hereof;

Scheme Record Time means 4.30 p.m. on the Scheme Effective Date;

Scheme Shareholder means a holder of Scheme Shares as at the Scheme Record Time;

Scheme Shares means (i) the Allied Zurich Shares in issue at the date of this Scheme, (ii) any additional Allied Zurich Shares in issue fully paid or credited as fully paid at the Voting Record Time and (iii) any Allied Zurich Shares issued after the passing of the special resolution set out in the notice convening the Extraordinary General Meeting and prior to 6.00 p.m. on the Business Day immediately before the date on which the Court Order is made, and in respect of which the original or any subsequent holders thereof shall be bound by this Scheme or in respect of which the original or any subsequent holders shall have agreed in writing to be so bound, but in each case excluding any Allied Zurich Shares repurchased by Allied Zurich on or before the Scheme Effective Date;

Share Participation Schemes means together the Zurich Financial Services UK Share Participation Plan, the Zurich Financial Services International Share Participation Plan, the B.A.T Industries UK Share Participation Scheme, the B.A.T Industries International Share Participation Scheme and all sub-schemes established pursuant to any of such schemes;

Sharesave Plan means the Zurich Financial Services Sharesave Plan for UK Employees;

Share Schemes means the Share Participation Schemes, the Transitional Plan, the Sharesave Plan, the Allied Dunbar Franchise Share Option Scheme, the Allied Dunbar Managers Share Option Scheme, the Zurich Financial Services Group Share Option Plan for Selected Executives, the Zurich Financial Services Group Share Option Plan for Employees, the Zurich Financial Services Long-Term Performance Share Plan for Selected Executives, the Zurich Financial Services Long-Term Performance Share Plan for Employees and the Scudder Kemper Investments Warrant Agreement;

Statements of Entitlement means the statements of entitlement to CDIs to be issued by Lloyds TSB;

Transitional Plan means the Zurich Financial Services Share Option Plan for UK Employees;

uncertificated or **in uncertificated form** means shares which are recorded on the relevant register as being held in uncertificated form in CREST, and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST; and

(B) In this Scheme, references to clauses shall be to clauses of this Scheme.

(D) At the date of this Scheme the issued share capital of new Zurich Financial Services is CHF 100,000 divided into 10,000 fully paid registered shares with a nominal value of CHF 10 each.

(F) New Zurich Financial Services has agreed to appear by counsel on the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it or on its behalf for the purpose of giving effect to this Scheme.

1. Cancellation of the Scheme Shares

(b) Forthwith upon the reduction of capital referred to in paragraph (a) above taking effect:

(ii) Allied Zurich shall apply the credit arising in its books of account as a result of the cancellation of the Scheme Shares in paying up in full at par the New Allied Zurich Shares created pursuant to clause 1(b)(i), which shall be allotted and issued credited as fully paid to new Zurich Financial Services and/or its nominees.

(i) each existing certificate, instrument or any other document representing a holding of Scheme Shares ("**Allied Zurich Certificate**") shall cease to be valid for any purpose and every holder of such a document shall be bound on the request of Allied Zurich to deliver up to Allied Zurich the Allied Zurich Certificate representing his holding; and

2. Consideration for the cancellation of the Scheme Shares

For every 42.928 Scheme Shares held 1 new Zurich Financial Services Share
and so in proportion for any other number of Scheme Shares held.

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Part VIII – The Scheme

International Nominees Limited, in which case the relevant Scheme Shareholder (or his or her nominee) shall be the Allottee in respect of such shares.

- (c) Notwithstanding the provisions of clause 2(b), the trustees of the Share Participation Schemes (or their nominees) and, if new Zurich Financial Services and the Allied Zurich ADR Depositary shall so agree, the Allied Zurich ADR Depositary (or its nominee) shall be the Allottees in respect of the new Zurich Financial Services Shares to which they are entitled pursuant to clause 2(a) above.
- (d) No fraction of a new Zurich Financial Services Share shall be allotted to Scheme Shareholders or their nominees, but all fractions to which, but for this sub-clause, Scheme Shareholders would have been entitled shall be aggregated and sold at market value and the net cash proceeds of sale shall be paid to and among the persons entitled to such fractions in proportion to their entitlement.

3. Allotment and issue of new Zurich Financial Services Shares and CDIs

- (a) Within 14 days after the Scheme Effective Date, new Zurich Financial Services shall:
 - (i) allot and issue all new Zurich Financial Services Shares which it is required to allot and issue to the Allottees pursuant to clause 2(a) and clause 2(b) and transfer all new Zurich Financial Services Shares (if any) which it is required to transfer to CREST International Nominees Limited pursuant to clause 2(b), for which purpose new Zurich Financial Services may, if necessary, appoint any person to execute and deliver on behalf of the relevant Allottee a form of transfer in favour of CREST International Nominees Limited;
 - (ii) procure that such sums as may be payable in respect of fractional entitlements pursuant to clause 2(d) are paid to the persons entitled to them either:
 - (1) for those Scheme Shareholders who hold their Scheme Shares in certificated form at the Scheme Record Time by the delivery in accordance with clause 4(a) to the persons entitled thereto, or as they may in writing direct, of cheques or warrants for the sums payable to them; or
 - (2) for those Scheme Shareholders who hold their Scheme Shares in uncertificated form at the Scheme Record Time, by ensuring that an assured payment obligation in respect of the sums payable to them is credited in the CREST account in which their Scheme Shares are held at the Scheme Record Time in accordance with the CREST assured payment arrangements, provided that new Zurich Financial Services may, if it so determines, make payment of any such sum by cheque or warrant in accordance with clause 4(a);
 - (iii) procure that CREST Depositary Limited issues to Lloyds TSB (as receiving agent) CDIs for the benefit of Scheme Shareholders on the basis of 1 CDI for each new Zurich Financial Services Share to which such Scheme Shareholders are entitled; and
 - (iv) procure that Lloyds TSB:
 - (1) delivers such CDIs through CREST to either the stock account in CREST of Scheme Shareholders in which their Scheme Shares were held at the Scheme Record Time or, in the case of those Scheme Shareholders who do not hold their Scheme Shares in uncertificated form at the Scheme Record Time, to the CREST account of a corporate nominee operated by Lloyds TSB for the benefit of such Scheme Shareholders; and
 - (2) posts Statements of Entitlement to Scheme Shareholders entitled to receive CDIs and who did not, as at the Scheme Record Time, hold Scheme Shares in uncertificated form.
- (b) Any director of new Zurich Financial Services shall be authorised on behalf of the relevant Scheme Shareholders to execute all documents that are necessary or desirable to give effect to the delivery described in clause 3(a)(iv)(1) and the continued holding of CDIs by a corporate nominee operated by Lloyds TSB.
- (c) The provisions of this clause 3 shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any Scheme Shareholder with a registered address outside the United Kingdom or whom new Zurich Financial Services reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom, new Zurich Financial Services is advised that the allotment and issue of new Zurich Financial Services Shares and/or the crediting of CDIs pursuant to this clause 3 would or may infringe the laws of any jurisdiction outside the United Kingdom or would or may require Allied Zurich or new Zurich Financial Services to observe any governmental or other consent or any registration, filing or other

formality with which Allied Zurich or new Zurich Financial Services is unable to comply or which Allied Zurich or new Zurich Financial Services regards as unduly onerous, new Zurich Financial Services may, in its sole discretion, either:

- (i) determine that no new Zurich Financial Services Shares shall be allotted and issued and (as appropriate) no CDIs shall be credited to the account of such Scheme Shareholder under this clause 3 but that new Zurich Financial Services Shares and/or CDIs (as new Zurich Financial Services shall in its absolute discretion decide) shall instead be allotted and issued to or credited to the account of a nominee appointed by new Zurich Financial Services on terms that the nominee shall, as soon as reasonably practicable following the Scheme Effective Date, sell the new Zurich Financial Services Shares and/or sell or procure the sale of the CDIs so allotted and issued or credited at the best price which can reasonably be obtained and shall, within seven days after any such sale, account for the net proceeds of such sale (after the deduction of all expenses and commissions, including any value added tax payable thereon) by delivering a cheque or warrant to the holder of such Scheme Shares in accordance with the provisions of clause 4(a); or
- (ii) determine that new Zurich Financial Services Shares and/or CDIs (as new Zurich Financial Services shall in its absolute discretion decide) shall be allotted and issued to or credited to the account of such Scheme Shareholder and sold on that Scheme Shareholder's behalf. New Zurich Financial Services shall appoint a person to act pursuant to this clause 3(c)(ii) and such person shall be authorised on behalf of such Scheme Shareholder to procure that any new Zurich Financial Services Shares and/or CDIs in respect of which new Zurich Financial Services has made such a determination shall as soon as reasonably practicable following the Scheme Effective Date, be sold at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions, including any value added tax payable thereon) shall within seven days after any such sale be paid to such holder by cheque in accordance with the provisions of clause 4(a). To give effect to any such sale, the person so appointed shall be authorised on behalf of such shareholder to execute and deliver a form of transfer and to give such instructions and to do all other things which he may consider expedient in connection with such sale. In the absence of bad faith or wilful default none of Allied Zurich, new Zurich Financial Services nor the person so appointed shall be responsible for any loss or damage to any person arising from any transaction pursuant to this clause 3(c)(ii) or for any alleged insufficiencies of any sale price or the timing of such sale.

4. Deliveries of certificates, cheques, warrants

- (a) All deliveries of Statements of Entitlement, cheques or warrants required to be made pursuant to the Scheme shall be effected by posting the same in prepaid envelopes addressed to the persons entitled thereto at their respective addresses as appearing in the register of members of Allied Zurich at the Scheme Record Time (or, in the case of joint holders, to the address of that one of the joint holders whose name stands first in the register of members in respect of such joint holding) or in accordance with any special instructions received in writing from a duly authorised person regarding communications.
- (b) None of Allied Zurich, new Zurich Financial Services or any nominee referred to in clause 3(c)(i) nor the person appointed by new Zurich Financial Services pursuant to clause 3(c)(ii) shall be responsible for any loss or delay in the transmission of any Statements of Entitlement, cheques or warrants posted in accordance clause 4(a), which shall be posted at the risk of the persons entitled thereto.
- (c) All cheques and warrants shall be made payable to the holder or, in the case of joint holders, to the first named of such holders of the Scheme Shares concerned and the encashment of any such cheque or warrant shall be a complete discharge to new Zurich Financial Services, the nominee referred to in clause 3(c)(i) and the person appointed by new Zurich Financial Services pursuant to clause 3(c)(ii) for the moneys represented thereby.

5. Rights Attaching to new Zurich Financial Services Shares

The new Zurich Financial Services Shares to be issued pursuant to clause 2 shall rank *pari passu* in all respects with all other fully paid new Zurich Financial Services Shares in issue at the Scheme Effective Date, including for any dividend or other distribution declared, paid or made by new Zurich Financial Services on its ordinary share capital, the record date for which falls on or after the Scheme Effective Date.

6. Scheme Effective Date

- (a) This Scheme shall become effective as soon as an office copy of the Court Order shall have been delivered to the Registrar of Companies in England and Wales and registered by him.

Part VIII – The Scheme

- (b) Unless this Scheme shall have become effective on or before 31 December 2000, or such later date, if any, as Allied Zurich and new Zurich Financial Services may agree and the Court may approve, this Scheme shall lapse.

7. Modification

Allied Zurich and new Zurich Financial Services may jointly consent on behalf of all persons concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.

Dated 26 May 2000

Part IX

Notice of Court Meeting

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

No 2526 of 2000

In the matter of

Allied Zurich p.l.c.

and in the matter of

The Companies Act 1985

NOTICE IS HEREBY GIVEN that by an Order dated 22 May 2000 made in the above matters the Court has directed that a Meeting of the holders of Allied Zurich Shares (as defined in the scheme of arrangement hereinafter mentioned) be convened for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement pursuant to section 425 of the Companies Act 1985 proposed to be made between the above-named company (the "**Company**"), and the Scheme Shareholders (as defined in the said scheme of arrangement), and that such Meeting will be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Tuesday 20 June 2000 at 11.00 a.m. at which place and time all holders of Allied Zurich Shares are requested to attend.

A copy of the said scheme of arrangement and a copy of the explanatory statement required to be furnished pursuant to section 426 of the above-mentioned Act are incorporated in the document of which this Notice forms part.

The holders of Allied Zurich Shares may vote in person at the said Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their place. A proxy need not be a member of the Company but must attend the Meeting in person to represent the appointer. A blue reply-paid form of proxy for use at the Meeting is enclosed with this Notice.

In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

Only those holders of Allied Zurich Shares registered in the register of members of the Company as at 6.00 p.m. on Sunday 18 June 2000 or, in the event that the Meeting is adjourned, in the register of members at 6.00 p.m. on the day prior to the day immediately preceding such adjourned meeting, shall be entitled to attend or vote in respect of the number of shares registered in their name at the relevant time. Changes to entries in the register of members after 6.00 p.m. on Sunday 18 June 2000, or, in the event that the Meeting is adjourned, after 6.00 p.m. on the day prior to the day immediately preceding such adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

It is requested that forms appointing proxies together with any power of attorney or any other authority (if any) under which it is signed or an office or certified copy thereof be lodged with the Company's registrar, Lloyds TSB Registrars at The Causeway, Worthing, West Sussex, BN99 6BJ not less than 48 hours before the time appointed for the said Meeting but if forms are not so lodged they may be handed to the Chairman at the Meeting.

Members who have returned forms of proxy are not thereby precluded from attending the Meeting and voting in person if they so wish.

By the said Order the Court has appointed Lord Cairns or failing him VL Sankey or failing him REJ Gilmore to act as Chairman of the said Meeting and has directed the Chairman to report the results of the Meeting to the Court.

The said Scheme of Arrangement will be subject to the subsequent sanction of the Court.

Dated: 26 May 2000

Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS

Solicitors for the Company

Part X

Notice of Extraordinary General Meeting

Allied Zurich p.l.c.

NOTICE IS HEREBY GIVEN that an **EXTRAORDINARY GENERAL MEETING** of Allied Zurich p.l.c. (the “**Company**”) will be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Tuesday 20 June 2000 at 11.05 a.m. (or as soon thereafter as the Court Meeting (as defined in the scheme of arrangement hereinafter mentioned) shall have concluded or been adjourned) for the purpose of considering and, if thought fit, passing the following resolution which shall be proposed as a special resolution:

SPECIAL RESOLUTION:

THAT:

1. the scheme of arrangement dated 26 May 2000 (the “**Scheme**”) between the Company and the Scheme Shareholders (each as defined in the Scheme), a print of which has been produced to this Meeting and signed for the purpose of identification by the Chairman of the Meeting, be and is hereby approved in its original form or with any modification thereof, addition or condition thereto imposed or approved by the Court;
2. for the purpose of giving effect to the Scheme, the capital of the Company be reduced by the cancellation of the Scheme Shares (as defined in the Scheme);
3. forthwith and contingently upon the reduction of capital referred to in paragraph 2 of this Resolution taking effect, the authorised share capital of the Company be and is hereby increased to its former amount by the creation of such number of new ordinary shares of 25 pence each in the capital of the Company having the rights and being subject to the restrictions set out in the Articles of Association of the Company as shall be equal to the number of Scheme Shares cancelled as aforesaid;
4. for the purpose of giving effect to the Scheme, the Directors be and are hereby authorised for the purposes of section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot new ordinary shares of 25 pence (being relevant securities within the meaning of section 80 of the Companies Act 1985) to new Zurich Financial Services (as defined in the Scheme) provided that (i) the maximum nominal amount of ordinary shares which may be allotted hereunder is £500,000,000; (ii) this authority shall expire on the date which is eighteen months after the date of this Resolution; and (iii) this authority shall be without prejudice to any other authority under the said section 80 previously granted and in force on the date on which this Resolution is passed;
5. the credit arising in the Company’s books of account as a result of the cancellation of the Scheme Shares referred to in paragraph 2 of this Resolution shall be capitalised and applied in paying up in full at par such number of new ordinary shares of 25 pence as shall have been created pursuant to paragraph 3 of this Resolution, credited fully paid to new Zurich Financial Services or its nominees;
6. the Company be and is hereby generally and unconditionally authorised in accordance with section 166 of the Companies Act 1985 to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 25 pence each in the capital of the Company, provided that:
 - (a) the maximum aggregate number of shares hereby authorised to be purchased is 235,000,000;
 - (b) in the event that such purchases are made by way of tender offer, the maximum price which may be paid for any share pursuant to this authority is 1500 pence;
 - (c) in the event that such purchases are made otherwise than by way of tender offer, the maximum price which may be paid for any share pursuant to this authority is an amount equal to 105 per cent. of the average of the middle-market quotations for a share taken from the list maintained by the UK Listing Authority pursuant to Part IV of the Financial Services Act 1986 for the five business days immediately preceding the day on which such share is purchased;
 - (d) the minimum price which may be so paid for any share is 25 pence; and
 - (e) unless renewed, the authority hereby conferred shall expire on the date which is eighteen months after the date of this Resolution;

7. the Articles of Association of the Company be and are hereby amended by the insertion in the appropriate alphabetical position in Article 1(1) of the Company's Articles of Association of the following additional definitions:

“Preference Dividend”	has the meaning ascribed to it in Article 7A(1);”
“preference dividend payment date”	has the meaning ascribed to it in Article 7A(2);”
“preference dividend period”	has the meaning ascribed to it in Article 7A(2);”
“Preference Shares”	means preference shares in the Company having the rights set out in Article 7A;”
“Redemption Date”	has the meaning ascribed to it in Article 7B(2);”
“Redemption Notice”	has the meaning ascribed to it in Article 7B(1);”

8. the Articles of Association of the Company be and are hereby amended by the adoption and inclusion of the following new Articles as Articles 7A and 7B:

“PREFERENCE SHARES

7A. The rights attaching to the Preference Shares are as follows:

- (1) The holders of Preference Shares shall be entitled, in priority to the holders of any other class of share in the Company's share capital, to receive out of the profits of the Company available for distribution and resolved under the Articles to be distributed in respect of each financial year of the Company a preferential dividend (the **“Preference Dividend”**) (which may be cumulative or non-cumulative as determined by the directors prior to the issue of the Preference Shares in question) at the rate of such percentage per annum on the amount for the time being paid up (or credited as paid up) including any premium on each Preference Share held by them respectively as may be determined by the directors prior to the issue of the Preference Shares in question, such rate to be inclusive or exclusive of any associated tax credit, as determined by the directors at that time.
- (2) The Preference Dividend shall accrue on a daily basis and shall be payable on such date or dates (each a **“preference dividend payment date”**) as may be determined by the directors prior to the issue of the Preference Shares in question (or if such date is not a business day on the next following business day) in each year in respect of the period (the **“preference dividend period”**) ending on the relevant preference dividend payment date. The first such payment shall be made on such date as may be determined by the directors in respect of the period from the date of issue of the Preference Share(s) concerned until the next following preference dividend payment date. The Preference Dividends shall be paid to the holders of the Preference Shares whose names appear on the register at 12 noon 2 business days before the relevant dividend payment date.
- (3) On a distribution of assets of the Company among its members on a winding up or other return of capital (other than a redemption or purchase by the Company of its own shares), the holders of the Preference Shares shall be entitled, in priority to any holder of any other class of shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each Preference Share together with any premium and a sum equal to any arrears and accruals of the Preference Dividend (whether earned or declared or not) payable on such share calculated up to and including the date of the commencement of the winding up or (in any other case) the date of the return of capital (save that in the case of Preference Shares which are issued as non-cumulative, regard shall be had only to the amount of such accrued dividend as relates to the dividend period current at that time).
- (4) Save as provided in Articles 7A(2) and 7A(3), the holders of the Preference Shares shall not be entitled to any participation in the profits or assets of the Company.

Part X – Notice of Extraordinary General Meeting

- (5) The holders of Preference Shares shall be entitled to receive notice of and to attend any general meeting of the Company but shall not have the right to speak or vote in respect of their holdings of Preference Shares, subject to the following exceptions:
- (a) if at the date of the meeting:
 - (i) in the case of Preference Shares which are issued as cumulative, any part of any Preference Dividend is for whatever reason in arrears for more than six months; or
 - (ii) in the case of Preference Shares which are issued as non-cumulative, the preference dividend in respect of the most recent dividend payment date has not been paid in fullthe holders of the Preference Shares shall be entitled to attend, speak and vote on any resolution at such meeting or any adjournment of it; or
 - (b) if it is proposed at the meeting to consider any resolution approving the winding up of the Company, the holders of the Preference Shares shall be entitled to attend such a meeting and to speak and vote only on such resolution or any motion for adjournment of the meeting before such resolution is voted on; or
 - (c) if it is proposed at the meeting to consider any resolution which abrogates or varies or otherwise directly affects the special rights and privileges attaching to the Preference Shares, the holders of the Preference Shares shall have the right to attend such a meeting and to speak and vote only on such resolution or any motion for adjournment of the meeting before such resolution is voted on.
- (6) If entitled to vote at a general meeting of the Company, every holder of Preference Shares present in person or by proxy (or, being a corporation, by a duly authorised representative) shall have one vote for every Preference Share of which he is the holder.
- (7) Notwithstanding the rights of the holders of Preference Shares under Article 7A(5), the written consent of the holders of three-quarters in nominal value of the issued Preference Shares or the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the Preference Shares is required:
- (a) if the special rights and privileges attaching to the Preference Shares are to be varied or abrogated or otherwise directly affected in any way;
 - (b) if any shares or securities are to be created, allotted or issued by the Company which rank in priority to the Preference Shares (or any right to call for the allotment or issue of such shares or securities is to be granted by the Company)
- and for the avoidance of doubt the creation, allotment or issue of any shares or securities other than as described in this Article 7A(7)(b) shall not constitute a variation of the rights attaching to the Preference Shares.
- (8) All provisions of the Articles relating to general meetings of the Company shall apply mutatis mutandis to every general meeting of the holders of the Preference Shares.
- 7B(1) Subject to the Act, the Company shall have the right at any time to redeem any Preference Share (provided that it is credited as fully paid) by giving to the registered holder not less than 1 month's written notice of its intention to do so (the **"Redemption Notice"**);
- (2) The Redemption Notice must specify the number of Preference Shares to be redeemed, the amount payable on redemption and the time (**"Redemption Date"**) and place at which:
- (a) the share certificates in respect of the Preference Shares must be delivered to the Company for cancellation; and
 - (b) the Company shall pay to the registered holders of the Preference Shares to be redeemed the redemption money in respect of such Preference Shares together with a sum equal to any arrears and accruals of the Preference Dividend (whether earned or declared or not) and any interest payable calculated down to the date of such repayment;
- and the holders of the Preference Shares to be redeemed shall be bound by the Redemption Notice;

- (3) the amount to be paid on redemption of each Preference Share shall equal the amount credited as paid up on it (including any share premium) together with:
 - (a) in the case of Preference Shares which were issued as cumulative, all arrears or accruals of the Preference Dividend (whether earned or declared or not) calculated up to and including the Redemption Date; or
 - (b) in the case of Preference Shares which were issued as non-cumulative, such amount of Preference Dividend as has accrued but not been paid in respect of the then current dividend period;
- (4) the Preference Dividend shall cease to accrue on any Preference Shares to be redeemed on the Redemption Date except on any share for which the Company has failed or refused to pay the redemption amount on due presentation of the certificate(s) (or an indemnity in a form satisfactory to the Company);
- (5) if any holder of a Preference Share to be redeemed fails or refuses to surrender the share certificate(s) or indemnity for such Preference Share (or fails or refuses to accept the redemption money payable in respect of it), the Company shall retain such money and hold it but without interest or further obligation whatever;
- (6) no Preference Share shall be redeemed otherwise than out of distributable profits or the proceeds of a fresh issue of shares made for the purposes of the redemption or out of capital to the extent permitted by the Act but the premium payable on redemption shall be paid either out of distributable profits, or to the extent permitted by law, out of the share premium account of the Company;
- (7) no Preference Share redeemed by the Company shall be capable of re-issue and on redemption of any Preference Shares the directors may convert the authorised share capital created as a consequence of such redemption into shares of any other class of share capital into which the authorised share capital of the Company is or may at that time be divided of a like nominal amount (as nearly as may be) as the shares of such class then in issue or into unclassified shares of the same nominal amount as the Preference Shares."
9. the authorised share capital of the Company be and hereby is increased by the creation of 235,000,000 Preference shares of 25 pence each having the rights and being subject to the restrictions set out in the Company's Articles of Association (as amended by this Resolution);
10. for the purpose of giving effect to the Share Repurchase, the Directors be and are hereby authorised for the purposes of section 80 of the Companies Act 1985 to effect the allotment of Preference Shares of 25 pence (being relevant securities within the meaning of section 80 of the Companies Act 1985) provided that (i) the maximum nominal amount of shares which may be allotted hereunder is £58,750,000; (ii) this authority shall expire on the date which is eighteen months after the date of this Resolution; and (iii) this authority shall be without prejudice to any other authority under the said section 80 previously granted and in force on the date on which this resolution is passed.
11. the Articles of Association of the Company be and are hereby amended by the adoption and inclusion of the following new Article as Article 25A:

"25A Subject to the provisions of the Act, the board may declare interim dividends if it appears to the board that they are justified by the profits of the Company available for distribution, whereupon such an amount shall be irrevocably constituted as a debt immediately due and payable to the holders on the record date prescribed by the board in respect of such dividend of the shares in respect of which such dividend is declared. If the share capital is divided into different classes, the board may pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividend as well as on shares which confer preferential rights with regard to dividend, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any dividend payable on shares which confer preferential rights with regard to dividend is in arrear. The board may also pay at intervals settled by it any dividend payable at a fixed rate if it appears to the board that the profits available for distribution justify the payment. If the board acts in good faith it shall not incur any liability to the holders of shares conferring preferential rights with regard to dividend for any loss they may suffer by the lawful payment of an interim dividend on any shares which confer deferred or non-preferred rights with regard to dividend."
12. the Articles of Association of the Company be and are hereby amended by the adoption and inclusion of the following new Article as Article 116:

Part X – Notice of Extraordinary General Meeting

“SCHEME OF ARRANGEMENT

- 116 (1) In this Article, references to the “**Scheme**” are to the scheme of arrangement dated 26 May 2000 as it may be modified or added to in accordance with its terms and expressions defined in the Scheme shall have the same meaning when used in this Article notwithstanding any contrary provisions of these Articles.
- (2) Notwithstanding any other provision of these Articles, if the Company allots and issues any ordinary shares of 25 pence after the adoption of this Article but prior to 6.00 p.m. on the Business Day immediately before the date on which the Court Order to sanction the Scheme is made, such shares shall be allotted and issued subject to the terms of the Scheme and shall accordingly constitute Scheme Shares and the holder or holders of such shares shall be bound by the Scheme accordingly.
- (3) Subject to the Scheme taking effect, if (i) any Allied Zurich Shares are in issue on the Scheme Effective Date and are not Scheme Shares or (ii) any Allied Zurich Shares shall be allotted and issued after 6.00 p.m. on the Business Day immediately before the making of the Court Order to sanction the Scheme but before the Scheme Effective Date, then such shares shall be allotted and issued on terms that forthwith upon the Scheme taking effect they shall be transferred to new Zurich Financial Services or to its nominee(s) in consideration for the allotment and issue by new Zurich Financial Services to such allottees or subsequent holders or their nominees of one new Zurich Financial Services Share (to be settled in CREST in the form of a CDI on the basis set out in the Scheme insofar as such settlement is legally permissible) for every 42.928 Allied Zurich Shares so allotted and issued, and save in relation to provisions relating to transfer, such shares shall rank *pari passu* in all respects from the date of their allotment with the new Zurich Financial Services Shares issued pursuant to the Scheme, provided that no fraction of a new Zurich Financial Services Share shall be allotted so that for every such fraction allottees or subsequent holders shall instead be paid by new Zurich Financial Services an amount in cash equal to the value of fractional entitlements provided for by the Scheme.
- (4) Subject to the Scheme taking effect, if any Allied Zurich Shares shall be allotted and issued to any person or body other than the entity or entities which have or may acquire (by subscription or purchase) Allied Zurich Shares for the purpose of the Share Schemes (the “**Central Share Vehicle**”) or be transferred to any person after the Scheme Effective Date other than pursuant to the Scheme, then such shares shall be allotted and issued or transferred on terms that forthwith upon the issue or transfer thereof they shall be transferred to new Zurich Financial Services or to its nominee(s) in consideration for the allotment and issue by new Zurich Financial Services to such allottees or subsequent holders or their nominees of one new Zurich Financial Services Share (or such other number as the directors of the Company shall determine and the Company’s auditors from time to time shall certify to be fair and reasonable in the event of any capitalisation issue, rights issue, subdivision, share split, consolidation, reduction or other variation of share capital of new Zurich Financial Services), to be settled in CREST in the form of a CDI on the basis set out in the Scheme insofar as such settlement is legally permissible, for every 42.928 Allied Zurich Shares so allotted and issued or transferred, and save in relation to provisions relating to transfer, such shares shall rank *pari passu* in all respects from the date of their allotment or transfer with the new Zurich Financial Services Shares issued pursuant to the Scheme, provided that no fraction of a new Zurich Financial Services Share shall be allotted or transferred so that for every such fraction allottees or subsequent holders shall instead be entitled to receive a cash sum in Sterling in respect of the fractional entitlement calculated by reference to the published closing market price on the SWX Swiss Exchange of a new Zurich Financial Services Share and to the Swiss Franc/Sterling exchange rate (as published in the Financial Times as the closing mid-point under the “**pound spot forward against the pound**” section) for the day on which new Zurich Financial Services Shares are transferred or allotted to the Optionholder.
- (5) In order to give effect to any transfer required by this Article Allied Zurich may appoint any person to execute and deliver on behalf of the relevant allottee or subsequent holder a form of transfer in favour of new Zurich Financial Services or its nominee(s) and to agree for and on behalf of such person or its nominee(s) to become a member of new Zurich Financial Services.”; and

13. the Directors be and are hereby authorised to agree terms for the amendment or variation of the Governing Agreement dated 7 September 1998 between the Company and Zurich Allied AG, in such manner and to such extent as they in their absolute discretion think fit for the purposes of facilitating the Scheme, and for termination of the Governing Agreement on the Scheme becoming effective.

Registered Office
22 Arlington Street, London SW1A 1RW

By Order of the Board
Derek Woodward
Company Secretary

Dated: 26 May 2000

Notes:

1. A member of the Company entitled to attend and vote at the Meeting may appoint in writing a proxy or proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company but must attend the Meeting in person to represent the appointor. Only members, proxies and authorised representatives of corporations which are members are entitled to attend the Meeting.
2. A white reply-paid form of proxy is enclosed with this document. To be valid, the form of proxy together with any power of attorney or any other authority (if any) under which it is signed or an office or certified copy thereof, must be received by the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6BJ, by 6.00 p.m. on Sunday 18 June 2000.
3. Members who have returned forms of proxy are not thereby precluded from attending the Meeting and voting in person if they so wish.
4. Entitlement to attend and vote at the said Meeting or any adjournment thereof and the number of votes which may be cast thereat will be determined by reference to the register of members of the Company as at 6.00 p.m. on Sunday 18 June 2000 or, in the event that the Meeting is adjourned, in the register of members at 6.00 p.m. on the day prior to the day immediately preceding such adjourned Meeting.

Part XI

Definitions

ADR Holders or Allied Zurich ADR Holders	holders of Allied Zurich ADRs
Allied Zurich ADR Depositary	Citibank N.A.
Allied Zurich ADR	an American Depositary Receipt evidencing an Allied Zurich ADS
Allied Zurich ADS	an American Depositary Share representing 2 Allied Zurich Shares
Allied Zurich Articles	the articles of association of Allied Zurich
Allied Zurich	Allied Zurich p.l.c., a public limited company incorporated in England with registered number 3525388
Allied Zurich Shareholder	an holder of Allied Zurich Shares
Allied Zurich Shares	ordinary shares of 25 pence each in the capital of Allied Zurich
Board	the board of directors of Allied Zurich
Business Day	a day (excluding Saturday and Sunday) on which banks generally are open for business in the City of London
Cazenove	Cazenove & Co.
CDI	a CREST Depository Interest, representing an entitlement to a new Zurich Financial Services Share, general details of which are contained in the CREST International Manual (April 2000)
Certificated or in Certificated Form	not in uncertificated form
CHF or Swiss Francs	the currency of Switzerland
Code	the City Code on Takeovers and Mergers
Combined Code	the combined code on corporate governance published by the UK Listing Authority
Companies Act	the Companies Act 1985 (as amended)
Completion	the contemporaneous completion of the Statutory Merger and the Scheme (on the Scheme Effective Date)
Conditions	the conditions set out in Part III of this document
Court	The High Court of Justice in England and Wales
Court Hearing	the court hearing at which the Court Order is made
Court Meeting	the meeting of members of Allied Zurich convened by order of the Court pursuant to section 425 of the Companies Act to consider and, if thought fit, approve the Scheme, such meeting to be held on 20 June 2000, and any adjournment thereof
Court Order or Order	the order of the Court sanctioning the Scheme under section 425 of the Companies Act and confirming the reduction of capital under section 137 of the Companies Act
CREST	the UK system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the CREST Regulations
CRESTCo	CRESTCo Limited
CREST Depository	CREST Depository Limited
CREST member	a person who has been admitted to CRESTCo as a system-member (as defined in the Regulations)

deposit agreement	the deposit agreement entered into by and among Allied Zurich, the Allied Zurich ADR Depositary and the Allied Zurich ADR Holders and ADR beneficial owners dated 26 March 1999
Directors	the directors of Allied Zurich
Equalisation Ratio	has the meaning given on page 4 of Part I of this document
Euro	the single currency of the participating member states of the European Union
Extraordinary General Meeting	the extraordinary general meeting of Allied Zurich Shareholders to be held on Tuesday 20 June 2000, and any adjournment thereof
Goldman Sachs	Goldman Sachs International
Governing Agreement	the Governing Agreement in respect of the Group dated 7 September 1998 between Allied Zurich and Zurich Allied
Group or Zurich Financial Services Group	Allied Zurich, Zurich Allied and Zurich Financial Services and its subsidiaries and subsidiary undertakings
Independent Directors	Lord Cairns, REJ Gilmore, VL Sankey, G Schulmeyer and CK Yeutter
ISA	individual savings account
Letter of Understanding	the letter dated 24 May 2000 between Lloyds TSB Corporate Nominee Limited and new Zurich Financial Services
Listing Rules	the listing rules made by the UK Listing Authority under section 142 of the Financial Services Act 1986
London Stock Exchange	London Stock Exchange Limited (or any successor organisation from time to time)
Meetings	together the Court Meeting and the Extraordinary General Meeting
Members	members on the relevant register of members at any relevant date
Merger Agreement	the agreement between new Zurich Financial Services and Zurich Allied dated 2 May 2000 in relation to the Statutory Merger
new Zurich Financial Services	the company currently known as New Zurich Financial Services, which will alter its name to Zurich Financial Services on Completion and further details of which are set out in Part IV of this document
new Zurich Financial Services ADR	an American Depositary Receipt proposed to be issued pursuant to arrangement to be put in place by new Zurich Financial Services
new Zurich Financial Services Articles	the articles of incorporation of new Zurich Financial Services
new Zurich Financial Services Shareholder	a holder of new Zurich Financial Services Shares
new Zurich Financial Services Shares	shares of CHF 10 in the share capital of new Zurich Financial Services
Official List	the list maintained by the UK Listing Authority pursuant to Part IV of the Financial Services Act 1986
Optionholders	the holders of subsisting Options to acquire Allied Zurich Shares pursuant to any of the Share Schemes
Options	options granted pursuant to any of the Share Schemes
Panel	the UK Panel on Takeovers and Mergers
pence, Sterling or £	the currency of the United Kingdom
PEP	personal equity plan
Proposals	the recommended proposals for the Share Repurchase, Statutory Merger, Special Cash Dividend and Scheme (and all matters ancillary thereto)

Part XI – Definitions

Regulations	the Uncertificated Securities Regulations 1995 (SI 1995 N0.95/3272)
Scheme Effective Date	the day on which the Scheme becomes effective in accordance with clause 6 thereof
Scheme or Scheme of Arrangement	the scheme of arrangement under section 425 of the Companies Act which forms Part VIII of this document, including any modification or addition thereto or any condition approved or required by the Court
Scheme Record Time	4.30 p.m. on the Scheme Effective Date
Scheme Shareholders	the holders of Scheme Shares
Scheme Shares	the Scheme Shares as defined in the Scheme set out in Part VIII of this document
SESTA	Swiss Federal Act on Stock Exchange and Securities Trading of 24 March 1995
Sharesave Plan	the Zurich Financial Services Sharesave Plan for UK Employees
Share Participants	participants in the Share Schemes
Share Participation Schemes	together the Zurich Financial Services UK Share Participation Plan, the Zurich Financial Services International Share Participation Plan, the B.A.T Industries UK Share Participation Scheme, the B.A.T Industries International Share Participation Scheme and all sub-schemes established pursuant to any of such schemes
Share Repurchase	the market purchases (within the meaning of section 163(3) of the Companies Act) of Allied Zurich Shares proposed to be made on behalf of Allied Zurich pursuant to the authority contained in paragraph 6 of the resolution set out in the Notice of Extraordinary General Meeting at Part X of this document
Share Schemes	the Share Participation Schemes, the Transitional Plan, the Sharesave Plan, the Allied Dunbar Franchise Share Option Scheme, the Allied Dunbar Managers Share Option Scheme, the Zurich Financial Services Group Share Option Plan for Selected Executives, the Zurich Financial Services Group Share Option Plan for Employees, the Zurich Financial Services Long-Term Performance Share Plan for Selected Executives, the Zurich Financial Services Performance Share Plan for Employees and the Scudder Kemper Investments Warrant Agreement
Special Cash Dividend	the dividend of 40 pence per Allied Zurich Share proposed to be paid to Allied Zurich Shareholders on the register of members at the Special Cash Dividend Record Time
Special Cash Dividend Record Time	means a time before the date on which the Court Order is made to be decided upon by the Independent Directors
Special Resolution	the resolution set out in Part X of this document
Statutory Merger	the statutory merger of Zurich Allied and new Zurich Financial Services to be effected in accordance with section 748 of the Swiss Code of Obligations
Statements of Entitlement	the statements of entitlement to CDIs to be issued by Lloyds TSB Registrars
Swiss Code of Obligations	the Swiss Federal Code of Obligations of 30 March 1911, as amended
SWX Swiss Exchange	the Swiss Exchange owned and operated by the Swiss Stock Exchange Association, an association registered with the Register of Commerce of the Canton of Zurich, Switzerland
Transaction Agreement	the agreement dated 2 May 2000 between Allied Zurich, Zurich Allied, new Zurich Financial Services and Zurich Financial Services
Transitional Plan	the Zurich Financial Services Share Option Plan for UK Employees
UK Listing Authority	the Financial Services Authority as the competent authority for listing in the United Kingdom
uncertificated or in uncertificated form	in relation to a share or other security, a share or other security title to which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland

US or United States	the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia
UBS Warburg	UBS Warburg, a business group of UBS A.G.
USD	United States Dollars, the currency of the United States of America
Voting Record Time	6.00 p.m. on the day prior to the day immediately before the Court Meeting and the Extraordinary General Meeting or any adjournment thereof
Zurich Allied	Zurich Allied AG, incorporated on 25 February 1998 as a joint stock company (as defined in article 620ss of the Swiss Code of Obligations) and registered on the same day in the Register of Commerce of the Canton of Zurich with registered number CH-020.3.020.495-9
Zurich Allied Shares	registered shares of CHF 10 each in the share capital of Zurich Allied
Zurich Allied Shareholder	an holder of Zurich Allied Shares
Zurich Financial Services	Zurich Financial Services, incorporated on 4 March 1998 as a joint stock company (as defined in article 620ss of the Swiss Code of Obligations) and registered on the same day in the Register of Commerce of the Canton of Zurich with registered number CH-020.3.020.510-8



ALLIED ZURICH

Allied Zurich p.l.c.

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Extraordinary General Meeting

Form of Proxy

To be used at the Extraordinary General Meeting of Allied Zurich p.l.c. to be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Tuesday 20 June 2000 at 11.05 a.m. or as soon thereafter as the Court Meeting shall have been concluded, or at any adjournment thereof.

PLEASE COMPLETE IN BLOCK CAPITALS

I/We (the above named), being (a) member(s) of the Company entitled to vote at the above mentioned meeting DO HEREBY APPOINT the Chairman of the Extraordinary General Meeting as my/our proxy to vote for me/us and on my/our behalf at the Extraordinary General Meeting to be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Tuesday 20 June 2000 and at any adjournment thereof. I/We direct that my/our vote(s) be cast on the special resolution in the event of a poll, as indicated by an 'X' in the appropriate box. I/We direct that my/our proxy will vote (or abstain from voting) as he thinks fit on any other matter which may properly come before the Extraordinary General Meeting.

SPECIAL RESOLUTION	FOR	AGAINST
Approval of (i) the Scheme of Arrangement, (ii) cancellation of the Company's ordinary shares, (iii) increase in authorised share capital to allow issue of new ordinary shares, (iv) allotment of new ordinary shares, (v) capitalisation issue, (vi) the making of market purchases, (vii) amendment of articles to create preference shares, (viii) increase in authorised share capital to allow issue of preference shares, (ix) allotment of preference shares, (x) amendment of articles to allow declaration of interim dividends and to provide for treatment of share options under the proposals, and (xi) authority to amend, vary and terminate the Governing Agreement.	<input type="checkbox"/>	<input type="checkbox"/>

Signature Date 2000

- Notes:
1. You are requested to lodge this Form of Proxy with the Company's Registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6BJ not less than 48 hours before the time appointed for the Extraordinary General Meeting.
 2. If any other proxy be preferred, strike out the words "the Chairman of the Extraordinary General Meeting" and insert the name and address of the Proxy desired in the blank space provided and initial the alteration.
 3. Any alteration made to this Form of Proxy must be initialled by the person who signs it.
 4. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority will be determined by the order in which the names stand in the Register of Members in respect of the joint holding.
 5. The person to whom this Proxy is given need not be a member of the Company but must attend the Extraordinary General Meeting in person to represent you.
 6. Completion of this Form of Proxy will not prevent a member from attending the Extraordinary General Meeting and voting in person should he so wish.
 7. Changes to the Register of Members of the Company made after 6.00 p.m. on the day prior to the day immediately before the Extraordinary General Meeting, or in the event of an adjournment of the Extraordinary General Meeting, after 6.00 p.m. on the day prior to the day immediately before the adjourned meeting, shall be disregarded in determining the right of any person to attend or vote at the Extraordinary General Meeting.
 8. Definitions used in the accompanying Scheme Circular apply in this document.
 9. If this form is given by an individual, it must be signed by the individual, or on his/her behalf by his/her attorney. If this form is given by a corporation, it must be given under its common seal or signed on its behalf by a director and the company secretary, or by two directors, or by a duly authorised officer of the corporation.



Admission Card

Meetings of the Company to be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Tuesday 20 June 2000, commencing at 11.00 a.m.

If you attend the Court and Extraordinary General Meetings (see the map overleaf) it would be most helpful if you would bring this card with you to hand in on arrival at the shareholder registration desk.

BUSINESS REPLY SERVICE
Licence No. 7153

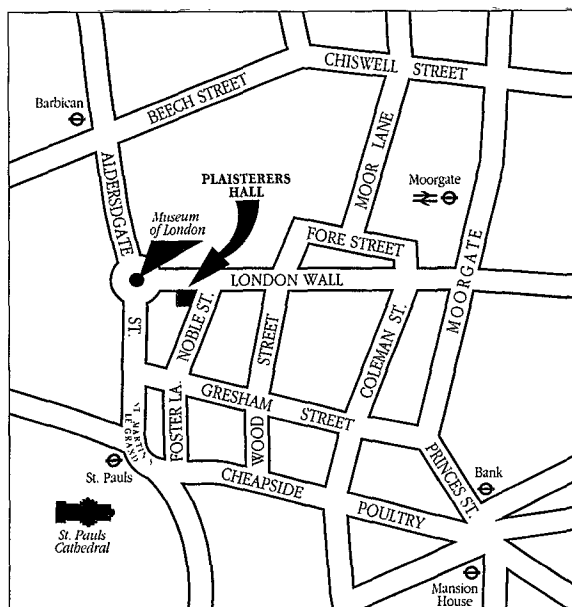
1



Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6BJ

Admission Card

Please detach from Form of Proxy
before posting and bring this with you.



BUSINESS REPLY SERVICE
Licence No. 7153

1



Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6BJ



Court Meeting

Form of Proxy

To be used at the Court Meeting of the holders of the Ordinary Shares of 25 pence in Allied Zurich p.l.c. to be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Tuesday 20 June 2000 at 11.00 a.m.

In the Matter of Allied Zurich p.l.c. and In the Matter of THE COMPANIES ACT 1985

PLEASE COMPLETE IN BLOCK CAPITALS

I/We (the above named), being (a) member(s) of the Company entitled to vote at the above mentioned meeting DO HEREBY APPOINT the Chairman of the Court Meeting as my/our Proxy to act for me/us and on my/our behalf at the Court Meeting to be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Tuesday 20 June 2000 for the purpose of considering and, if thought fit, approving (with or without modification) the proposed Scheme of Arrangement referred to in the Notice convening the Court Meeting, and at such Court Meeting or at any adjournment thereof to vote for me/us and in my/our name(s) for the Scheme (either with or without modification as my/our Proxy may approve) or against the Scheme as hereunder indicated.

FOR the Scheme

SignatureDate.....

AGAINST the Scheme

SignatureDate.....

IMPORTANT: If you wish to vote for the Scheme, sign in the box marked "FOR". If you wish to vote against the Scheme, sign in the box marked "AGAINST".

Notes:

1. You are requested to lodge this Form of Proxy with the Company's Registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6BJ not less than 48 hours before the time appointed for the Court Meeting. If it is not so lodged or delivered by hand, it may be handed to the Chairman of the Court Meeting.
2. If any other proxy be preferred, strike out the words "the Chairman of the Court Meeting" and insert the name and address of the proxy desired in the blank space provided and initial the alteration.
3. Any alteration made to this Form of Proxy must be initialled by the person who signs it.
4. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority will be determined by the order in which the names stand in the Register of Members in respect of the joint holding.
5. The person to whom this Proxy is given need not be a member of the Company but must attend the Court Meeting in person to represent you.
6. Completion of this Form of Proxy will not prevent a member from attending the Court Meeting and voting in person should he so wish.
7. Changes to the Register of Members of the Company made after 6.00 p.m. on the day prior to the day immediately before the Court Meeting, or in the event of an adjournment of the Court Meeting, after 6.00 p.m. on the day prior to the day immediately before the adjourned meeting, shall be disregarded in determining the right of any person to attend or vote at the Court Meeting.
8. Definitions used in the accompanying Scheme Circular apply in this document.
9. If this form is given by an individual, it must be signed by the individual, or on his/her behalf by his/her attorney. If this form is given by a corporation, it must be given under its common seal or signed on its behalf by a director and the company secretary, or by two directors, or by a duly authorised officer of the corporation.

To Shareholders and, for information only, to ADR Holders, Optionholders and Share Participants

26 May 2000



Allied Zurich and Zurich Allied unification plan

On 20 April and 5 May 2000, I wrote to you regarding the plan designed to simplify and unify the Group structure under a single Swiss holding company to be called "Zurich Financial Services".

Formal documentation

I am now pleased to send to you the formal documentation which gives the reasons for and full details of the unification plan. Given the sheer volume of information which we are legally required to include in the documentation, I hope that this letter and the following questions and answers provide a helpful guide to the Proposals and the effect that they will have on you as a Shareholder.

The unification terms

The unification plan will involve a Scheme of Arrangement under which Allied Zurich Shareholders will receive one new Zurich Financial Services Share for every 42.928 Allied Zurich Shares held. The new Zurich Financial Services Shares will be delivered in the form of CREST Depository Interests (CDIs) on the basis of one CDI for every new Zurich Financial Services Share. These arrangements will ensure that you maintain your existing economic interest in the Zurich Financial Services Group (subject to any resulting fractional entitlements, which will be sold and the proceeds paid to you).

The characteristics and benefits of holding new Zurich Financial Services Shares in the form of CDIs are fully explained in the letter from the Independent Directors of Allied Zurich and the explanatory statement in Parts I and II of the accompanying Recommended Proposals.

Special dividend

Allied Zurich Shareholders on the register at the appropriate record date prior to the unification will receive a special dividend of 40p per Allied Zurich Share. This will be paid in cash shortly after the unification and is in addition to the annual dividend of 15.11p per Allied Zurich Share to be paid on 31 May 2000.

Shareholder approval and timetable

The unification plan requires the approval of Shareholders at two consecutive meetings to be held at The Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Tuesday 20 June 2000, the first starting at 11.00am. Subject to these approvals and the satisfaction of the other conditions in Part III of the accompanying Recommended Proposals, the unification is expected to take place before the end of this year.

Proxy forms for voting

You may appoint a proxy to represent you and vote on your behalf at each of the meetings by completing and returning both proxy forms to the Allied Zurich registrar so as to be received by 11.00am on Sunday 18 June 2000. A form of proxy for the Court Meeting which is not so returned may, alternatively, be handed to the Chairman at the Court Meeting. Whether or not you intend to be present at the Meetings, you are requested to complete and return the enclosed blue and white forms of proxy (one for each Meeting).

Recommendation

The Committee of Independent Directors of your Board, which I chair, will vote their own shareholdings in favour of the Proposals at the Court Meeting and Extraordinary General Meeting. The Independent Directors recommend that Shareholders vote in favour of the Proposals since they, having been so advised, consider the Proposals to be in the best interests of Allied Zurich and its Shareholders as a whole.

Yours sincerely



The Rt. Hon. The Earl Cairns
Chairman

Questions & Answers

IMPORTANT: Please note that this document should be read in conjunction with the accompanying Recommended Proposals.

1. What do I need to do with all the documents that you have sent to me?

The letter from the Independent Directors in Part I of the Recommended Proposals sets out the action to be taken in respect of the documents enclosed with this package. Once you have had an opportunity to read them, it is important that you complete the proxy forms and return them to the Allied Zurich registrar, whether or not you intend to come to the Meetings. There is a dedicated helpline should you have any further questions (see question 34 below). Should you require investment advice, you should consult your own independent financial adviser authorised under the Financial Services Act 1986.

2. What do I need to do if I have sold or transferred all of my Allied Zurich Shares?

Please forward this letter together with all of the accompanying documents to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected.

3. What are the unification proposals?

Currently the Zurich Financial Services Group has two listed holding companies, Allied Zurich in the UK and Zurich Allied in Switzerland. The two holding companies own all of the shares in Zurich Financial Services, which, in turn, owns all of the businesses of the Group. The Proposals are to unify the two holding companies into one Swiss holding company. The unification plan is only a reorganisation of the Group's holding company structure. The businesses and activities of the Group will remain the same.

4. Why is the unification being pursued?

The Independent Directors, who have been so advised by Goldman Sachs and Cazenove, believe the unification of Allied Zurich and Zurich Allied into a single Swiss holding company will, in the long term, benefit the Shareholders of Allied Zurich by:

- enhancing strategic flexibility in a rapidly consolidating industry
- increasing the liquidity of new Zurich Financial Services Shares by comparison with Allied Zurich and Zurich Allied
- simplifying capital raising for the Group and reducing complexity for investors
- eliminating the differential between the trading prices of Allied Zurich and Zurich Allied shares (the implied value of Zurich Financial Services, based on the Zurich Allied share price, has been on average 12.6% higher than that implied by the Allied Zurich share price)
- facilitating the Group's intention to seek a listing on the New York Stock Exchange.

5. What is new Zurich Financial Services?

New Zurich Financial Services will be the single listed holding company for all of the Group's businesses and will be domiciled in Switzerland. All of the assets of the current Zurich Financial Services Group will be owned by new Zurich Financial Services.

6. Why was Switzerland chosen as the continuing domicile?

For a number of reasons, including the larger economic interest in the Group of Zurich Allied and the fact that the Swiss listed share had always traded at a premium to the UK listed share.

7. How does the unification affect me as an Allied Zurich shareholder?

Upon completion of the unification your current Allied Zurich Shares will be replaced by new Zurich Financial Services Shares in the form of CDIs (see question 20).

8. How many new Zurich Financial Services Shares will I receive?

For every 42,928 Allied Zurich Shares that you own you will receive one new Zurich Financial Services Share in the form of CDIs. One CDI will represent one new Zurich Financial Services Share.

9. Why do I receive so few new Zurich Financial Services Shares and how is the ratio of 42,928 Allied Zurich Shares per 1 new Zurich Financial Services Share determined?

The exchange ratio of 42,928 Allied Zurich Shares to one new Zurich Financial Services Share was calculated as follows:

- Allied Zurich and Zurich Allied own, respectively, 43 per cent. and 57 per cent. of the issued share capital of Zurich Financial Services;
- On 17 April 2000 there were 48,659,517 Zurich Allied Shares and 1,575,810,149 Allied Zurich Shares in issue;
- On the basis that the 48,659,517 Zurich Allied Shares would be exchanged on a one for one basis and would represent 57 per cent. of the issued new Zurich Financial Services Shares, there would be 85,367,574 new Zurich Financial Services Shares in issue on Completion. Former Allied Zurich Shareholders would be entitled to 43 per cent. of new Zurich Financial Services Shares, being 36,708,057 shares.
- Accordingly, Allied Zurich Shareholders would be entitled to receive one new Zurich Financial Services Share for every $1,575,810,149 \div 36,708,057 = 42,928$ Allied Zurich Shares.

Based on closing prices on 22 May 2000, 42,928 Allied Zurich Shares were worth £304.79 and one Zurich Allied Share was worth CHF 797 equal to £310.18 at an exchange rate of £1:CHF 2.5642. As a result, you should note that the new Zurich Financial Services share price is likely to be significantly higher than the existing Allied Zurich share price.

10. What happens if I am entitled to a fraction of a new Zurich Financial Services Share?

It is not possible to issue fractions of new Zurich Financial Services Shares. Your fractional entitlement to new Zurich Financial Services Shares will be aggregated with others and sold at market price. A cheque will be issued to you for the proceeds to which you are entitled.

11. How do the Proposals affect my investment?

The Proposals will ensure that you maintain your existing economic interest in the Zurich Financial Services Group (subject to your fractional entitlements being sold and the proceeds being paid to you in the manner described in question 10).

12. What will the market value of my new Zurich Financial Services Shares be and where can I find the share prices?

The value of new Zurich Financial Services Shares will not be known until trading begins following unification. This is expected to be before the end of the year. The Share price will be quoted in the newspapers and will be available on the Group's website (www.zurich.com).

13. What dividends will I receive?

As announced, the dividend for 1999 of 15.11p per Allied Zurich Share will be paid on 31 May 2000. The Board will also declare a special cash dividend of 40p per Allied Zurich Share. This will be paid in cash shortly after the unification. This dividend is to compensate Allied Zurich Shareholders for a variety of factors including the fact that new Zurich Financial Services Shares, being shares of a Swiss based company, will not be eligible for inclusion in the FTSE UK indices.

The Group's dividend policy will remain unchanged.

14. What is the unification conditional upon?

The unification is conditional upon a number of matters, including approval from Allied Zurich Shareholders (Zurich Allied Shareholders approved the Statutory Merger at the annual general meeting of that company on 25 May 2000), the sanction of the Scheme of Arrangement of Allied Zurich by the High Court, the SWX Swiss Exchange and the UK Listing Authority having agreed the primary and secondary listings of new Zurich Financial Services Shares and approval from regulatory authorities. See Part III of the accompanying Recommended Proposals. Only when all of these consents and approvals have been obtained can the Proposals be fully implemented.

15. Will I have the opportunity to vote on the Proposals?

Yes. As an Allied Zurich Shareholder you will have the opportunity to vote on the Proposals at a Court Meeting and the Extraordinary General Meeting of Allied Zurich convened for that purpose. These Meetings will take place in London on 20 June 2000. Notices of these Meetings are contained in Parts IX and X of the Recommended Proposals.

16. What happens if Shareholders vote against the Proposals?

If the Proposals are not approved, your existing shareholding in Allied Zurich will be unaffected, and the 40p special dividend will not be paid.

17. Where will the new Zurich Financial Services Shares be listed?

New Zurich Financial Services is a Swiss registered company. It will have a primary listing in Switzerland, and a secondary listing in London.

18. What is a secondary listing?

A company has its primary listing in its country of domicile. It may also have a listing of its shares in other countries. Such a listing is known as a secondary listing. The secondary listing price tracks the price of the primary listed security.

19. What is CREST?

CREST is the UK system for the paperless settlement of trades in securities and the holding of uncertificated securities. It avoids the need for share certificates which delay trading and are often lost.

20. CDIs

a. What are CDIs?

Under UK law, foreign shares cannot be held and transferred directly in the CREST system. As a result CDIs were established to allow trading and settlement of foreign shares in CREST. CDIs are an interest in the underlying foreign share that confers rights to and an interest in that underlying security. CDIs have the following characteristics:

- priced in sterling
- dividends can be paid in sterling (or CHF, USD or Euros if desired)
- new Zurich Financial Services will make arrangements for a market in its shares to be made in London. Trades in this market will be capable of settlement with CREST in the form of CDIs.
- all custody fees associated with the CDIs held by Scheme Shareholders will be paid by new Zurich Financial Services.

Also, CDI interests are more easily and cheaply tradeable by the usual UK retail methods than new Zurich Financial Services Shares and therefore are expected to be more appealing to private investors.

b. Will I receive CDI certificates?

No. CDIs are held in dematerialised form in CREST. If you hold your Allied Zurich Shares in CREST, you will receive your new Zurich Financial Services holding in your CREST account. If you do not hold your Allied Zurich Shares in CREST a nominee service has been established with Lloyds TSB Registrars, who will hold the CDIs on your behalf, and will send a Statement of Entitlement to you in respect of your CDI holding.

c. How can I trade my CDIs?

Information will be provided with the Statement of Entitlement sent to you by Lloyds TSB Registrars.

d. What are the costs of holding CDIs?

None. New Zurich Financial Services will pay the custody fees involved in holding the CDIs for former Allied Zurich Shareholders.

e. Will my existing bank mandate for dividends continue for dividends on CDIs?

Your existing mandate for the payment of dividends into your bank account will continue in force if you hold your CDIs through the Lloyds TSB Registrars nominee service. CREST members will receive their dividends in their CREST account.

f. What currency will I receive my dividends in for CDIs?

If you hold CDIs through Lloyds TSB Registrars, you will receive dividends in Sterling. If you hold CDIs in any other CREST account you may receive dividends in any CREST currency of your choice.

g. Do CDIs allow me to vote and attend meetings?

New Zurich Financial Services has undertaken to procure, so far as it is within applicable CREST regulations and practice and the rules of Swiss law possible to procure, that holders of CDIs are treated in an equivalent manner to new Zurich Financial Services Shareholders in relation to attending and voting at general meetings. In the event that such arrangements have not been established by CREST by the time the Scheme is due to become effective, equivalent arrangements will be provided by Lloyds TSB Registrars to persons who hold CDIs within the Lloyds TSB Registrars nominee service.

21. Direct Shareholding

a. Can I elect to hold shares directly? Will I receive a share certificate in new Zurich Financial Services?

You will initially receive CDIs. You may exchange your CDI holding for a registered holding in new Zurich Financial Services Shares and new Zurich Financial Services will reimburse the £5 transaction charge. You may then request a share certificate from the company or hold in dematerialised form.

b. Will my dividend mandate continue for new Zurich Financial Services Shares?

If you exchange your CDI holding for a registered holding in new Zurich Financial Services, different arrangements will need to be made for payment of dividends.

c. In which currency will I receive my dividends?

Your dividends will be paid in Swiss Francs.

22. What is the latest date to buy Allied Zurich Shares and still be entitled to receive new Zurich Financial Services Shares?

To receive new Zurich Financial Services Shares you must be an Allied Zurich Shareholder at the Scheme Record Time. The actual date on which the Scheme Record Time occurs is not yet known but will be immediately prior to completion, which is expected to be before the end of the year. We will make a public announcement when the date is confirmed and write to Shareholders.

23. What if I hold some of my Allied Zurich Shares in a Personal Equity Plan or ISA?

The PEP regulations prohibit the holding of a non European Union company's shares in a PEP. Accordingly, your Plan Manager will be required to sell the new Zurich Financial Services Shares held in the form of CDIs and reinvest the proceeds (in shares of another company of your choice). We believe that such a transaction may be carried out within the PEP, thus preserving the tax-free status of your investment. New Zurich Financial Services Shares or CDIs can be held in an ISA. It is the responsibility of your PEP or ISA manager to advise you of the implications of the proposed unification, on your investment and the action you may be required to take. We would advise you to seek specific advice on this matter from your Plan Manager.

24. What are the tax consequences of the unification and what is the tax situation on dividends paid from Switzerland?

Please see Parts V and VI of the Recommended Proposals. If you are in any doubt about your tax position you are strongly recommended to consult an independent financial adviser immediately.

25. How will the Scheme of Arrangement work?

The Scheme of Arrangement is a Court approved process whereby Allied Zurich will cancel its existing share capital and Shareholders will receive shares in new Zurich Financial Services.

26. Can you explain the Extraordinary General Meeting Resolution?

Paragraphs 1 to 5 – are required to approve and give effect to the Scheme of Arrangement.

Paragraph 6 – gives authority to the Directors to effect the proposed USD1 billion Share Repurchase.

Paragraphs 7 – 10 increase the authorised share capital by the creation of 235,000,000 preference shares of 25p each and authorise the Directors to allot the preference shares. The preference shares will be issued to another company within the Group to ensure that the Company has sufficient funds to effect the Share Repurchase pursuant to paragraph 6.

Paragraph 11 – amends Allied Zurich's Articles of Association to allow the Directors to declare a Special Cash Dividend.

Paragraph 12 – amends Allied Zurich's Articles of Association to allow those persons who exercise share options immediately prior to completion of the unification proposals to receive new Zurich Financial Services Shares in the form of CDIs on the same basis as all other Shareholders.

Paragraph 13 – authorises the Directors to agree terms for the amendment of the Governing Agreement between Allied Zurich and Zurich Allied and the termination of that Agreement on the Scheme becoming effective.

27. What is the purpose of the Allied Zurich Share Repurchase?

As a result of the unification some holders of Allied Zurich Shares may choose or be obliged to sell their shares. The Share Repurchase, which may be conducted through a tender offer, may provide a better alternative for those wishing to sell rather than disposing of their shares on the market. Shareholders opting for the tender offer will have flexibility to specify at what price they would like to sell within a certain price range. If you are considering participating in the tender offer you should seek independent financial advice. Further details of the tender offer will be provided in due course.

28. What is a tender offer?

It is a method whereby a company purchases its own shares. The company fixes the total monetary amount which is available to be spent and all shareholders may participate by tendering their shares.

29. When will the Share Repurchase take place?

You will be asked to approve the Share Repurchase proposals at the Extraordinary General Meeting on 20 June 2000. The Share Repurchase will occur between then and completion of the unification, although the exact date will only be known nearer the time. Further details of the Share Repurchase will be provided in due course.

30. What happens if I have lost my Allied Zurich share certificate?

Your current Allied Zurich share certificate will cease to have effect on the date that the Scheme becomes effective. If you have lost your share certificate and wish to sell your Allied Zurich Shares, please contact the Allied Zurich registrar, Lloyds TSB Registrars.

31. How can I sell my Allied Zurich Shares now?

If you wish to sell your Allied Zurich Shares, most high street banks offer a share dealing service. There are also a variety of other services including internet dealing services. Allied Zurich has a postal share dealing service to buy or sell shares through the Company's stockbrokers. For more information, call Cazenove & Co. on 020 7606 1768. If you sell your shares prior to the Special Cash Dividend Record Time (shortly before completion), you will not be eligible for the 40p special cash dividend.

32. Will new Zurich Financial Services issue shareholder documentation in English?

Yes, the annual report and accounts, notice of meeting, proxy forms and all other documentation sent to CDI holders will be in English.

33. What action do I need to take now?


Whether or not you intend to be present at the Meetings, you are requested to complete and return the enclosed blue and white forms of proxy to Allied Zurich's registrars, in accordance with the instructions printed thereon and in the accompanying Recommended Proposals.

34. If I have any further questions, where can I get the answers?

A dedicated free telephone helpline has been set up to answer any further queries you may have in relation to the proposals- 0800 018 3047 between 9 a.m. and 6 p.m. each weekday. For callers from outside the United Kingdom for whom calls are not toll free +44 (0)20 7335 7297. Should you require investment advice, you should consult your own independent financial adviser authorised under the Financial Services Act 1986.

To Shareholders and, for information only, to ADR Holders, Optionholders and Share Participants

26 May 2000



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Yours sincerely



The Rt. Hon. The Earl Cairns
Chairman