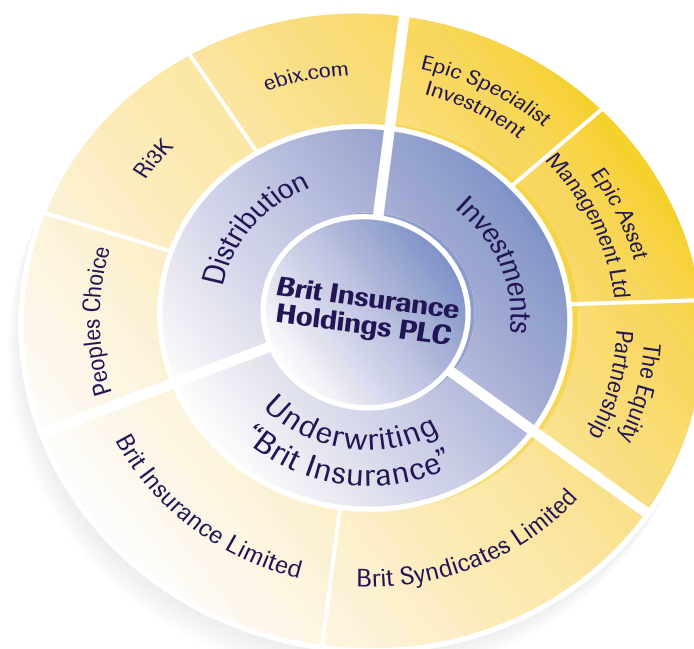


Brit Insurance Holdings PLC | Annual Report 2002

The **stronger** option

**Working**



# for a stronger future

## Contents

2	<i>Chairman's Statement</i>
5	<i>Operating and Financial Review</i>
21	<i>Report of the Directors</i>
25	<i>Corporate Governance Report</i>
30	<i>Directors' Remuneration Report</i>
41	<i>Financial Statements</i>
96	<i>Independent Auditors' Report to the Shareholders of Brit Insurance Holdings PLC</i>
	<i>Board of Directors</i>
98	<i>Executive Directors</i>
100	<i>Non-Executive Directors</i>
102	<i>Company Information</i>



**Clive Coates**  
Chairman

## *Chairman's Statement*

*I find myself writing my first Chairman's statement after a 12-month period that has seen a fundamental turn-around in your Company's fortunes. Many of the actions that led to this had been implemented by Jo Welman and his team prior to my appointment as Chairman in September 2002. I would like to thank Jo and the other Directors who laid these foundations for the success Brit is now enjoying.*

The result for the year ended 31 December 2002 demonstrates this improvement, showing an operating profit on a long-term rate of return of £25.0m as compared to a loss in 2001 of £99.4m. After tax and minority interest, the 2002 profit is £5.4m (2001: loss of £85.2m). We are pleased our results also bear out the continued improvement in market underwriting conditions experienced since the last quarter of 2001. Our 2002 combined ratio fell to 88.6% (2001: 154.1%) while our claims ratio fell to 62.9% (2001: 125.4%). At the same time, costs have been kept under tight control with our expense ratio falling to 25.7% (2001: 28.7%).

### **Review of 2002**

Amid widespread forecasts of capital shortages, Brit last year set about positioning itself to take advantage of the resultant hard market conditions. A highlight was our fundraising of £194.1m (net of expenses) in October 2002 which put us on a sound financial footing from which to exploit times of great opportunity.

Some insurers operate highly leveraged models which can all too often prove to be unexpectedly high risk if reserves prove to be inadequate, insurance recoveries are found to be uncollectible, cash flows prove to be insufficient to fund their businesses or a major industry loss occurs.

Indeed, over the last few months we have seen substantial profit warnings from some of the largest insurance companies in the world coupled with downgrades from rating agencies, a situation which in part reflects that an estimated US \$200bn has been wiped off the value of the insurance market since September 2001. This is split, according to Standard and Poor's estimates, US \$50bn for US Terror Attacks, US \$50bn for deterioration in asbestos and other reserves and US \$100bn for investment losses. Subsequent fund raising at the time these figures were reported stood at approximately US \$30bn.

Brit has established one of the most solid balance sheets in our market place, a strategy further vindicated by every profit warning and downgrade relating to our competitors. Brit Insurance Limited was upgraded from A- (excellent) to A (excellent) by A M Best. This is one of the few upgrades to have been granted in the insurance world over the last 12 months.

Brit Insurance Limited has also been granted licences to conduct all classes of general insurance and reinsurance business in the UK.

Last year was also notable for its combination of strong underwriting conditions coupled with one of the lowest loss frequencies in recent memory. While this has led to some softening in short tail catastrophe business and personal lines rates, we have seen a continued hardening in rates for small commercial risks such as property, professional indemnity, directors' and officers' liability, and particularly employers' liability and public liability. Brit has a growing position in these areas and is well positioned to benefit from this trend.

I feel that Brit has evolved since September 2001 and now has the quality of business planning, calibre of people and strength of management to match its balance sheet.

2002 saw a significant increase in written premium and a relatively benign loss environment. The fact that over 50% of premium written in 2002 was yet to be earned by the end of the year and that Brit achieved a combined ratio of 88.6% leads us to be optimistic about our prospects in an exceptionally positive underwriting environment. The interim and final results for 2003 will be key indicators.

Brit is strong, well capitalised and is developing rapidly in its own right. Even more importantly, your Board is confident that our conservative positioning will, at a time when many major industry participants are suffering from capital shortage, differentiate us from our peer group as we continue to seek to deliver positive shareholder returns over the next few years.



**Clive Coates**  
Chairman  
14 April 2003

*Brit has established one of the most solid balance sheets in our market place*



**Matthew Wilson**

Projected gross premium  
income for 2003 **£95m**

*Non UK Property*

# Operating and Financial Review

## The Group

*The Brit Group is focused on writing insurance and reinsurance business through its Lloyd's operations (primarily Brit Syndicate 2987) and insurance company, Brit Insurance Limited ("BIL"), and is developing the allied activities of investment and distribution.*

The Group has undergone substantial change in its level of underwriting activities during the past 18 months, essentially since the events of 11 September 2001. Brit recognises the need for a strong capital base in order to offer high quality security to our customers. Consequently the Group has sought to expand its capital base with fund raisings totalling £348.0m in 2001 and 2002 (net of expenses). Gross written premium in 2002 totalled £662.7m and is forecast to exceed £1bn in 2003.

The Group distributes its underwriting products mainly through established broker channels. During the year ended 31 December 2002 the Group wrote business through 136 Lloyd's brokers. Business is also written through UK regional brokers and managing general agents.

The Group is continuing to develop its distribution businesses and also has extensive investment activities relating to its capital and underwriting funds.

The Group corporate headquarters are in London and much of the insurance and reinsurance business is written within the Lloyd's building. We also have a number of branch offices located throughout the UK.

### Insurance market

Insurance is a cyclical business with premium rating determined by a variety of factors. Capital strength and its availability are major factors and rates tend to harden when there is a lack of capital in the market. Prospective investment returns are also a significant component in determining insurance pricing. Historic losses and resulting capital stress, combined with low investment returns, have led to strong trading conditions in most classes of business that the Group underwrites.

### Regulation

Both Brit's Lloyd's operations and BIL are authorised and regulated by the FSA. Regulatory requirements are ever increasing and the Group has resourced itself to implement the FSA's Prudential Sourcebook for 2003/4.

Insurance entities will be required by the FSA to assess their own capital requirements and the Group underwriting process is already structured on a risk based capital allocation basis. The Group continues to develop this model.



**Neil Eckert**  
Chief Executive Officer

### Business relationships

Relationships are fundamental to the workings of any business which is people-based. Whereas capital strength is a key attraction to brokers and customers, so also are the abilities and competence of our Underwriters and the personal relationships they have with those customers and brokers. Rating agencies are given access to the Group's business plans and use this information in the process of producing financial strength ratings. We also endeavour to work closely with our regulators in order to provide them with the quality of information that they need to meet their objectives. There are therefore many relationships that are important to the Group apart from our customers, examples of which are those between our employees and Shareholders, brokers, reinsurers, regulators, fund managers, analysts and rating agencies.

## Milestones

A number of milestones have been reached during the year:

- Entry by the Company into the FTSE 250 in September 2002 (prior to the fund raising in October 2002);
- Extension of BIL's FSA authorisation to enable it to conduct all forms of general insurance and reinsurance business in the UK; and
- Increase in BIL's financial strength rating from A M Best to A (Excellent) and a new rating from Fitch of A (Strong).

## Underwriting

Underwriting performance during 2002 has greatly improved as a consequence of rate increases and strengthening of policy terms and conditions. These are the features of a hard market. 2002 was also a year with few major insured catastrophes. The market had already started to harden in 2001 but the process accelerated following the heavy losses incurred during that year. Premium growth for 2000-2003 in respect of all Group managed insurance business is shown below.

Financial year	Gross premium income
	£m
2000	321
2001	477
2002	703
2003 (projected)	1,050

The full impact of the strong trading conditions will become more apparent in 2003 because virtually all income earned in that year will have been written at post 2001 rates. 2003 will also benefit from increased written premium as a consequence of the increase in the Group's capital base during 2001 and 2002.

## Distribution

Brit has continued to invest funds in the development of its distribution businesses during the year. Peoples Choice (Europe) Limited ("Peoples Choice"), the Group's telesales broking operation, has had a difficult year and suffered a drop in policy count from 150,000 to 130,000. A new Chief Executive has recently been appointed to Peoples Choice.

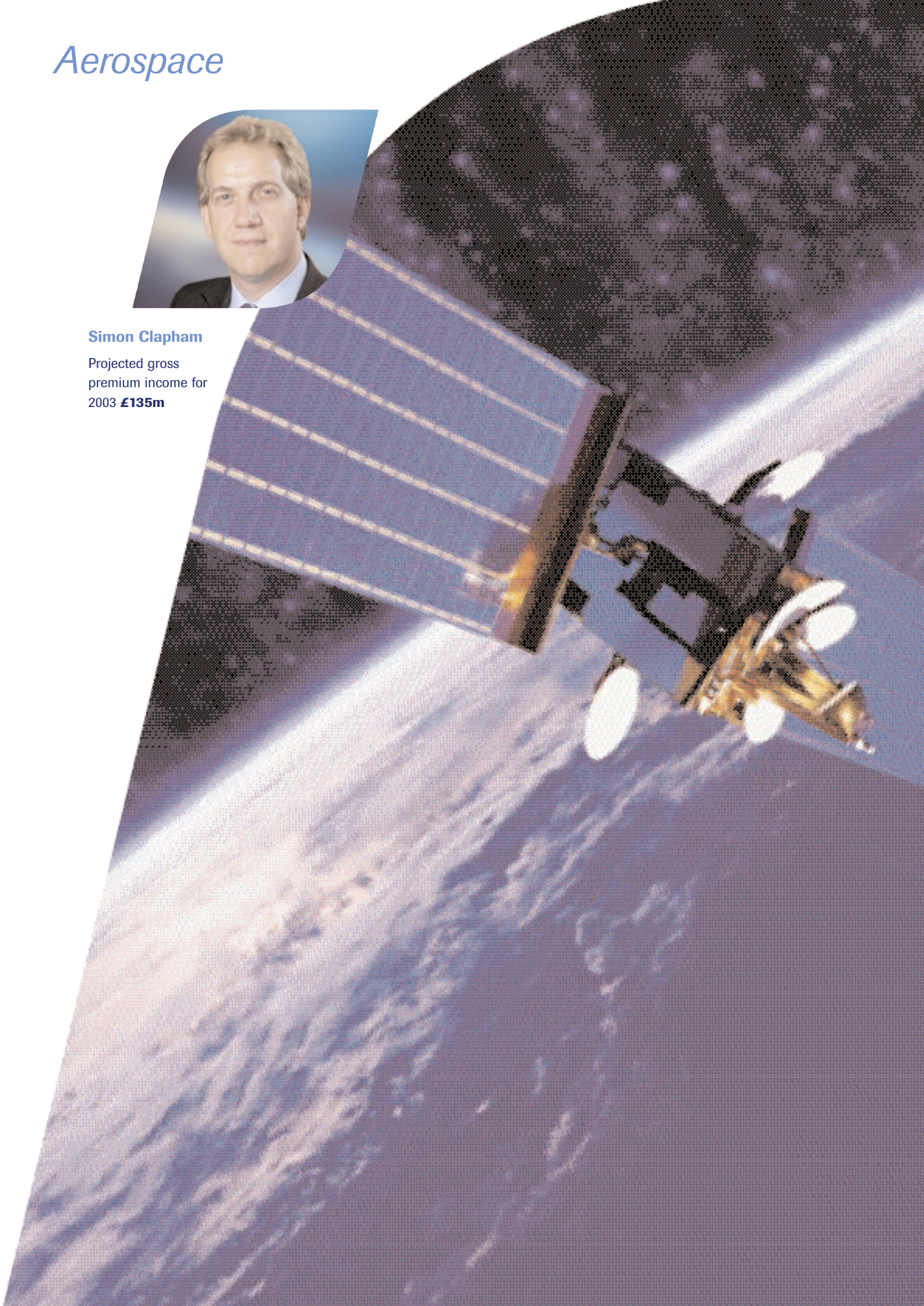
Funds have also continued to be invested in Ri3K Limited ("Ri3K"), a web based business to business infrastructure for the reinsurance industry. The Group is exploring how best to exploit Ri3K's reinsurance exchange technology.

# Aerospace



## **Simon Clapham**

Projected gross  
premium income for  
2003 **£135m**



## Investment

Investment performance has been below the long-term rate of return during the year, largely as a consequence of our equity portfolios and the decline in global interest rates. This has been a trend over the past few years as global investment markets have declined. At 31 December 2002, equities represented 9.8% of the Group's overall cash and investments, including strategic investments.

## Objectives and strategy

The policy of the Company is to align Brit Group's capital base to the insurance cycle so as to optimise capital efficiency. It is intended to achieve this through the optimum mix of underwriting, distribution and investment activity. At the current time it is envisaged that the bulk of the Group's financial returns will be achieved from underwriting. We intend to achieve these returns by growing core underwriting accounts. We will also aim to underwrite some opportunistic accounts but with a view to exiting these as and when the market softens.

Although the Group underwrites business in a number of diverse classes, we recruit specialist teams to underwrite in each of those areas. During 2002 we recruited teams specialising in employers' liability, public liability, bloodstock, contingency, motor, international property and energy business. We have found the acquisition of teams of Underwriters to be an efficient method of expanding our account, along with the acquisition of selected renewal portfolios.

The underlying characteristics of individual classes of business vary considerably. Over the longer-term the Group is seeking – where it is not already – to become established as a leading Underwriter in chosen core lines of business. The Group is actively expanding in UK casualty classes such as employers' liability and professional indemnity, areas where it has expertise and is seeing healthy rate increases. Claims development in these classes occurs over a long period of time. These casualty classes will be written in conjunction with our growing UK property and motor fleet businesses. Balancing the portfolio, the Group also writes short-tail catastrophe reinsurance business which is exposed to major natural or man-made disasters on a world-wide basis.

The Board continues to explore other potential acquisition opportunities which it believes would both increase Shareholder value and deliver strategic benefits, mindful of the risks that can be associated with legacy underwriting.

The insurance market is likely to see ongoing change over the coming years. Capital stress could well lead to further rationalisation and withdrawals from the market or from specific classes of business. Market psychology has changed because insurers cannot rely on investment income to support poor underwriting in current market conditions. Products have to be priced and structured to provide underwriting profits. Companies have to achieve combined ratios well below 100% in order to generate a level of profitability that is appropriate to the risk taken.

## Key performance indicators

A number of measures are used to assess progress towards achieving our objectives. Risk based capital is allocated to each specific class of underwriting. This allocation determines premium income limits linked to the volatility of each class of business. The results of each class are evaluated based upon the return on that allocated capital. The key published performance measure is the combined ratio. This is a major indicator for comparing performance with our peers across the insurance sector. We also monitor a number of other measures in order to assess the development of our business relationships. These include movement in premium rates, policy terms and conditions, the number of brokers/insureds with whom we transact business and statistics detailing numbers of contracts renewed and gained/lost.

We believe that capital adequacy is an essential factor in the management of an insurance operation. This not only applies to the amount of exposure written against capital (typically monitored by the solvency ratio although the value of this measure will vary at different times in the underwriting cycle) but also in other measures such as gearing. Gearing does not only apply to borrowing funds against which to underwrite but also exposure to reinsurance. At 31 December 2001 (the latest date for which full comparative information is available) Brit had relatively low ratios of gross outstanding claims to NTA and recoveries due from reinsurers to NTA in comparison to most of our peers. During 2002 Brit has raised a further £194.1m of new capital (net of expenses). These ratios are a useful measure of the resilience a company has to reserve deterioration or reinsurer failure.

## Dynamics of the business

Much has been done in the past year to rationalise the underwriting process and to restructure the capital base of the underwriting entities.

From 1 January 2003 we own all the capacity on our composite Syndicate 2987. This means that the Group now has flexibility to write business for its own account in Lloyd's or BIL with no conflicts of interest with third parties. Business is now written in the most favourable vehicle under a combined underwriting management. We have experienced exceptionally positive 2003 renewals to date. The table below shows changes in rates experienced during the 12 months from 1 February 2002 to 31 January 2003:

Underwriting category	Percentage change*
	%
Accident & Financial	34
Airlines	(10)
Casualty	65
Employers' Liability/Public Liability	100
General Aviation	50
International Property	22
Marine	26
Motor	6
Reinsurance	24
Space	44
UK Property	11

\*The rate changes above show the approximate average premium weighted increases/decrease per category. These rate changes also partially reflect changes in terms and conditions. We believe that the above is a good measure of the trend for each underwriting category but there is considerable variation within the sub categories.

## Business mix

During 2002, the Group reorganised its underwriting activities under seven divisions. The composition of all gross written premium written by the Group is as follows:

Divisions	2002		2003 forecast	
	£m	%	£m	%
Accident & Financial	37	5	70	7
Aerospace	109	15	130	12
Casualty	89	13	115	11
Marine	63	9	100	10
Property	73	10	95	9
Reinsurance	188	27	220	21
UK	144	21	320	30
<b>Total</b>	<b>703</b>	<b>100</b>	<b>1,050</b>	<b>100</b>

## Risk

The Risk Management Group ("RMG") considers risk from a Group perspective, regardless of division, and maintains a central risk register. During 2002, the RMG continued its process of identifying and evaluating risks to the Group from both core activities (underwriting, distribution of insurance products and investment) and non-core activities. Of the core businesses, underwriting

presents the most significant risk to the Group; accordingly it has more internal control requirements.

Catastrophe exposures, for example, are monitored by Realistic Disaster Scenario projections which are the estimates the Group makes of the potential net cost to the Group of major elemental and non-elemental catastrophe losses.

## Brit Group gross and net losses as a percentage of GNP\* As at 1 January 2003

	Gross loss	Net loss	Final gross loss	Final net loss
	£m	£m	as % of GNP	as % of GNP
US Windstorm	144.32	45.47	16.98	5.35
Florida Windstorm	138.25	39.86	16.26	4.69
LA Quake	222.08	66.81	26.13	7.86
European Windstorm	177.55	68.82	20.89	8.10
Japanese Quake	185.30	69.16	21.80	8.14

\*based on Gross Net Premium income of £850m

The Group implemented a matrix management structure during the year whereby processes, systems and procedures are reviewed to reflect the changing requirements of the business. Many enhancements have been made during the last 12 months, including a revised business planning process, technological improvements for monitoring underwriting aggregations and revised underwriting procedure manuals to ensure common standards. During the next 12 months we will continue to invest in improving our processes and are planning to replace several of our core computer systems.

### **Employees**

We have a fundamental belief in the importance of the people we employ and our recruitment process and training plan underpin that belief. We aim to recruit individuals who excel in all areas of the business and look for potential in those we employ to achieve the aims and objectives of the Group. We are investing substantially in our training programme, which includes support for those pursuing professional qualifications as well as encouraging all staff to develop their personal and technical skills. We have also introduced a graduate development programme. The Brit 'Get a Life' package is also being piloted to encourage staff to pursue activities not directly linked to the work environment.

### **Brand identity**

During 2002, the Group developed a new brand identity of "Brit Insurance". This has already heightened awareness of the Group in the insurance market and the consolidation of our underwriting operations into a single operating environment has been well received. The business is supported by a management structure designed to meet the needs of a growing business in a highly regulated market. We believe that, as we continue to develop, the Brit Insurance brand should enjoy increasing recognition. This should enhance and embed the message that Brit is a growing, financially secure home for our customers in times of increasing uncertainty.



**Matthew Scales**  
Finance Director

2002 was a year of strong growth for the Group's insurance business. Gross premiums written totalled £662.7m (2001: £374.0m), an increase of 77.2%. This reflects both the very strong rating environment and the increased underwriting capacity of the Group's insurance operations.

The Group's principal distribution activities are through Peoples Choice and Ri3K. Ri3K was formerly an associated company of the Group and became a subsidiary on 31 December 2002 when Brit's ownership increased from 33.3% to 80.0%.

Investment activities continue to grow in line with increasing premium flow and the Group's enlarged capital base. Total funds under Group management exceeded £1bn at 31 December 2002. Of this £692.8m was outsourced to EPIC Asset Management Ltd ("EPAM"), a 70.0% subsidiary of The Equity Partnership Ltd ("EPL"), an associated company of the Group.

## Operating profit

Total operating profit was £11.4m (2001: loss of £112.7m). Operating profit at the long-term rate of return was £25.0m (2001: loss of £99.4m).

The Group has recently re-evaluated the long-term rates used and has reduced them slightly, as shown below, in order to reflect the current view on long-term investment performance.

	Revised	Previous
	%	%
Cash	} 5	4
Bonds		6
Equities	7	8
Syndicate funds	5	5.5

Total operating profit/(loss) by business division was as follows:

	Underwriting Lloyd's	Underwriting BIL	Total	Distribution	Other	Total
	£m	£m	£m	£m	£m	£m
Technical result	35.7	16.3	52.0	-	-	52.0
Investment return (including underwriting investments at the long-term rate of return)	23.7	6.9	30.6	0.1	(4.4)	26.3
Transfer to technical account	(24.1)	(3.3)	(27.4)	-	-	(27.4)
Interest payable	-	-	-	(0.4)	(4.7)	(5.1)
Fees and commissions	5.3	-	5.3	10.7	-	16.0
Other income	-	0.2	0.2	0.8	-	1.0
Other expenses	(8.4)	-	(8.4)	(15.4)	(7.7)	(31.5)
	32.2	20.1	52.3	(4.2)	(16.8)	31.3
Amortisation	(2.6)	-	(2.6)	(0.3)	(3.4)	(6.3)
Operating profit/(loss) at long-term rate of return	29.6	20.1	49.7	(4.5)	(20.2)	25.0
Short-term fluctuations in investment return	(12.0)	(1.6)	(13.6)	-	-	(13.6)
<b>Operating profit/(loss)</b>	<b>17.6</b>	<b>18.5</b>	<b>36.1</b>	<b>(4.5)</b>	<b>(20.2)</b>	<b>11.4</b>

# Casualty



## **Kevin Huttly**

Projected gross  
premium income  
for 2003 **£115m**



## Underwriting operations

The paid up capital of BIL was £70.0m at 1 January 2002 and increased to £150.0m on 23 October 2002. 2002 capacity at Lloyd's was £454.2m (2001: £222.3m).

The full benefit of written premium arising from the Group's recent capital injections will not be felt immediately. This is because the new business is not fully earned in the first year. Approximately 48% of 2002 written premium was earned in the 2002 calendar year. Earned premium is projected to continue to grow into 2004.

The benefits of our increased ownership of the Lloyd's business are, however, now beginning to be felt. For 2002 Brit owned 97.8% of capacity on its composite Syndicate 2987 and this increased to 100% for 2003. The 2002 result included business written in 2001 but not earned until 2002. The technical account for the year is analysed below to demonstrate the inception date of business recognised in the year.

<b>Group Technical Account for the year ended 31 December 2002 before investment return</b>	<b>Business incepting in 2002</b>	<b>Pre 2002</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross written premium	<b>642.6</b>	<b>20.1</b>	<b>662.7</b>
Earned premium net of reinsurance	<b>232.2</b>	<b>93.1</b>	<b>325.3</b>
Claims incurred net of reinsurance	<b>(133.0)</b>	<b>(72.1)</b>	<b>(205.0)</b>
Change in equalisation provision	<b>(2.5)</b>	<b>–</b>	<b>(2.5)</b>
Change in other technical provisions	<b>1.3</b>	<b>(0.8)</b>	<b>0.5</b>
Net operating expenses	<b>(72.7)</b>	<b>(21.0)</b>	<b>(93.7)</b>
Technical result before investment return	<b>25.3</b>	<b>(0.7)</b>	<b>24.6</b>
Investment return at the long-term rate			<b>27.4</b>
Technical result			<b>52.0</b>

<b>Technical Account for all business under Brit management for the year ended:</b>	<b>31 December 2002</b>	<b>31 December 2001</b>
	<b>£m</b>	<b>£m</b>
Gross written premium	<b>702.7</b>	477.2
Earned premium net of reinsurance	<b>394.6</b>	219.1
Claims incurred net of reinsurance	<b>(268.4)</b>	(283.6)
Change in equalisation provision	<b>(2.5)</b>	2.8
Change in other technical provisions	<b>0.5</b>	1.4
Net operating expenses	<b>(110.8)</b>	(81.2)
Technical result before investment return	<b>13.4</b>	(141.5)
Investment return at the long-term rate	<b>35.7</b>	17.2
Technical result	<b>49.1</b>	(124.3)
Claims ratio (%)	<b>67.9</b>	128.8
Expense ratio (%)	<b>26.0</b>	33.2
Combined ratio (%)	<b>93.9</b>	162.0

The 2000 underwriting year was the final year that Brit participated on externally managed syndicates. Ordinarily these would close at 31 December 2002. There are however 13 syndicates with Brit involvement in run-off at the year end. Total Brit capacity on these syndicates is £40.5m. These participations have been reserved at the mid-point of Managing Agents' forecasts except where analysis indicates an increased reserve would be prudent.

## US Terror Attacks

The net loss reserved by the Group as at 31 December 2002 in respect of the US Terror Attacks was US \$132.0m (2001: US \$132.1m).

At 31 December 2002, paid claims accounted for 32.5% of the gross reserve and 37.6% of the incurred position. The incurred position was 86.0% of the gross reserve and the Group's gross IBNR (incurred but not reported) was therefore 14.0%.

## Distribution operations

The Group result includes a loss of £4.2m (2001: £5.3m) in respect of Peoples Choice. In light of the continued trading losses an impairment review was performed which has led to a write down of £3.8m in the carrying value of Peoples Choice interests.

The total carrying value of Peoples Choice at 31 December 2002 was £5.0m (2001: £9.6m) largely reflecting the value of 130,000 in force policies at the year end.

Ri3K was treated as an associated company until 31 December 2002. The equity accounted loss for the period was £0.9m (2001: £0.9m). Total carried goodwill in Ri3K at the year end was £8.4m.

## Investment operations

The Group has a direct holding of 34.1% in EPL, the holding company of EPAM. EPL is treated as an associated company and the Group equity accounted a profit arising from this activity of £0.1m (2001: £nil) for the year. The EPL group had funds under management of £1,061.9m at 31 December 2002 (2001: £670.0m).

## Investment return

Total assets under Group management at 31 December (including 100% of syndicate assets) were invested as below:

	31 December 2002	2002 Return	31 December 2001	2001 Return
	£m	£m	£m	£m
Equities	91.1	(16.5)	117.0	(13.9)
Bonds	500.3	24.5	257.4	17.8
Cash and deposits	445.0	12.5	389.5	9.7
<b>Total</b>	<b>1,036.4</b>	<b>20.5</b>	763.9	13.6

Equity investments include managed equity portfolios, which form part of the Group Funds at Lloyd's, investments in Lloyd's stocks and a number of strategic investments. A breakdown of the carrying value of these investments is given below (including 100% of syndicate assets):

Equity investments	31 December 2002	Return for year 2002	31 December 2001	Return for year 2001
	£m	£m	£m	£m
Lloyd's listed investments	15.2	(1.6)	27.9	(0.3)
Listed investments	1.9	0.2	–	–
Strategic non-listed investments	2.4	(1.7)	3.9	(1.3)
Managed portfolios	41.0	(9.9)	54.4	(9.3)
Protected funds	9.7	0.1	11.7	(1.1)
Ebix	1.5	(3.8)	5.2	(1.5)
EPIC – Capital shares	15.0	(0.3)	9.5	(0.5)
EPIC – Income shares	4.4	0.5	4.4	0.1
<b>Total</b>	<b>91.1</b>	<b>(16.5)</b>	117.0	(13.9)

## Result after tax and minority interests

The result after tax and minority interests was a profit of £5.4m (2001: loss of £85.2m). The effective tax rate was 23.7% (2001: 25.0%).

## Earnings per share

Basic earnings per share were 1.11p (2001 (restated): loss per share of 34.02p).

## Dividend per share

The Directors are not currently in a position to recommend payment of a dividend due to historic losses and a lack of distributable reserves.

Accumulated losses at 31 December 2002 were £27.1m (2001: £10.0m). Brit Group's dividend policy is to restore payment of a dividend as soon as it is practicable to do so.

## Gearing and liquidity

Total Group debt at 31 December 2002 was £64.6m (2001: £71.4m). This comprised £21.0m (2001: £28.0m) of bank borrowings and £43.6m (2001: £43.4m) of 8.5% convertible unsecured subordinated loan stock 2008. The final date for conversion of the loan stock is 31 October 2005. The bank borrowings are the remaining part of an £80m variable rate facility taken out in February 2000. Repayments have been mainly from the proceeds of the sale of listed Lloyd's stocks. The final repayment under the facility is due on 3 February 2005.

Total gearing is 13.6% (2001: 25.9%) of Shareholders' funds. The Group considers this level of gearing to be conservative and is currently investigating a number of facilities with a view to having these agreed in principle and potentially available for suitable future opportunities that may arise.

Interest during the year totalled £5.1m (2001: £2.4m). Interest cover was 2.5 times.

Liquidity throughout the Group is strong and at 31 December 2002, £67.9m (2001: £55.9m) of cash and liquid securities was held at Holding Company level. This gives the Group flexibility to expand both the insurance company and Lloyd's operations during 2003 in addition to providing working capital. It is anticipated that some of these funds will be required to meet increasing Funds at Lloyd's requirements as the regulatory demands for capital increase.

The Group is in the process of negotiating a US \$80m standby credit facility which can be drawn to supplement any gross liability funding requirements of the Lloyd's trust funds in the United States.

It is important to maintain sufficient liquidity at Holding Company level because funds held in the regulated insurance operations are not available to other group companies. Assets within BIL are ring-fenced from the rest of the Group and dividend payments from BIL require FSA consent. Funds generated from Lloyd's syndicate activities are held within a range of Lloyd's trust funds and are released on closure in line with Lloyd's three year accounting. Some intra syndicate funding is permitted provided that proper terms and conditions are established on an arm's length basis. The closures into composite Syndicate 2987 and 100% Brit ownership from 2003 will simplify this process.

## Treasury policy

The Finance and Investment Committee has responsibility for the overall financing policy of the Group and for cash, liquidity and foreign exchange management. Investment policy at the date of this report is to continue holding the majority of funds in short dated, liquid investments with high credit quality. At 31 December 2002, 85.4% of bond investments were rated AA or higher.

The Group writes a substantial amount of its business in foreign currencies, especially US dollars and Euros. The Finance and Investment Committee reviews exposures arising from retained profits and losses arising in foreign currencies and manages these with currency purchases and sales as appropriate. Liabilities in the principal trading currencies of sterling, US dollar and Euro are substantially matched with assets held in those currencies. Other currencies are converted into sterling.

## Capital adequacy

The Group retains high solvency margins in its overall insurance operations. Gross premium written was 209.4% of weighted average Shareholders' funds during 2002.

On 18 October 2002 the Group raised new capital of £194.1m (net of expenses) by way of a placing and open offer of 319,109,052 shares at 64p per share. Projected gross premium for 2003 is approximately £1bn which represents 210.0% of Shareholders' funds. The Group is therefore projecting to write insurance business at a ratio to overall Shareholders' funds of just over 2:1.

## Group pension schemes

The Group operates three main pension schemes:

- Money purchase scheme based on the stakeholder legislation;
- Final salary scheme. This scheme was closed to new members during 2001;
- Funded Unapproved Retirement Benefit scheme for employees earning more than the statutory earnings cap.

The Group has not adopted Financial Reporting Standard 17 in respect of the final salary scheme. The fund was substantially invested in equities during the year and at 31 December 2002 would have had a deficit under Financial Reporting Standard 17 rules of £10.4m before the related tax credit (2001: surplus £6.4m).

## Asset value per share

At 31 December 2002 net assets totalled £476.3m equivalent to 63.7p per share (2001: 65.5p). Net tangible assets totalled £445.6m equivalent to 59.6p per share (2001: 58.6p).



**Matthew Scales**  
Finance Director  
14 April 2003



Paul Dilley



*UK Division | Property | Motor | EL/PL*

Projected gross premium income for 2003 **£305m**



**Terry Sams**



**John Murphy**



**Richard Finn**

Projected gross premium  
income for 2003 **£225m**

*Reinsurance*

# Report of the *Directors*

*The Directors present their report and financial statements for the year ended 31 December 2002.*

## Results and dividends

The results are considered in detail in the Operating and Financial Review on pages 5 to 17.

As at 31 December 2002, the Company did not have distributable reserves and therefore the Directors are unable to recommend the payment of a dividend for the year ended 31 December 2002 (2001: nil).

## Principal activity and review of the year

The Company is a holding company and through its subsidiaries, it is engaged in risk-taking, as an insurer or reinsurer, distribution and investment. A detailed review of the activities and operations of the Group during 2002, together with the events since the end of the financial year and likely future developments, is included in the Operating and Financial Review on pages 5 to 17.

## Share capital

During 2002, ordinary 25p shares were admitted to the UK Listing Authority Official List as follows:

- 6 March 2002 – 4,108,625 ordinary 25p shares (block listing in respect of shares which may fall to be issued pursuant to the Brit 1998 Approved Executive Share Option Scheme, the Brit 1998 Approved Executive Share Option Scheme – Part B (formally the 1998 Wren Approved Share Option Scheme), the Brit 1998 Unapproved Executive Share Option Scheme or the Brit 1998 Unapproved Executive Share Option Scheme – Part B (formally the Wren Unapproved Share Option Scheme 1998));
- 10 May 2002 – 5,737,705 ordinary 25p shares;
- 1 July 2002 – 51,332,055 ordinary 25p shares (block listing in respect of shares which may fall to be issued following the conversion of loan stock under the instrument of the Company dated 23 November 2001 constituting convertible unsecured subordinated loan stock 2008);
- 18 October 2002 – 319,109,052 ordinary 25p shares;
- 11 November 2002 – 973,333 ordinary 25p shares; and
- 15 November 2002 – 767,969 ordinary 25p shares.

Details of the share capital in issue are set out in Note 26 on page 80.

## Directors

The names of the Directors as at the date of the report are shown on page 102. Andrew Shone resigned from the Board on 7 February 2002 and Paul Gaunt, Simon Clapham and Dick Withers Green retired with effect from 19 June 2002. Michael Wade left the Board on 25 February 2003.

In accordance with the Articles of Association, Dane Douetil, Glyn MacAulay, Matthew Scales and Jo Welman retire this year by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting ("AGM").

The interests of the Directors and their families in the Company's ordinary shares of 25p each and convertible unsecured subordinated loan stock units of 100p each are set out in Note 39 on pages 91 to 94.

The interests of the Directors in transactions with the Group are set out in Note 39 on page 91 to 94.

Details of the Directors' interests in incentive schemes are set out in the Directors' Remuneration Report on pages 30 to 40.

## Substantial share holdings

The Directors have been advised of the following shareholdings as at 11 April 2003 of 3% or more in the Company's issued share capital:

	Percentage of issued share capital	
	Shares	
	Number	%
INVESCO Perpetual Fund Managers Limited	133,597,128	17.87
Insight Investment Management Limited	59,044,935	7.90
Jupiter Asset Management Limited	49,772,939	6.66
Fidelity Investments Management Limited	42,123,461	5.64
Artemis Investment Management Limited	38,660,118	5.17
Shell Pensions Management Services Limited	34,570,553	4.63
Rostrum Investors limited partnerships	30,306,964	4.05
Legal & General Investment Management Limited	27,329,350	3.66
Hermes Investment Management Limited	25,020,240	3.35
Lansdowne Partners	23,048,092	3.08

## Employment policy

Details of employees and their remuneration are included in Note 8 on page 63.

The Group's employment policies and training programmes are designed to attract and retain high calibre personnel, based on individual skills and abilities. Employee involvement and consultation is accomplished in a number of ways, including the use of the Group's Intranet, "Britnet", briefing meetings and presentations on different aspects of the Group's business. These arrangements also enable the development of a common awareness among employees of the financial and strategic factors affecting the performance of the business. The level of employee participation in the Group's share ownership and option plans has continued to grow.

It is the Group's policy and practice to offer employment opportunities that are free from discrimination on any grounds relating to selection, training, promotion, career development and any other employment matters and to have full and fair regard to the particular aptitudes and abilities of disabled persons.

If existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to offer training and career development and promotions to disabled employees wherever appropriate.

## Corporate Social Responsibility ("CSR")

The Group recognises its impact, responsibilities and obligations on and towards society and aims to reduce environmental risk, both internally and externally through positive influence.

Due to the very nature of its business, the Group is in a position to influence others to adopt good risk management. In addition, internal Group initiatives include wide use of e-mail and Britnet to reduce the consumption of paper and placing recycling bins in each office.

Furthermore, the Group is committed to the highest standards of business conduct. Policies and procedures are in place to facilitate the reporting of suspect fraudulent activities, including money laundering. An ethics policy has been adopted across the Group and the Director with responsibility for Corporate Social Responsibility issues is Andrew Holland.

The Group's Health and Safety policy aims, insofar as it is reasonably practical, to ensure the health and safety of all employees and other persons who may be affected by the Group's operations and provide a safe and healthy working environment. The Group has a good record of safety and all staff are provided with health and safety training. All staff have access to health and safety information via Britnet.

### Creditors payment policy

It is the policy of the Company to settle all expenses on a timely basis in the ordinary course of business. At 31 December 2002, other creditors of the Company had an average 2 days outstanding (2001: 1 day). It is the Group's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them.

### Donations

During the period, the Group made charitable donations amounting to £8,019 (2001: £1,015). No donations were made to any political organisations (2001: nil).

### Post balance sheet event

Details of post balance sheet events are included in Note 41 on page 95.

### Auditors

On 1 September 2002, the Company's Auditors changed their name from Mazars Neville Russell to Mazars. In accordance with section 385 of the Companies Act 1985, a resolution proposing the reappointment of Mazars will be put to the AGM.

### Annual General Meeting

The AGM will be held at 12 noon on 18 June 2003 at the Company's offices at 55 Bishopsgate, London EC2N 3AS. A booklet containing the Notice of the Meeting, Explanatory Notes and a Proxy Form is enclosed.

Resolutions 1 to 8 are to be considered as ordinary business and Resolutions 9 to 17 as special business.

### Statement of directors' responsibilities

Company Law requires directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial period and of the profit of the Group for the period. The financial statements must be prepared in compliance with the required format and disclosures of the Companies Act 1985 and with applicable accounting standards.

In addition, the Directors are required to:

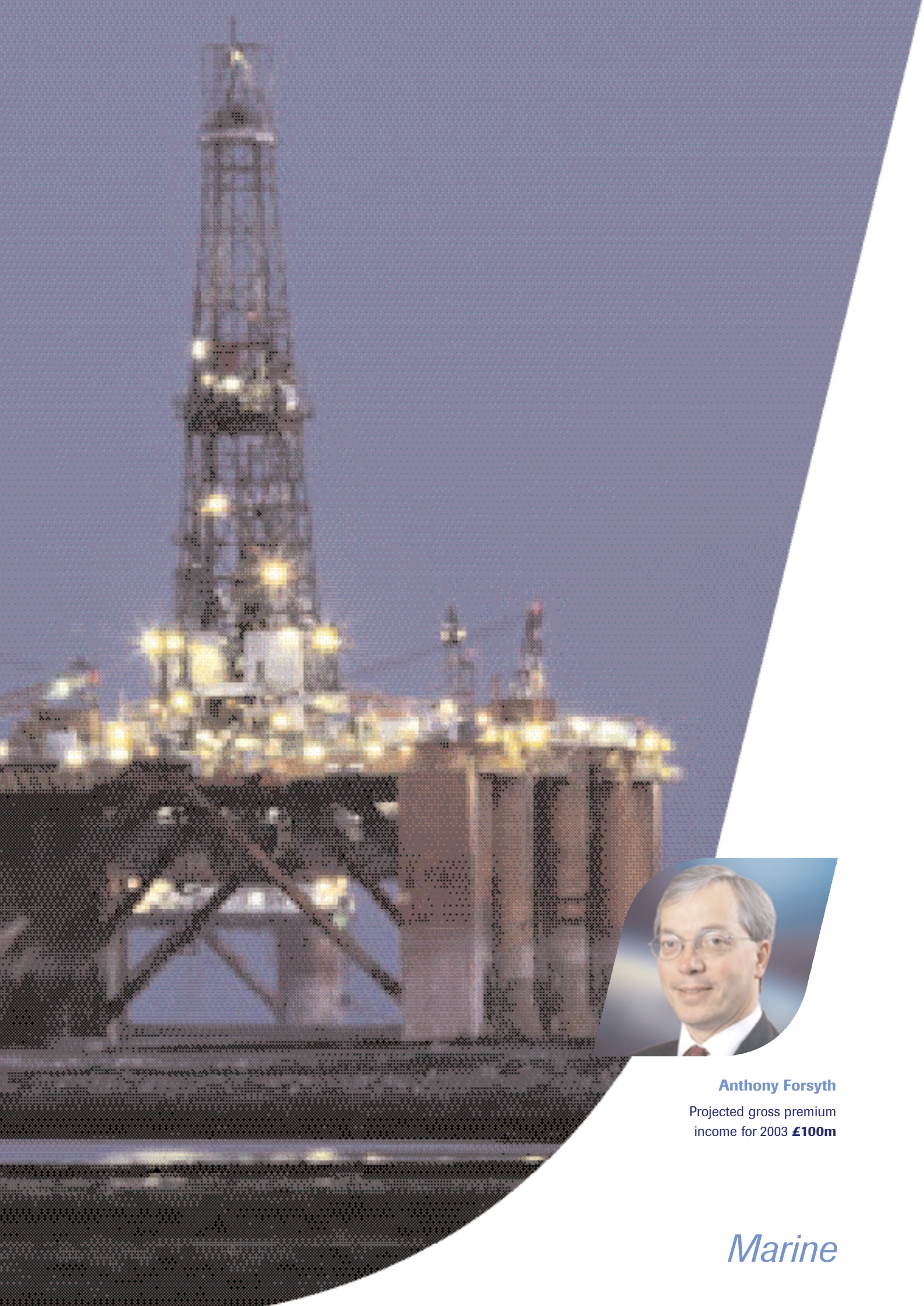
- a select suitable accounting policies and apply them consistently;
- b make judgements and estimates that are reasonable and prudent;
- c state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- d prepare financial statements on a going concern basis unless it is inappropriate to assume the Group will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are also responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### By Order of the Board

**Peter J Goddard**  
Secretary  
14 April 2003



**Anthony Forsyth**

Projected gross premium  
income for 2003 **£100m**

*Marine*

# Corporate Governance Report

## Combined Code (“the Code”) Provisions

The principles of the Code Provisions set out in section 1 of the Code have been applied throughout the year ended 31 December 2002 as set out below and in the Directors’ Remuneration Report.

## Board

The Board is comprised of four Executive and five Non-Executive Directors, four of whom are deemed by the Company to be independent. The exception, Jo Welman, is a former Executive Chairman holding legacy long-term incentives and as such is not deemed by the Code or the Company to be independent. The Senior Independent Director is Don McCrickard.

Directors are initially appointed by the Board and in accordance with the Articles, retire and seek re-election at the next Annual General Meeting (“AGM”). Thereafter, in accordance with Article 77, one-third of the Directors retire by rotation and seek re-appointment at each AGM.

All Directors have access to the Company Secretary and other senior executives. Directors have the right to obtain professional advice at the Group’s expense in the furtherance of their duties. With the exception of consultants used by the Remuneration Committee and general legal advice to the Board (including transaction-related advice), no other fees were incurred in respect of this during the period under review.

The Directors bring many years of experience from achievement of senior and board positions in relevant organisations and professions, as noted in their biographies on pages 98 to 101. The Company will formalise a continuous professional development policy for Directors and prospective Directors during 2003.

## How the Board operates

Directors meet as a Board at least on a quarterly basis and at other times as necessary. The Board met on 12 occasions in 2002. Papers are generally distributed at least five days in advance of a meeting. During 2002, the average attendance at board meetings by Non-Executive Directors was 80%.

The Board has a formal schedule of matters specifically reserved for its consideration which was last reviewed in November 2002. The Board has delegated certain of its powers to the following standing committees within defined terms of reference:

### Executive Management Committee (“EMC”)

The EMC comprises Executive Directors, the Company Secretary and one senior executive and is the primary vehicle for implementing Board decisions and the day to day management of the Group and control of its affairs.

### Audit Committee

Audit Committee membership is restricted to Non-Executive Directors as shown on page 102.

Its responsibilities include monitoring the integrity of financial statements, reviewing significant financial reporting judgements and the effectiveness of internal controls, accounting policies, the appointment and fees of external Auditors and any supply of non-audit work by them and the valuation of any unquoted investments. The Committee receives reports from the Company’s external Auditors and meets at least tri-annually.

### Remuneration Committee

Membership and details of the Committee’s responsibilities are set out in the Directors’ Remuneration Report on pages 30 to 40. The Committee met on nine occasions in 2002 and its primary focus is Group remuneration policy and the remuneration packages of Executive Directors and senior executives.

### Nominations Committee

Membership of the Nominations Committee is restricted to Non-Executive Directors as shown on page 102 and the Chairman, on the recommendation of the Senior Independent Director. The Committee is responsible for nominating candidates for the approval of the Board to fill vacancies and for succession planning. It meets on an ad hoc basis as required.

### Risk Management Group (“RMG”)

Membership and details of the Committee’s responsibilities are set out in the Internal Control statement below.

The minutes of each of the Committees are tabled and considered by the Board.

## Internal control

The Board is ultimately responsible for the Group's systems of internal control and for reviewing their effectiveness. These systems are designed to manage the risks of the Group's business, to ensure that the financial information on which the business decisions are made and which is published is reliable, and to ensure that the assets of the Group are safeguarded. The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement or loss. During 2002, the Group implemented a matrix management structure for its core business activities so that accountability for the effectiveness of internal controls is more transparent.

The Company, as required by the Listing Rules, has complied during the year with the Code provisions on internal control and has maintained procedures necessary to implement the guidance issued therewith.

The Group has independent review functions for risk assessment and management, compliance and internal audit. The independent review functions provide an ongoing process for identifying, evaluating and monitoring significant risks faced by the Group.

The risk assessment and management function reports to the RMG, a sub committee of the Board, on a regular basis. The RMG was established in 2000 and provides the formal structure for assessing the corporate risks affecting the Group and the effectiveness of the control environment. It submits regular reports to the EMC and the Board in accordance with the Turnbull Guidelines. Since 2000, the RMG has developed dynamic analysis tools, in conjunction with its external Auditors, to identify and objectively assess a risk in terms of financial impact, likelihood and the effectiveness of the relevant internal control. The risk register is continually updated and the effectiveness of controls communicated to the relevant business unit with internal audit conducting the follow up review programme. The process has been in place for the year under review and up to the date of the approval of the Annual Report and Accounts. The function is responsible for monitoring the major business risks and their associated controls relating to:

## Strategy

Strategic risks are considered by the Board, the EMC and the RMG in the context of an agreed strategic framework of three core activities: Underwriting, Distribution and Investment.

The EMC is the primary vehicle for promoting and implementing strategies set by the Company Board, day to day management of the Group, assessing risk appetite and asset split and asset/liability allocation policy of the Group for its three operating divisions.

A rolling five-year financial plan is updated to reflect the strategic challenges facing the Group.

## Underwriting, including reinsurance and claims

One of the Group's core activities is to accept risks from organisations who do not manage their risk exposures through internal controls alone. Due to the nature of insurance underwriting there is an inherent possibility that the financial outcomes of accepting third parties' risks can be subject to considerable volatility.

Underwriting activities of both Brit Syndicates Limited and Brit Insurance Limited are co-ordinated by the Underwriting Committee ("UC"). The primary functions of the UC are to:

- oversee the Group's underwriting participations (i.e. the use of Group capital);
- co-ordinate the exposure (gross and net) of the Group and ensure that the exposure is within parameters agreed by the Group Board so that the solvency of the Group is not exposed beyond an agreed level;
- assess continually and review all classes of insurance and reinsurance and thereby determine the Group's ideal portfolio mix for any one underwriting year; and
- ensure consistent, prudent and appropriate reserving across the Group.

The Reinsurance Security Committee, which reports to the UC, is responsible for assessing the security of the reinsurance programmes within the Group.

### Distribution

The Group Distribution Division comprises primarily Peoples Choice (Europe) Limited and Wren Products. The Distribution Committee ("DC") also monitors the Group's other investments associated with 'distribution' of insurance products and services.

The DC defines the strategy and tactics to be used by the Group Distribution Division's operating units to deliver the agreed objectives and financial targets. The objectives and targets are set by the EMC and the Finance and Investment Committee ("FIC").

### Investments

The overall targets for return on capital for investments is set and monitored by the FIC. The FIC is responsible for monitoring Group and syndicate investments and sets investment guidelines for investment managers and monitors performance and adherence to the guidelines.

### Finance

The FIC sets the overall return on capital budget for the Group's operations. Detailed financial and operating budgets and plans are developed for the year ahead and regular reports are provided to the Board covering actual performance against budgets, analysis of significant variances and scrutiny of key performance indicators by the Group's finance function.

Within the budgets and plans at subsidiary level are key performance indicators for detailed monitoring. Performance is reported on a monthly basis and significant variances highlighted and reported on.

### Operations

Operational risks include information technology and human resources. Information technology is critical to the Group's activities. IT systems are continuously evaluated and disaster recovery and business continuity plans are the subject of regular review.

Training and development are aligned to the Group's objectives.

### Regulatory compliance

Due to the nature of the Group's activities, the Group operates in a highly regulated environment (e.g. Lloyd's operations (Lloyd's and, more recently, the FSA) and Brit Insurance Limited (FSA)). Regulatory compliance is embedded within the Group and adherence continually monitored by the respective Compliance Officers.

A key feature of the control environment includes the terms of reference for the Board and each of its committees, a clear organisational structure, with documented delegation of authority from the Board to executive management, and defined procedures for the approval of major transactions and capital allocation.

RMG reports are circulated to the Board, and the appropriate Committees of the Board and the external Auditors. Minutes of the RMG are circulated to the EMC.

Prior to producing this statement in the Annual Report and Accounts, the Board undertook a formal assessment of the risk management and control environment in order to form a view on the overall effectiveness of the system of internal control. The assessment considered issues dealt with in reports received by the EMC and the Board during the year together with any additional information necessary to ensure that the Board has taken account of all significant aspects of internal controls for the Group.

## Relations with Shareholders

The Company has an investor relations team which co-ordinates with major investors and Stakeholders and disseminates information through various media. A programme of meetings is initiated after the release of final and interim results, or any other significant announcement. Press releases and Shareholders' presentations are published on the Company's web-site, [www.britisurance.com](http://www.britisurance.com), when permitted. Shareholders are encouraged to contact directly the Company with questions or concerns, and, subject to price sensitivity, the investor relations team seek to provide an efficient and timely response.

The resolutions for each AGM are fully explained and the bundling of resolutions is purposely avoided. All investors are encouraged to attend the AGM at which a presentation of the Group's results is made and future prospects and direction of the Company are discussed. The Chairman will ensure attendance of the Chairmen or members of the committees of the Board to answer any questions that Shareholders may have. The results of proxy votes, as collated by the Registrars, are announced at the end of Shareholder meetings.

## Going concern

After making reasonable enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board has continued to adopt the going concern basis in preparing these financial statements.

## Statement of Compliance with the Code of Best Practice

The Board has carried out a full review of the Group's compliance with the Code of Best Practice on the financial aspects of corporate governance for the year ended 31 December 2002 and is satisfied that the Company has been in full compliance.

**Peter J Goddard**

Secretary

14 April 2003

# Accident & Financial Risk



## Mike Sibthorpe

Projected gross  
premium income for  
2003 **£75m**



# Directors' Remuneration Report

*This report has been prepared by the Remuneration Committee in accordance with the Companies Act 1985, as amended, and has been approved by the Board for submission to Shareholders.*

## Composition and terms of reference

During the year, the Committee comprised entirely Non-Executive Directors, the majority of whom are independent, namely:

**\*Don McCrickard**  
(Chairman of the Committee)

**\*Clive Coates**  
(appointed August 2002)

**\*Glyn MacAulay**

**Jo Welman**  
(appointed October 2002)

**\*Dick Withers Green**  
(retired June 2002)

\*deemed independent by the Company

The Committee consults regularly with the Group Company Secretary, one of the Company's legal advisers, Decherts, one of the Company's financial advisers, Numis Securities Limited and the Company's Auditors, Mazars. In addition, as described below, the Chief Executive advises the Committee in connection with the grant of awards under the Group's share schemes (save in respect of his own participation). During 2002, the Committee retained the services of independent remuneration consultants, New Bridge Street Consultants, who have provided no other services to the Company.

The Committee met nine times during the year and its responsibilities, as defined by its terms of reference, include:

- analysis of current trends in remuneration, benefits and rewards for senior executives (including Executive Directors);
- ensuring that salary, benefit and incentive levels for senior executives are sufficiently competitive to attract and retain top quality personnel and that remuneration reflects a strong link between performance and reward, as well as seeking to align the interests of executives and Shareholders;
- determining the remuneration, benefits and rewards of the senior executives;
- agreeing grants and awards, on the recommendation of the Chief Executive (save in respect of his own participation), under the Group's share schemes in accordance with their rules;
- approving termination payments to senior executives or any changes to their service contracts; and
- ensuring that the interests of Shareholders and employees are compatible in the context of the compensation packages offered to Group employees generally.

During 2002, the Committee reviewed incentive packages designed to replace existing remuneration arrangements which had been inherited as a result of past acquisitions, details of which are disclosed later in this report.

## Remuneration policy

The Group operates in personnel-orientated markets and the remuneration policy aims to attract, retain and motivate high calibre executives, rewarding outstanding performance with packages that are aligned with the interests of Shareholders. The level of Executive Directors' remuneration takes account of practice in comparable companies and Directors are rewarded on the basis of responsibility, competence and contribution. Components of these packages include salary, on which pension and other benefits are calculated, together with short and long-term incentives. Therefore, a material element of senior executives' remuneration is performance-related.

The Committee assesses whether the reward strategies are achieving their objectives. It reviews regularly independent market data and assesses, with advisers, whether any adjustments to policy and practices are necessary. As the Group has inherited, through acquisitions, a variety of incentive schemes, many of which have not been continued, the Committee retained New Bridge Street Consultants to:

- undertake a detailed review of the remuneration packages, namely basic salary, bonus arrangements, long-term incentives, retirement benefits and other benefits, of Executive Directors and senior employees;

- consider the competitiveness of the packages as a whole;
- evaluate a proposed structure for Brit's annual bonus scheme(s) going forward; and
- examine the use of incentive arrangements which focus primarily on group performance and the business as a whole.

As a result of this review, the Committee and Board have resolved to recommend that Shareholders approve the adoption of new long-term incentive schemes as part of the new remuneration strategy, further details of which can be found below and in the Notice of Annual General Meeting ("AGM"). In addition, a new annual bonus structure has been implemented.

## Annual bonuses

The Group has established a new annual bonus scheme in which all Group employees (save for Peoples Choice and Ri3K employees in respect of whom separate arrangements are operated), including Executive Directors, participate. Under the annual bonus scheme, a bonus pool equalling no more than 7% of Group profit before tax can be distributed to participants, save that no bonus payable to any Executive Director may be greater than 80% of basic salary.

## Long-term incentives

As stated above, the Company is proposing to seek Shareholder approval at its forthcoming AGM on 18 June 2003 for the establishment of a new discretionary share option scheme and performance share plan.

Under the proposed new share option scheme, options may be granted each year over shares with an exercise price normally no greater than 100% of basic salary. These options will only become exercisable if a performance condition is satisfied. For the first grant of options under the new scheme, the performance condition will be based on the Company's Total Shareholder Return ("TSR") performance over a period of at least three years from grant compared with the TSR of the constituents of the FTSE Mid 250 Index. No portion of an option will vest for median performance. If the Company's TSR is immediately above that of the median company, 50% of the options will vest, with full vesting for upper quartile performance (with straight-line vesting between these two points). If the performance condition is not met in full over years 0-3, performance can be re-tested once over years 0-4.

Under the proposed new performance share plan, awards may be granted each year over shares with a value of up to 100% of basic salary. The extent to which awards vest will be determined by the extent to which certain predetermined performance conditions are satisfied over the three-year period following grant. For the first grant of awards, the performance condition will be based on the TSR performance of the Company compared with the constituents of the FTSE All Share Insurance Index as follows:

Brit's ranking	Percentage of award that vests
	%
Below median	–
Median to Upper quartile (with straight-line vesting)	20-100
Upper quartile	100

The Committee selected the performance conditions described above as they will provide participants with the incentive to deliver returns to Shareholders that are greater than the market generally and the Company's specific industry peers. All TSR calculations will be performed by an independent third party (thereby ensuring that the calculations are performed independently) and will be reviewed by the Committee.

### Non-Executive Directors

Non-Executive Directors receive an annual fee and reimbursement of their expenses. Fees paid to Non-Executive Directors are determined by the Executive Directors, with the

quantum of fees payable being comparable to those of similar organisations and the level being set to reflect the time devoted to the Group's affairs. The Non-Executive Directors are not entitled to participate in any of the Group's short and long-term incentive and pension arrangements (save in relation to rights obtained by one individual prior to him becoming Non-Executive).

Further details of the fees payable to Non-Executive Directors are set out on page 34.

### Service contracts

Dane Douetil, Neil Eckert, Andrew Holland and Matthew Scales have service contracts with Brit Group Services Limited dated 30 July 1998, 8 May 2000, 31 March 1998 and 10 December 1998 respectively.

The Committee's policy on the length of notice periods is that they should be set so as to reflect appropriately the interests of the Company and the senior executives, while also reflecting best practice. Consequently, all the Executive Directors have notice periods of 12 months, which can be given by either party. In the event of early termination, when determining the amount of compensation that is paid, the Committee will take into account the departing Director's duty to mitigate his loss. Compensation payments will not exceed the total of 12 months' remuneration and accrued benefits.

Dane Douetil and Matthew Scales, who retire by rotation and offer themselves for re-election at the AGM, will have 12 months remaining under their service contracts.

Clive Coates, Glyn MacAulay, Don McCrickard, Anthony Townsend and Jo Welman have service letters from the Company dated 30 April 2002, 27 April 2000, 27 April 2000, 18 May 1999 and 20 September 2002 respectively, under which there is a nil notice period on behalf of both the Company and the Non-Executive Directors and no provision for compensation for loss of office.

### Service contracts of former Directors

Under the terms of Simon Clapham's service agreement with Brit Group Services Limited dated 31 March 1998 a notice period of 12 months can be given by either party and compensation on termination may be negotiated individually, but will not exceed 12 months' remuneration.

Andrew Shone was employed by Brit Group Services Limited. A notice period of one month could be given by the employee, but statutory notice, namely one week for each year of service to a maximum of 12 weeks was required on the part of the Company. He resigned from the Board on 7 February 2002. Details of the emoluments and compensation, comprising statutory and contractual entitlements, received by him are disclosed in the table on the next page.

Paul Gaunt, Michael Wade and Dick Withers Green had service letters from the Company dated 27 April 2000, 29 April 2002 and 27 April 2000, respectively under which there was a nil notice period on behalf of both the Company and the Non-Executive Directors and no provision for compensation for loss of office.

## Emoluments and compensation

	2002						2001	
	Fees and salaries	Benefits in kind	Bonus	Car allowance	Compensation for loss of office	Pension	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Current Directors</b>								
<b>Executive Directors:</b>								
Dane Douetil <sup>1/2</sup>	225	1	70	8	–	44	348	205
Neil Eckert <sup>3</sup>	310	22	–	–	–	100	432	381
Andrew Holland	200	14	–	–	–	24	238	254
Matthew Scales <sup>4</sup>	200	10	–	–	–	53	263	281
<b>Non-Executive Directors:</b>								
Clive Coates <sup>5/6</sup>	50	–	–	–	–	–	50	–
Glyn MacAulay	31	–	–	–	–	–	31	30
Don McCrickard	31	–	–	–	–	–	31	30
Anthony Townsend	45	–	–	–	–	–	45	45
Jo Welman <sup>7/8</sup>	64	–	–	2	–	5	71	257
<b>Former Directors</b>								
Simon Clapham <sup>9</sup>	95	–	–	4	–	20	119	237
Paul Gaunt <sup>10</sup>	12	–	–	–	–	–	12	25
Andrew Shone <sup>11</sup>	21	6	–	–	154	–	181	241
Dick Withers Green <sup>12/13</sup>	9	–	–	–	–	–	9	20
Michael Wade <sup>14</sup>	13	–	–	–	–	–	13	–
<b>Total for the year</b>	<b>1,306</b>	<b>53</b>	<b>70</b>	<b>14</b>	<b>154</b>	<b>246</b>	<b>1,843</b>	2,006

<sup>1</sup> Dane Douetil received an additional payment of £719,558 in part settlement of his entitlements arising under the Brit Insurance Limited Phantom Scheme, details of which are disclosed below

<sup>2</sup> the £70,000 bonus payment was the last instalment payable of the bonus awarded to Dane Douetil under the Brit Insurance Limited Bonus Scheme for the 2000 underwriting year

<sup>3</sup> the £100,000 pension payment relates to Neil Eckert's pension payments for 2000, 2001 and 2002

<sup>4</sup> Matthew Scales received an additional payment of £37,500 in respect of the compulsory purchase of shares and options arising from previous employment

<sup>5</sup> with effect from date of appointment, 26 April 2002

<sup>6</sup> Clive Coates received a fee of £25,000 in 2001 in respect of chairing the Board of Brit Insurance Limited

<sup>7</sup> Jo Welman ceased to be Executive Chairman on 24 September 2002, from which date he became a Non-Executive Director and his remuneration was accordingly changed

<sup>8</sup> Jo Welman's fees are paid directly to his ultimate employer, The Equity Partnership Limited

<sup>9</sup> as at cessation of directorship, 19 June 2002

<sup>10</sup> as at cessation of directorship, 19 June 2002

<sup>11</sup> as at cessation of directorship, 7 February 2002

<sup>12</sup> as at cessation of directorship, 19 June 2002

<sup>13</sup> Dick Withers Green's fees were paid to his employing company

<sup>14</sup> with effect from date of appointment, 26 April 2002

Executive Directors are offered a number of benefits namely a car, private medical insurance, permanent health insurance and life assurance. Neil Eckert and Andrew Holland have a death benefit attached to the life assurance of four times annual salary (subject to the Inland Revenue cap). Dane Douetil and Matthew Scales have a death benefit equal to ten times annual salary (subject to the Inland Revenue cap) as they participate in the Group Stakeholder Pension Plan.

All Non-Executive Directors received a basic fee of £15,000 per annum and the Non-Executive Chairman receives an additional fee of £25,000 per annum. Non-Executive Directors received additional fees in respect of membership of Board committees as follows:

Audit Committee	£5,000 p/a
Remuneration and/or Nomination Committee	£5,000 p/a
Finance and Investment Committee	£10,000 p/a
Investment Management Committee	£10,000 p/a

The fee paid to the Chairman of the Audit Committee to chair that Committee was reviewed in October 2002 and revised from £10,000 per annum to £15,000 per annum. The fee paid to the Chairman of the Remuneration and Nomination Committees was also reviewed in October 2002 and revised from £10,000 per annum to £15,000 per annum. Clive Coates and Anthony Townsend chair the Boards of Brit Insurance Limited and Brit Syndicates Limited respectively for which they each receive an additional annual fee of £25,000.

## Share-based incentives

### Brit 1998 Unapproved Executive Share Option Scheme (the "1998 Scheme")

The interests of the Directors in share options in the Company are set out in the table below:

	1 January 2002	Number of options granted in year	As at 31 December 2002	Exercise price at date of grant/rollover	Date from which exercisable	Expiry date
	Number	Number	Number	p		
<b>Current Directors</b>						
Dane Douetil	–	749,224	749,224	62.50	23/10/05	22/10/12
	–	450,000	450,000	70.83	31/05/05	30/05/12
	250,000	–	250,000	66.00	24/05/03	23/05/10
Neil Eckert	589,473	–	589,473	142.50	10/09/01	09/09/08
	525,000	–	525,000	80.25	06/12/02	05/12/09
Andrew Holland	–	400,000	400,000	70.83	31/05/05	30/05/12
	300,000	–	300,000	80.25	06/12/02	05/12/09
	223,555 <sup>1</sup>	–	223,555 <sup>1</sup>	119.00	22/12/00	17/05/08
Matthew Scales	–	172,646	172,646	62.50	23/10/05	22/10/12
	–	400,000	400,000	70.83	31/05/05	30/05/12
	300,000	–	300,000	66.00	24/05/03	23/05/10
Jo Welman	210,526	–	210,526	142.50	10/09/01	09/09/08
	300,000	–	300,000	80.25	06/12/02	05/12/09
<b>Former Directors</b>						
Andrew Shone <sup>2</sup>	150,000	–	–	–	–	–
Simon Clapham <sup>3</sup>	–	200,000	200,000	70.83	31/05/05	30/05/12
	150,000	–	150,000	80.25	06/12/02	05/12/09
	319,365 <sup>1</sup>	–	319,365 <sup>1</sup>	119.00	22/12/00	17/05/08

All of the above options were granted for nil consideration, save in respect of 749,224 options granted to Dane Douetil and 172,646 options granted to Matthew Scales, further details of which are disclosed below.

<sup>1</sup> The scheme also incorporates, as a separate part, the terms of the Wren Unapproved Share Option Scheme 1998 under which no further options are to be granted. The options granted under that part now relate to shares in the Company following acceptance by the relevant option holders of the Company's rollover terms on 21 September 1999.

<sup>2</sup> as at cessation of directorship, 7 February 2002; awards have lapsed

<sup>3</sup> as at cessation of directorship, 19 June 2002

Save where the contrary is stated, all the above options have been granted under the 1998 Scheme. Performance conditions are applied except in certain special circumstances as detailed below. The performance conditions were determined following discussions with the Company's advisers and consideration of market practice.

The full performance conditions state that options are only exercisable if the Company's ranking in terms of TSR is higher than the average TSR growth of the FTSE Actuaries (Insurance) Index and the FTSE 100 Index over the relevant performance period of at least three years following grant.

Additional phased vesting performance conditions based on TSR were applied to any options granted to senior executives and Directors in May 2002 in excess of 1 x salary whereby vesting of the options in excess of 1 x salary is contingent on the Company's TSR exceeding the FT Insurance Index over a performance period of three years. For the amount of options granted in excess of 1 x salary to vest in full, the TSR must have exceeded the FT Insurance Index by 25% or more.

Following Shareholder approval of the new share option scheme described on page 31 above, no further grants will be made under the 1998 Scheme.

No options were exercised by the Directors during the year and no options expired unexercised during the year.

#### **Brit Insurance Limited Phantom Share Option Scheme (the "Phantom Scheme")**

The basis of the Phantom Scheme was that key employees of Brit Insurance Limited shared in an aggregate 7.4% growth in its value, after a true money market return on capital employed. Dane Douetil was granted a 5% part of the 7.4% options available through this scheme on 30 July 1998 and Matthew Scales was granted a 0.6% part of the 7.4% options available through this scheme on 30 July 1998.

The Phantom Scheme and associated bonus arrangements were inherited by the Group when Brit Insurance Limited was acquired in 1999 and consequently have not been in line with the Company's other incentive schemes. During 2002, the Board agreed that it was in the best interests of the Company to buy out existing entitlements under these arrangements by means of an incentive package that would more closely align the participants' interests with those of the Company's Shareholders. Accordingly, no further awards will be made under this Scheme. Following external advice and a request from the Board, the Committee agreed to use the 1998 Scheme to satisfy in part the commercial settlement which had been agreed with the participants. On 23 October 2002 a total of 1,353,913 options at a strike price of 62.5p were awarded to Group employees who were participants of the Phantom Scheme, of which 749,224 options were awarded to Dane Douetil and 172,646 options were awarded to Matthew Scales. Performance conditions were not applied to these options as they were awarded as part of a commercial settlement, but all other normal vesting criteria were applied. In addition, on 11 November 2002, 973,333 shares were allotted to the participants, of which 685,483 shares were awarded to Dane Douetil and 82,185 shares were awarded to Matthew Scales, and Dane Douetil was awarded a cash settlement of £719,558 in final settlement. The share and cash elements of the settlement were not within the Committee's remit but are recorded here for completeness.

There are therefore no outstanding options left under the Phantom Scheme which has now been closed.

#### **Brit Long-Term Incentive Plan 1999 (the "1999 LTIP")**

Under the 1999 LTIP, executives are granted a conditional right to receive shares. Following Shareholder approval of the new performance share plan described on page 32 above, no further awards will be made under the 1999 LTIP. The performance conditions which apply to awards under the 1999 LTIP state that transfers of up to 50% of plan shares are based on a sliding scale and are contingent on the Company's TSR exceeding the FT Insurance Index over a performance period of three years. For the full 50% to transfer, the Company's TSR must have exceeded the FT Insurance Index by 25% or more.

The transfer of the remaining 50% of plan shares is also based on a sliding scale of vesting. Shares can only be transferred if the annual compound growth in the earnings per share of the Company exceeds inflation over the performance period by at least 2.5%. For the full 50% to transfer the excess must be 15% or more.

Further details of awards made under the 1999 LTIP are set out in the table on the next page:

	Performance period ended	Award date	Plan interest (shares) as at 1 January 2002	Plan shares allocated in 2002	Plan interest (shares) vested in 2002 <sup>1</sup>	Plan interest (shares) as at 31 December 2002	Value vested 2002 <sup>2</sup>	Vesting date <sup>3</sup>	
<b>Current Directors</b>									
	Dane Douetil	2003	24/05/00	102,500	–	–	102,500	–	31/12/03
	Neil Eckert	2002	06/12/99	187,708	–	187,708	–	142,658	31/12/02
	Andrew Holland	2002	06/12/99	125,139	–	125,139	–	95,106	31/12/02
	Matthew Scales	2003	25/05/00	136,667	–	–	136,667	–	31/12/03
	Jo Welman	2002	06/12/99	93,855	–	93,855	–	71,330	31/12/02
<b>Former Directors</b>									
	Andrew Shone <sup>4</sup>	2002	06/12/99	93,855	–	–	–	–	–
	Simon Clapham <sup>5</sup>	2002	06/12/99	93,855	–	93,855	–	71,330	31/12/02

<sup>1</sup> the performance conditions applicable to awards that vested on 31 December 2002 state that transfers of up to 50% of plan shares are based on a sliding scale and are contingent on the Company's TSR exceeding the FT Insurance Index over a performance period of three years. For the full 50% to transfer, the Company's TSR must have exceeded the FT Insurance Index by 25% or more. The transfer of the remaining 50% of plan shares is also based on a sliding scale of vesting. Shares can only be transferred if the annual compound growth in the earnings per share of the Company exceeds inflation over the performance period by at least 2.5%. For the full 50% to transfer the excess must be 15% or more

<sup>2</sup> the closing mid market price of ordinary shares in Brit Insurance Holdings PLC on 6 December 1999 was 79.9p and on 31 December 2002 the price was 76.0p

<sup>3</sup> vesting of the LTIP awards with a performance period ended in 2002 was approved subsequent to year end

<sup>4</sup> cessation of directorship 7 February 2002; awards have lapsed

<sup>5</sup> cessation of directorship 19 June 2002

### Share price

The share price at 31 December 2002 was 76.0p (31 December 2001: 75.5p). The highest and lowest closing prices during the financial year were 79.50p and 54.50p respectively.

### Brit All Employee Share Ownership Plan

This Inland Revenue approved Plan, which was approved by Shareholders in June 2001, is generally available to all Group employees and subject to vesting periods of three to five years.

	<b>As at 1 January 2002</b>	<b>Free shares granted in year</b>	<b>Partnership shares acquired in year</b>	<b>Matching shares granted in year</b>	<b>As at 31 December 2002</b>
<b>Current Directors</b>					
Dane Douetil	1,022	500	2,232	1,112	4,866
Neil Eckert	1,022	500	2,232	1,112	4,866
Andrew Holland	1,022	500	2,232	1,112	4,866
Matthew Scales	1,022	500	2,232	1,112	4,866
<b>Former Director</b>					
Simon Clapham*	1,022	–	1,092	544	2,658

\*as at date of cessation of directorship, 19 June 2002

## Directors' pension benefits

	<b>Increase/(decrease) in accrued pension during the year</b>	<b>Accrued pension benefits at 31 December 2002</b>	<b>Transfer value of accrued benefits at 31 December 2002</b>	Transfer value of accrued benefits at 31 December 2001	Increase in transfer value in the year after contributions
	<b>£ p/a</b>	<b>£ p/a</b>	<b>£</b>	<b>£</b>	<b>£</b>
Andrew Holland	2,400	13,700	126,800	115,100	11,700
Andrew Shone	(15,200)	105,200	2,310,900	1,533,400	777,500

The pension entitlement shown in the accrued pension is that which would be paid on retirement based on service to the end of the year.

The transfer values disclosed above have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN 11. The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme.

A funded unapproved retirement scheme (FURBS) is run by the Company. Contributions are paid annually in arrears.

Contributions to private personal pension schemes of Simon Clapham, until he ceased to be a Director, and of Jo Welman, until he ceased to be an Executive Director, were made up to the fully allowable contribution limit and are set out in the table on page 33.

Disclosures in relation to Directors' pensions continue to be required under the Listing Rules until those rules are revised to take account of the Directors' Remuneration Report Regulations. The Listing Rules disclosures are at Note 9 to the Financial Statements on page 64.

### **External appointments**

Executive Directors are permitted to accept appointments on external boards or committees so long as these are not deemed to interfere with the business of the Group. Any fees received in respect of these appointments are remitted to the Group and any such fees are reflected in the remuneration package of the individual Director concerned.

## Performance graph

As required by new legislation regarding disclosure in the remuneration report, Graph 1 illustrates the performance of Brit and a "broad equity market index" over the past five years. As Brit became a constituent of the FTSE Mid 250 index in 2002, that index is considered the most appropriate form of "broad equity market index" against which the Group's performance should be graphed. Performance, as required by the legislation, is measured by Total Shareholder Return (share price growth plus dividends paid). Graph 2 illustrates the Group's performance compared with the FTSE Insurance Index, the index used for the purposes of performance conditions attaching to the 1999 LTIP.

## Best practice

The Committee believes that the Group has complied with Schedule A of the Combined Code and has given full consideration to Schedule B of the Code in formulating the remuneration packages of Executive Directors and other senior management of the Group.

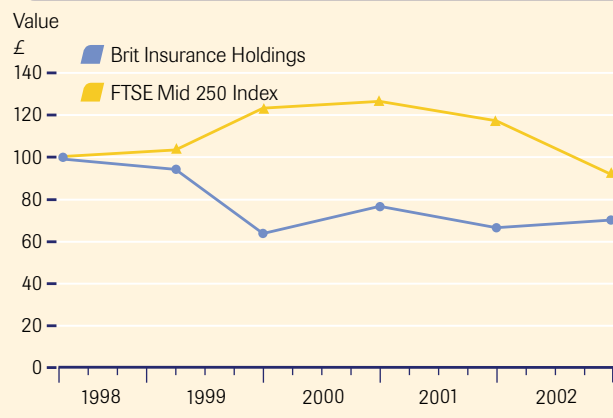
The Chairman of the Committee will attend the AGM and will be available to answer Shareholders' questions regarding remuneration.

## On Behalf of the Board

### Don McCrickard

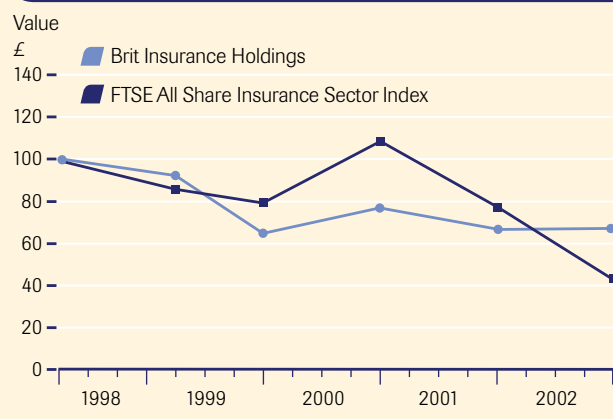
Chairman of the Remuneration Committee  
14 April 2003

**Graph 1: Total Shareholder Return – Brit Insurance Holdings vs FTSE Mid 250 Index**



This graph looks at the value, by the end of 2002, of £100 invested in Brit Insurance Holdings on 31/3/98 compared with the value of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intermediate financial year-ends.

**Graph 2: Total Shareholder Return – Brit Insurance Holdings vs FTSE All Share Insurance Sector Index**



This graph looks at the value, by the end of 2002, of £100 invested in Brit Insurance Holdings on 31/3/98 compared with the value of £100 invested in the FTSE All Share Insurance Sector Index. The other points plotted are the values at intermediate financial year-ends.

# Financial Statements

## Contents

	<i>Consolidated Profit and Loss Account</i>
42	<i>Technical Account – General Business</i>
43	<i>Non-Technical Account</i>
43	<i>Statement of Total Recognised Gains and Losses</i>
44	<i>Consolidated Balance Sheet</i>
46	<i>Balance Sheet of the Company</i>
47	<i>Consolidated Cash Flow Statement</i>
48	<i>Basis of Preparation of Financial Statements</i>
54	<i>Notes to the Financial Statements</i>

# Consolidated Profit and Loss Account

## Technical Account – General Business for the year ended 31 December 2002

Notes

	Year ended 31 December 2002	Year ended 31 December 2001
	£'000	£'000
<b>Earned premiums, net of reinsurance:</b>		
Gross premiums written	662,715	374,043
Outward reinsurance premiums	(140,555)	(128,929)
<b>Net premiums written</b>	<b>522,160</b>	245,114
Change in the provision for unearned premiums	(218,445)	(69,902)
Change in the provision for unearned premiums, reinsurers' share	21,569	19,066
<b>Net change in the provision for unearned premiums</b>	<b>(196,876)</b>	(50,836)
<b>Earned premiums net of reinsurance</b>	<b>325,284</b>	194,278
Allocated investment return transferred from the non-technical account	27,405	22,969
<b>Total technical income</b>	<b>352,689</b>	217,247
<b>Claims paid:</b>		
Gross amount	(171,559)	(191,798)
Reinsurers' share	69,170	72,200
<b>Net claims paid</b>	<b>(102,389)</b>	(119,598)
<b>Change in the provisions for claims:</b>		
Gross amount	(84,194)	(248,478)
Reinsurers' share	(18,496)	123,012
<b>Net change in the provisions for claims</b>	<b>(102,690)</b>	(125,466)
<b>2 Claims incurred, net of reinsurance</b>	<b>(205,079)</b>	(245,064)
<b>Change in other technical provisions, net of reinsurances</b>	<b>(1,970)</b>	4,223
<b>3 Net operating expenses</b>	<b>(93,684)</b>	(58,584)
<b>Total technical charges</b>	<b>(300,733)</b>	(299,425)
<b>Balance transferred to the non-technical account</b>	<b>51,956</b>	(82,178)

# Consolidated Profit and Loss Account

## Non-Technical Account

for the year ended 31 December 2002

	Year ended 31 December 2002	Year ended 31 December 2001
Notes	£'000	£'000
	<b>51,956</b>	(82,178)
4 Net investment return	<b>7,561</b>	7,763
Allocated investment return transferred to the technical account for general business	<b>(27,405)</b>	(22,969)
5 Fees and commissions	<b>15,981</b>	13,545
6 Other income	<b>992</b>	880
7 Other expenses	<b>(37,708)</b>	(29,744)
Operating profit/(loss)	<b>11,377</b>	(112,703)
16 Share of loss in associated undertakings	<b>(1,395)</b>	(1,762)
Profit/(loss) on ordinary activities before tax	<b>9,982</b>	(114,465)
11 Tax (charge)/credit on profit/(loss) on ordinary activities	<b>(2,363)</b>	28,567
Profit/(loss) on ordinary activities after tax	<b>7,619</b>	(85,898)
29 Equity minority interests	<b>(2,258)</b>	715
Profit/(loss) attributable to members of the parent company	<b>5,361</b>	(85,183)
Operating profit/(loss) based on long-term rate of investment return	<b>25,022</b>	(99,444)
Short-term fluctuations in investment return	<b>(13,645)</b>	(13,259)
Operating profit/(loss)	<b>11,377</b>	(112,703)
12 Basic earnings per share (pence per share) (2001 restated)	<b>1.11p</b>	(34.02)p
12 Diluted earnings per share (pence per share) (2001 restated)	<b>1.11p</b>	(34.02)p

In accordance with the amendment to Financial Reporting Standard 3 "Reporting Financial Performance" the inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is deemed not to be a departure from the unmodified historical cost basis of accounting. Accordingly a separate note of historical cost profits and losses is not given.

All results arise from continuing operations.

## Statement of Total Recognised Gains and Losses

for the year ended 31 December 2002

	Year ended 31 December 2002	Year ended 31 December 2001
	£'000	£'000
Profit/(loss) attributable to members of the parent company	<b>5,361</b>	(85,183)
18 Acquisition of Ri3K Limited	<b>1,428</b>	
Total recognised gains and losses relating to the year	<b>6,789</b>	

# Consolidated Balance Sheet

as at 31 December 2002

Notes	As at 31 December 2002			As at 31 December 2001			
	Corporate	Syndicate	Total	Corporate	Syndicate	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	
	<b>Intangible assets:</b>						
	Syndicate participations	4,155	–	4,155	4,799	–	4,799
	Goodwill	26,607	–	26,607	23,579	–	23,579
<b>13</b>		<b>30,762</b>	<b>–</b>	<b>30,762</b>	28,378	–	28,378
	<b>Investments:</b>						
<b>14</b>	Financial investments	546,355	234,817	781,172	350,058	200,380	550,438
<b>16</b>	Investments in associated undertakings	116	–	116	6,583	–	6,583
	Deposits with ceding undertakings	–	–	–	–	164	164
		<b>546,471</b>	<b>234,817</b>	<b>781,288</b>	356,641	200,544	557,185
	<b>Reinsurers' share of technical provisions:</b>						
	Provisions for unearned premiums	4,172	81,622	85,794	1,986	27,901	29,887
	Claims outstanding	40,336	192,998	233,334	47,051	247,179	294,230
		<b>44,508</b>	<b>274,620</b>	<b>319,128</b>	49,037	275,080	324,117
	<b>Debtors:</b>						
	Arising out of direct insurance operations	3,467	104,573	108,040	769	66,863	67,632
	Arising out of reinsurance operations	86,465	169,236	255,701	10,508	119,861	130,369
<b>19</b>	Other	22,096	25,059	47,155	15,651	4,901	20,552
		<b>112,028</b>	<b>298,868</b>	<b>410,896</b>	26,928	191,625	218,553
	<b>Other assets:</b>						
<b>20</b>	Tangible assets	4,867	–	4,867	4,355	–	4,355
	Cash at bank and in hand	34,026	96,888	130,914	70,510	31,600	102,110
<b>21</b>	Own shares	1,211	–	1,211	1,210	–	1,210
	Other	–	6,289	6,289	–	13,678	13,678
		<b>40,104</b>	<b>103,177</b>	<b>143,281</b>	76,075	45,278	121,353
	<b>Prepayments and accrued income:</b>						
<b>22</b>	Deferred tax asset	38,395	–	38,395	43,346	–	43,346
	Deferred acquisition costs	5,605	55,554	61,159	1,061	18,719	19,780
<b>23</b>	Other	7,368	1,714	9,082	3,366	1,625	4,991
		<b>51,368</b>	<b>57,268</b>	<b>108,636</b>	47,773	20,344	68,117
	<b>Total assets</b>	<b>825,241</b>	<b>968,750</b>	<b>1,793,991</b>	584,832	732,871	1,317,703

Notes

	As at 31 December 2002			As at 31 December 2001			
	Corporate	Syndicate	Total	Corporate	Syndicate	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Capital and reserves:</b>							
26	Called up share capital	186,867	–	186,867	105,398	–	105,398
27	Contingent share capital	–	–	–	5,291	–	5,291
27	Share premium	370,107	–	370,107	252,817	–	252,817
27	Capital redemption reserve	586	–	586	586	–	586
27	Profit and loss reserve	(81,219)	–	(81,219)	(88,008)	–	(88,008)
28	<b>Equity Shareholders' funds</b>	<b>476,341</b>	<b>–</b>	<b>476,341</b>	276,084	–	276,084
29	<b>Equity minority interests</b>	<b>(371)</b>	<b>–</b>	<b>(371)</b>	(2,258)	–	(2,258)
<b>Technical provisions:</b>							
	Provision for unearned premiums	69,242	295,045	364,287	16,059	105,305	121,364
	Claims outstanding – gross	103,701	561,473	665,174	100,054	624,372	724,426
	Equalisation provision	2,483	–	2,483	–	–	–
	Provision for losses foreseen on open years	–	8,306	8,306	–	9,009	9,009
	Other technical provisions	(6,462)	–	(6,462)	(6,458)	–	(6,458)
		<b>168,964</b>	<b>864,824</b>	<b>1,033,788</b>	109,655	738,686	848,341
<b>Provisions for other risks and charges:</b>							
25	Other provisions	1,129	–	1,129	1,475	–	1,475
		<b>1,129</b>	<b>–</b>	<b>1,129</b>	1,475	–	1,475
<b>Creditors: Amounts falling due within one year</b>							
	Arising out of direct insurance operations	–	18,888	18,888	–	20,287	20,287
	Arising out of reinsurance operations	12,710	149,691	162,401	13,690	67,541	81,231
24	Other creditors	97,798	(64,799)	32,999	112,876	(95,170)	17,706
		<b>110,508</b>	<b>103,780</b>	<b>214,288</b>	126,566	(7,342)	119,224
<b>Creditors: Amounts falling due after more than one year</b>							
24	Other creditors including convertible debt	64,625	–	64,625	70,419	–	70,419
	<b>Accruals and deferred income</b>	<b>4,045</b>	<b>146</b>	<b>4,191</b>	2,891	1,527	4,418
	<b>Total liabilities</b>	<b>825,241</b>	<b>968,750</b>	<b>1,793,991</b>	584,832	732,871	1,317,703

# Balance Sheet of the Company

as at 31 December 2002

Notes	As at 31 December 2002	As at 31 December 2001
	£'000	£'000
<b>Fixed asset investments:</b>		
15 Investments in subsidiary undertakings	293,497	207,829
16 Investments in associated undertakings	62	562
14 Other investments	84,621	41,829
21 Own shares	920	920
	<b>379,100</b>	251,140
<b>Current assets:</b>		
19 Debtors	206,842	117,963
22 Deferred tax asset	295	926
23 Prepayments and accrued income	60	136
Cash at bank	10,129	55,943
	<b>217,326</b>	174,968
<b>Creditors: Amounts falling due within one year</b>		
24 Other creditors	(95)	(1,209)
Accruals and deferred income	(1,293)	(416)
	<b>(1,388)</b>	(1,625)
<b>Net current assets</b>	<b>215,938</b>	173,343
<b>Total assets less current liabilities</b>	<b>595,038</b>	424,483
<b>Creditors: Amounts falling due after more than one year</b>		
24 Other creditors including convertible debt	(64,625)	(70,419)
<b>Net assets</b>	<b>530,413</b>	354,064
<b>Capital and reserves:</b>		
26 Called up share capital	186,867	105,398
27 Contingent share capital	–	5,291
27 Share premium	370,107	252,817
27 Capital redemption reserve	586	586
27 Profit and loss reserve	(27,147)	(10,028)
28 <b>Equity Shareholders' funds</b>	<b>530,413</b>	354,064

The financial statements on pages 42 to 95 were approved by the Board of Directors on 14 April 2003 and were signed on its behalf by

**Clive Coates**, Chairman

**Matthew Scales**, Finance Director

# Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Year ended 31 December 2002	Year ended 31 December 2001
Notes	£'000	£'000
<b>32 Net cash outflow from operating activities</b>	<b>(460)</b>	(32,390)
<b>Returns on investment and servicing of finance:</b>		
Interest paid	<b>(5,072)</b>	(2,162)
<b>Taxation:</b>		
Corporation tax recovered/(paid)	<b>3,423</b>	(1,659)
<b>Capital expenditure:</b>		
Purchase of syndicate capacity	<b>(1,506)</b>	(3,697)
Purchase of tangible fixed assets	<b>(2,187)</b>	(1,004)
Proceeds from disposal of tangible fixed assets	<b>43</b>	81
	<b>(3,650)</b>	(4,620)
<b>Acquisitions and disposals:</b>		
<b>36</b> Net cash acquired with Ri3K Limited	<b>316</b>	–
Net cash acquired with Peoples Choice (Europe) Limited	–	211
Acquisition of associated undertaking	–	(62)
Acquisition of own shares for Long-Term Incentive Plan	–	(189)
Disposal of associated undertaking	<b>400</b>	–
Loan to associated undertaking	<b>(2,750)</b>	(5,899)
	<b>(2,034)</b>	(5,939)
<b>Equity dividends:</b>		
Equity dividends paid	–	(5,048)
<b>Financing:</b>		
(Decrease)/increase in bank loans	<b>(7,812)</b>	5,618
Net proceeds from placing and open offer	<b>194,150</b>	110,445
Net proceeds from issue of convertible loan stock	–	43,419
	<b>186,338</b>	159,482
<b>Increase in cash in the year</b>	<b>178,545</b>	107,664
<b>Cash flows were invested as follows:</b>		
<b>34</b> (Decrease)/increase in cash holdings	<b>(36,484)</b>	39,786
<b>Net portfolio investments:</b>		
<b>35</b> Deposits with credit institutions	<b>(90,284)</b>	93,197
<b>35</b> Fixed income investments	<b>313,966</b>	3,909
<b>35</b> Variable income investments	<b>(3,086)</b>	1,124
<b>35</b> Protected funds	<b>(2,055)</b>	(10,300)
<b>35</b> Equities	<b>(3,512)</b>	(20,052)
<b>Increase in cash in the year</b>	<b>178,545</b>	107,664

The consolidated cashflow statement excludes syndicate cashflows and cash held within Lloyd's premium trust funds on behalf of the Group's underwriting subsidiaries.

# Basis of Preparation of Financial Statements

## 1 Basis of preparation of financial statements

### Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified by the revaluation of investments.

The financial statements of the Group have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Businesses issued by the Association of British Insurers in November 1998 (the "ABI SORP") have been adopted.

The balance sheet of the Company has been prepared in accordance with Schedule 4 to the Companies Act 1985. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act. The loss dealt with in the accounts of the parent company was £17,119,000 (2001: loss of £22,888,000).

### Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, together with the Group's participation in the Lloyd's syndicates' assets, liabilities, revenues and expenses for the year ended 31 December 2002. In the Group accounts, associated undertakings are accounted for on the equity basis from the date the Directors deem that the Group exercises a significant influence over the Company. Subsidiaries are consolidated from the date control is gained.

## 2 Accounting policies

### 1 Underwriting activities

#### (a) Managed syndicates and Brit Insurance Limited

The results for all classes of business have been determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium, net of reinsurance as follows:

- (i) Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less an allowance for cancellations.
- (ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date.
- (iii) Acquisition costs represent commission and other expenses arising from the conclusion of insurance contracts. They are deferred over the period in which the related premiums are earned.
- (iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from prior years. Where applicable deductions are made for salvage and other recoveries.
- (v) Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.

Claims provisions have been established on a class of business basis for each syndicate year of account. The underwriting and Management teams of the syndicates conduct a quarterly review of each class of business for all years of account. Claims are projected to the ultimate position after 36 months and provision is made for known claims and claims incurred but not reported.

Case based estimation techniques have been used to establish claims provisions for Brit Insurance Limited. The company's management team reviews each contract quarterly and sets the provision on a contract by contract basis. Provisions are established for all known losses and major events to the extent that management estimates that individual contracts are likely to incur a loss.

- (vi) Unexpired risks provision: Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred up to the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

- (vii) Equalisation reserves (Brit Insurance Limited): Amounts are set aside in accordance with the requirements of the Insurance Companies (Reserves) Regulations 1996 for the purpose of mitigating exceptionally high loss ratios in future years. The amounts reserved are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions.
- (viii) Net operating expenses: Operating expenses are charged in the year in which they were incurred.
- (ix) The principles of the annual basis of accounting for insurance business are applied to the underwriting transactions and balances of the managed syndicates. Results under the annual basis of accounting are estimated on the basis of premiums earned in the year as a proportion of the projected ultimate premiums for each syndicate year of account, together with any adjustments in relation to prior years. Premium earnings patterns are set on the basis of the Underwriters' and internal actuary's judgement. Major claims are allocated to the year in which they occur.
- (x) For each managed syndicate on which the Group participates, the Group's proportion of the syndicates' assets and liabilities has been reflected in its Consolidated Balance Sheet (included in the column headed 'Syndicate'). Syndicate assets are held subject to trust deeds for the benefit of the Syndicates' insurance creditors.

#### **(b) Non-managed syndicates**

- (i) Basis of information for underwriting results

For each syndicate on which the Group participates, the Group's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the Consolidated Technical Account. Similarly, its proportion of the syndicates' assets and liabilities has been reflected in its Consolidated Balance Sheet (included in the column headed 'Syndicate'). Syndicate assets are held subject to trust deeds for the benefit of the Syndicates' insurance creditors.

The proportion referred to above is calculated by reference to the Group's participation as a percentage of the syndicates' total capacity.

The Managing Agents of the syndicates on which the Group participates are responsible for determining the insurance transactions to be recognised by the Group. The only exception to this rule is the level of provision for outstanding claims on open or Run-Off years of account of syndicates. These provisions are determined by the Directors of the relevant subsidiaries.

In respect of non-managed syndicates, for which the final year of participation was 2000, the financial information used to compile the Consolidated Technical Account and the Syndicate column of the Consolidated Balance Sheet is based on returns prepared for reporting quarterly performance by the respective Managing Agents to the members participating on the syndicates ('the Returns'). This base data has been adjusted as necessary to reflect the differences in preparation between the Returns and year end financial statements in accordance with Schedule 9A to the Companies Act 1985.

The format of the Returns has been established by Lloyd's and Lloyd's has also been responsible for collating the data at a syndicate level and publishing the aggregate forecasts. The Returns utilised for the period under review are those as at 30 September 2002.

The comparative period includes the Returns based on the audited syndicate returns to Lloyd's and the audited Annual Reports to syndicate members for the 12 months to 31 December 2001.

## Basis of Preparation of Financial Statements *continued*

### (ii) Basis of accounting for underwriting results

All classes of insurance business written are accounted for on a three year funded basis because it is the basis most similar to that followed by the syndicates. Under the three year funded basis followed by the Group, the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period (the underwriting year) is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Profit is only recognised if a syndicate has been able to effect a reinsurance to close (see (vi) below) in respect of that underwriting year.

If an underwriting year is expected to make a loss, the loss is recognised as soon as it is foreseen by increasing the technical provision to make it sufficient to meet present liabilities and anticipated future claims and expenses.

### (iii) Premiums

Premiums written are stated gross of commission payable to intermediaries but exclude insurance premium tax. They relate to business incepting during the period, together with any adjustments for premiums relating to the prior year. Premiums also include estimates for pipeline premiums.

Gross premiums written may include reinsurance to close receivable. See (vi) below for further details.

Premiums written by a syndicate may also include the reinsurance of other syndicates on which the Group participates. No adjustments have been made to gross premiums written or outward reinsurance premiums (or to gross and reinsurers' claims) to remove this inter-syndicate reinsurance as there is insufficient information available.

### (iv) Claims incurred

Claims incurred include the costs of claims handling expenses, but are net of recoverable amounts arising out of subrogation or salvage. Claims incurred comprise amounts paid or provided in respect of claims occurring during the period together with the amount by which settlement or reassessment of claims from prior years differ from the provision at the beginning of the year. For further details of reinsurance to close payable, which is included in claims incurred, see (vi) below.

### (v) Provision for claims

The provision has been increased as appropriate by the Directors to the extent that deficits are anticipated on underwriting years not closed at the 36 month stage at the balance sheet date.

In deciding whether any such additional provision is necessary, the syndicate participation for each year has been considered in aggregate as each year's Lloyd's underwriting is managed together.

External Managing Agent published forecast information and Management's market knowledge are used to establish the open year loss provision for the non-managed syndicates. All available information is reviewed quarterly and the open year loss provisions are set on a syndicate by syndicate basis.

### (vi) Reinsurance to close

To the extent that the Group participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the Group has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

Where the Group has increased or decreased its participation from one year of account to the next, the difference between the reinsurance to close received and the reinsurance to close paid is shown in the technical account as either gross premiums written or reinsurance premiums payable as appropriate.

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims. In the opinion of the Directors, the chances of the reinsurance security failing are remote.

(vii) Investments

Investments are treated as sold and repurchased at the end of each period in recognition of the annual venture nature of participation on a syndicate. Their cost is therefore deemed to be their market value at that date.

(viii) Net operating expenses

Operating expenses have been charged in the year in which they were incurred.

## 2 Other accounting policies

### (a) Investments

(i) The values of financial investments are stated in the financial statements on the following basis:

- Listed investments are stated at closing middle market prices on recognised stock exchanges.
- Unlisted investments and subsidiary undertakings are stated at cost or Directors' valuation.

(ii) Investment return

Investment income comprises interest receivable and dividends received plus realised gains on the disposal of investments. Realised gains and losses arise from the difference between proceeds and cost.

The investment return is accounted for in the non-technical account. An allocation is made from the non-technical account to the general business technical account to reflect the long-term investment return on funds supporting underwriting business. The long-term investment return is an estimate of the long-term investment return for the Brit Insurance Holdings PLC Group and the managed and non-managed syndicates having regard to performance, current trends and future expectations.

(iii) Investment expenses and charges

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments. Realised losses arise from the difference between proceeds and cost. The realised losses reported by syndicates are net of any realised gains.

### (b) Goodwill

Goodwill arising on the acquisition of companies or businesses is capitalised in the balance sheet at cost and amortised on a straight line basis over the period which, in the Directors' opinion, is its useful economic life. For all acquisitions up to 31 December 2002, the Directors' estimate of the useful economic life of the goodwill arising is ten years.

Where, following a formal impairment review conducted in accordance with Financial Reporting Standard 11 "Impairment of Fixed Assets and Goodwill" ("FRS 11"), there has been, in the Directors' opinion, a permanent diminution in value of any goodwill being carried, this impairment is recognised in the profit and loss account.

### (c) Syndicate participation rights

Where the Group has purchased the right to participate on managed syndicates, the cost is capitalised and amortised in equal annual instalments over three years. Amortisation commences from the date the underwriting results are first recognised in the technical account.

Where the Group has purchased the right to participate on non-managed syndicates, the cost is capitalised and amortised in equal annual instalments over three years. Amortisation commences at the beginning of the third year from the start of the Group's first underwriting year on the syndicate.

If, at any time, the Directors become aware of a permanent diminution in the value of the Group's right to participate on a syndicate, the asset will be written down accordingly. If a syndicate participation is sold any related costs are offset against the disposal proceeds and any gain or loss is taken to the Non-Technical Profit and Loss Account in the same accounting period.

# Basis of Preparation of Financial Statements *continued*

## **(d) Taxation**

Items of income/gain and expenditure/loss are recognised and assessable to corporation tax in the same period, after adjustment in accordance with tax legislation, except for the following:

The Group is taxed on its share of the underwriting results declared by syndicates and for tax purposes these are deemed to accrue evenly over the calendar year in which they are declared. The non managed syndicate results included in these financial statements (excluding any additional provisions made by Directors) relate to the 2000 and prior Years of Account and will be declared for tax purposes in the calendar year 2003. The managed syndicate results included in these financial statements relate to the annually accounted result for the 2002 calendar year. These will be declared for tax purposes in the years following the closure of the relevant Years of Account contributing to the annually accounted result.

The Inland Revenue determines the taxable results of individual syndicates on the basis of computations submitted by the Managing Agent. At the date of approval of these financial statements, none of the syndicate taxable results have been agreed. Any adjustments that may be necessary to the tax provisions established by the Group as a result of Inland Revenue agreement of the taxable results of individual syndicates will be reflected in the financial statements of subsequent periods.

## **(e) Deferred taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit those earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## **(f) Tangible fixed assets**

Tangible fixed assets are stated at cost. Depreciation is calculated so as to write-off the cost over their estimated useful economic lives on a straight line basis as follows:

Freehold property	2% per annum
Office refurbishment costs, computers (except personal computers and visual display units), office machinery, furniture and equipment	20% per annum
Motor vehicles and visual display units	25% per annum
Personal computers	33% per annum

## **(g) Own shares**

Own shares held as assets are stated at the lower of cost and market valuation.

## **(h) Investment income and expenses**

Dividends and interest on listed investments (and any related tax credits) are taken into account by reference to the date the security becomes 'ex-dividend'. Dividends and interest on investments in unlisted shares and securities (and any related tax credits) are taken into account when it is reasonably certain that they are receivable.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and the valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current year's profit and loss account.

**(i) Profit commissions**

Profit commissions arising from managed syndicates are recognised as earned on an annual basis to match the related underwriting profits. Profit commissions are receivable when the relevant Lloyd's year of account closes, normally after three years.

**(j) Agency fees**

Agency fees are recognised in the period to which the fee relates.

**(k) Expenses**

All expenses are accounted for on an accruals basis. Expenses which are incidental to the acquisition or disposal of an investment are treated as part of the cost or proceeds of the investment.

Profits arising in Marham Consortium Management Limited, which are due to a Brit managed syndicate, are charged as an expense to the Group.

**(l) Pension costs**

For Brit Group Services Limited employees, the Group operates a defined benefit pension scheme with pension benefits funded over employees' periods of service. Contributions are based on the recommendation of the scheme actuary following the valuation of the fund and are charged to the profit and loss account so as to spread the cost of the pension over the employees' working lives with the Group. This scheme closed to new members on 4 October 2001.

Since 5 October 2001, for Brit Group Services Limited employees, the Group now also operates a defined contribution pension scheme. Contributions are charged to the profit and loss account in the period to which they relate.

For Brit Insurance Limited employees, the Group operates a defined contribution pension scheme. Contributions are charged to the profit and loss account in the period to which they relate.

For Peoples Choice (Europe) Limited employees, contributions are made into a group of money purchase personal pension schemes. These contributions are charged to the profit and loss account in the period to which they relate.

**(m) Leased assets**

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to enter into an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

**(n) Foreign currencies**

Transactions in currencies other than Sterling, United States dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States dollars, Canadian dollars and Euros are translated at the average rates of exchange for the period. Assets and liabilities in currencies other than Sterling are translated at the rate of exchange ruling at 31 December of each year. Exchange differences arising on translation are dealt with in the profit and loss account.

Transactions in United States dollars, Canadian dollars and Euros are now converted at the average rates of exchange for the period. Previously these transactions were translated at the closing rates of exchange for the period. This change in accounting policy was made to comply fully with Statement of Standard Accounting Practice 20, "Foreign Currency Translation".

Comparative figures have not been restated as there would be no change to profit or Shareholders' funds. The result for the current year would be unchanged if the previous accounting policy had been applied.

**(o) Convertible Unsecured Subordinated Loan Stock 2008 ("CULS")**

CULS are initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. CULS are reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion. Finance costs of the CULS are recognised in the profit and loss account over their term at a constant rate on the carrying value.

# Notes to the Financial Statements

## Note 1 Segmental information

### (i) Underwriting result before investment return

Year ended 31 December 2002							
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Change in other technical provisions	Result
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Direct business:</b>							
Accident and Health	514	306	(213)	(64)	(43)	–	(14)
Motor	76,356	36,066	(23,363)	(8,344)	(1,032)	–	3,327
Marine, Aviation and Transport	65,812	52,255	(35,864)	(9,962)	(6,527)	–	(98)
Property	54,105	30,857	(18,543)	(7,202)	(2,613)	–	2,499
Third Party Liability	94,213	50,232	(41,396)	(11,309)	4,445	–	1,972
Life	13,498	9,127	(4,909)	(3,164)	(934)	–	120
Miscellaneous and Pecuniary Loss	22,666	5,100	(11,329)	(2,655)	7,607	(268)	(1,545)
<b>Total direct</b>	<b>327,164</b>	<b>183,943</b>	<b>(135,617)</b>	<b>(42,700)</b>	<b>903</b>	<b>(268)</b>	<b>6,261</b>
<b>Reinsurance business:</b>							
Reinsurance acceptances	335,551	260,327	(120,136)	(54,073)	(66,126)	(1,702)	18,290
<b>Total</b>	<b>662,715</b>	<b>444,270</b>	<b>(255,753)</b>	<b>(96,773)</b>	<b>(65,223)</b>	<b>(1,970)</b>	<b>24,551</b>

Year ended 31 December 2001							
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Change in other technical provisions	Result
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Direct business:</b>							
Accident and Health	6,892	6,147	(6,472)	(1,620)	1,335	–	(610)
Motor	56,736	50,491	(43,203)	(9,955)	(239)	–	(2,906)
Marine, Aviation and Transport	47,988	33,560	(54,933)	(8,139)	11,718	–	(17,794)
Property	10,564	7,651	(15,284)	(3,672)	5,065	–	(6,240)
Third Party Liability	34,523	25,975	(49,437)	(7,993)	17,802	–	(13,653)
Life	5,645	3,782	(4,761)	(2,605)	127	–	(3,457)
Miscellaneous and Pecuniary Loss	6,951	4,639	(2,739)	(1,689)	2,255	–	2,466
<b>Total direct</b>	<b>169,299</b>	<b>132,245</b>	<b>(176,829)</b>	<b>(35,673)</b>	<b>38,063</b>	<b>–</b>	<b>(42,194)</b>
<b>Reinsurance business:</b>							
Reinsurance acceptances	204,744	171,896	(263,447)	(26,084)	50,459	4,223	(62,953)
<b>Total</b>	<b>374,043</b>	<b>304,141</b>	<b>(440,276)</b>	<b>(61,757)</b>	<b>88,522</b>	<b>4,223</b>	<b>(105,147)</b>

Note 1

Segmental information *continued*

(ii) Gross premium written by geographical segment

Year ended 31 December 2002				
	United Kingdom	Other EU member states	Outside EU	Total
	£'000	£'000	£'000	£'000
<b>Direct business:</b>				
Accident and Health	202	7	305	514
Motor	76,286	3	67	76,356
Marine, Aviation and Transport	20	13,129	52,663	65,812
Property	15,186	625	38,294	54,105
Third Party Liability	27,655	6,379	60,179	94,213
Life	7,957	1,837	3,704	13,498
Miscellaneous and Pecuniary Loss	17,788	591	4,287	22,666
Total direct	145,094	22,571	159,499	327,164
<b>Reinsurance business:</b>				
Reinsurance acceptances	35,943	38,483	261,125	335,551
<b>Total</b>	<b>181,037</b>	<b>61,054</b>	<b>420,624</b>	<b>662,715</b>

Year ended 31 December 2001				
	United Kingdom	Other EU member states	Outside EU	Total
	£'000	£'000	£'000	£'000
<b>Direct business:</b>				
Accident and Health	6,566	89	237	6,892
Motor	54,946	938	852	56,736
Marine, Aviation and Transport	5,760	9,633	32,595	47,988
Property	1,077	1,088	8,399	10,564
Third Party Liability	10,556	2,357	21,610	34,523
Life	3,851	897	1,002	5,750
Miscellaneous and Pecuniary Loss	3,581	318	2,947	6,846
Total direct	86,337	15,320	67,642	169,299
<b>Reinsurance business:</b>				
Reinsurance acceptances	58,051	43,069	103,624	204,744
<b>Total</b>	<b>144,388</b>	<b>58,389</b>	<b>171,266</b>	<b>374,043</b>

# Notes to the Financial Statements *continued*

## Note 1 *Segmental information continued*

### (iii) Technical account

	Year ended 31 December 2002			
	Managed syndicates	Non- managed syndicates	Insurance company	Total
	£'000	£'000	£'000	£'000
Gross premiums written	525,546	756	136,413	662,715
Net premiums	413,183	252	108,725	522,160
Net premiums earned	267,610	252	57,422	325,284
Net claims incurred	(168,102)	(1,067)	(35,910)	(205,079)
Change in equalisation provision	–	–	(2,483)	(2,483)
Changes in other technical provisions, net of reinsurance	–	–	513	513
Net operating expenses	(85,959)	(1,173)	(6,552)	(93,684)
Net investment return on technical funds and underwriting capital at the long-term rate	22,140	1,988	3,277	27,405
Technical profit	35,689	–	16,267	51,956
Claims ratio (%)	62.8	423.4	61.6	62.9
Expense ratio (%)	29.5	465.5	10.3	25.7
Combined ratio (%)	92.3	888.9	71.9	88.6

The figures for the managed syndicates are after adjustments to eliminate the business transferred to the Group's insurance company by way of a quota share reinsurance.

	Year ended 31 December 2001			
	Managed syndicates	Non- managed syndicates	Insurance company	Total
	£'000	£'000	£'000	£'000
Gross premiums written	279,182	54,431	40,430	374,043
Net premiums	169,988	50,154	24,972	245,114
Net premiums earned	123,606	50,154	20,518	194,278
Net claims incurred	(161,312)	(49,578)	(34,174)	(245,064)
Change in equalisation provision	–	–	2,782	2,782
Changes in other technical provisions, net of reinsurance	–	–	1,441	1,441
Net operating expenses	(41,817)	(10,870)	(5,898)	(58,585)
Net investment return on technical funds and underwriting capital at the long-term rate	14,471	5,736	2,763	22,970
Technical loss	(65,052)	(4,558)	(12,568)	(82,178)
Claims ratio (%)	130.5	98.9	159.5	125.4
Expense ratio (%)	31.2	21.7	25.7	28.7
Combined ratio (%)	161.7	120.6	185.2	154.1

Note 1

Segmental information *continued*

(iv) Corporate

Year ended 31 December 2002					
	Lloyd's underwriting	Insurance company	Distribution	Other	Total
	£'000	£'000	£'000	£'000	£'000
Technical result at the long-term rate of return	35,689	16,267	–	–	51,956
Other investment return	(442)	3,605	119	(4,396)	(1,114)
Interest payable	(10)	–	(425)	(4,650)	(5,085)
Fees and commissions	5,318	–	10,663	–	15,981
Other income	42	238	768	(56)	992
Other expenses	(8,366)	–	(15,427)	(7,692)	(31,485)
	32,231	20,110	(4,302)	(16,794)	31,245
Impairment of goodwill	–	–	–	(1,570)	(1,570)
Amortisation of goodwill and syndicate participations	(2,604)	–	(262)	(1,787)	(4,653)
<b>Operating profit/(loss) based on long-term rate of investment return</b>	<b>29,627</b>	<b>20,110</b>	<b>(4,564)</b>	<b>(20,151)</b>	<b>25,022</b>
Short-term fluctuations in investment return	(12,056)	(1,589)	–	–	(13,645)
<b>Operating profit/(loss)</b>	<b>17,571</b>	<b>18,521</b>	<b>(4,564)</b>	<b>(20,151)</b>	<b>11,377</b>
Associated undertakings	–	–	–	(1,395)	(1,395)
<b>Profit/(loss) before taxation</b>	<b>17,571</b>	<b>18,521</b>	<b>(4,564)</b>	<b>(21,546)</b>	<b>9,982</b>
<b>Net assets</b>	<b>251,622</b>	<b>178,759</b>	<b>14,196</b>	<b>31,764</b>	<b>476,341</b>

# Notes to the Financial Statements *continued*

## Note 1 *Segmental information continued*

### (iv) Corporate *continued*

	Year ended 31 December 2001				
	Lloyd's underwriting	Insurance company	Distribution	Other	Total
	£'000	£'000	£'000	£'000	£'000
Technical result at the long-term rate of return	(69,610)	(12,568)	–	–	(82,178)
Other investment return	(435)	3,598	145	(2,849)	459
Interest payable	(30)	–	(443)	(1,933)	(2,406)
Fees and commissions	5,062	–	10,085	(1,602)	13,545
Other income	838	180	311	(449)	880
Other expenses	(4,996)	–	(15,670)	(5,131)	(25,797)
	(69,171)	(8,790)	(5,572)	(11,964)	(95,497)
Impairment of goodwill	–	–	–	–	–
Amortisation of goodwill and syndicate participations	(1,535)	–	(192)	(2,220)	(3,947)
<b>Operating profit/(loss) based on long-term rate of investment return</b>	<b>(70,706)</b>	<b>(8,790)</b>	<b>(5,764)</b>	<b>(14,184)</b>	<b>(99,444)</b>
Short-term fluctuations in investment return	(12,631)	(628)	–	–	(13,259)
<b>Operating profit/(loss)</b>	<b>(83,337)</b>	<b>(9,418)</b>	<b>(5,764)</b>	<b>(14,184)</b>	<b>(112,703)</b>
Associated undertakings	–	–	–	(1,762)	(1,762)
<b>Profit/(loss) before taxation</b>	<b>(83,337)</b>	<b>(9,418)</b>	<b>(5,764)</b>	<b>(15,946)</b>	<b>(114,465)</b>
<b>Net assets</b>	<b>156,874</b>	<b>70,573</b>	<b>9,594</b>	<b>39,043</b>	<b>276,084</b>

Note 2

Claims incurred, net of reinsurance

	31 December 2002	31 December 2001
	£'000	£'000
<b>Gross:</b>		
Lloyd's syndicates		
1994 Year of Account	(16)	(233)
1997 Year of Account	(730)	454
1998 Year of Account	(620)	1,018
1999 Year of Account	1,731	30,549
2000 Year of Account	25,972	132,550
2001 Year of Account	67,126	236,657
2002 Year of Account	122,658	–
	<b>216,121</b>	440,995
Brit Insurance Limited	39,632	39,281
	<b>255,753</b>	440,276
<b>Reinsurance:</b>		
Lloyd's syndicates		
1994 Year of Account	1	3
1997 Year of Account	414	637
1998 Year of Account	625	(1,411)
1999 Year of Account	(410)	(25,061)
2000 Year of Account	(10,982)	(63,991)
2001 Year of Account	(13,062)	(100,282)
2002 Year of Account	(23,538)	–
	<b>(46,952)</b>	(190,105)
Brit Insurance Limited	(3,722)	(5,107)
	<b>(50,674)</b>	(195,212)
<b>Net claims incurred:</b>		
Lloyd's syndicates		
1994 Year of Account	(15)	(230)
1997 Year of Account	(316)	1,091
1998 Year of Account	5	(393)
1999 Year of Account	1,321	5,488
2000 Year of Account	14,990	68,559
2001 Year of Account	54,064	136,375
2002 Year of Account	99,120	–
	<b>169,169</b>	210,890
Brit Insurance Limited	35,910	34,174
	<b>205,079</b>	245,064

# Notes to the Financial Statements *continued*

## Note 3 *Net operating expenses*

	31 December 2002	31 December 2001
	£'000	£'000
Acquisition costs	113,258	55,093
Movement in deferred acquisition costs	(40,640)	(11,797)
Administrative expenses	15,838	15,481
Loss/(profit) on exchange translation	5,228	(193)
	<b>93,684</b>	58,584

## Note 4 *Investment return*

(i) Investment return – the total investment return before taxation comprises:

	31 December 2002	31 December 2001
	£'000	£'000
<b>Investment return on Funds at Lloyd's and other corporate funds:</b>		
Investment income	14,345	7,650
Unrealised losses on investments	(7,547)	(12,358)
Realised losses on investments	(10,816)	(2,826)
Investment management expenses	(937)	(667)
Interest payable on bank loans	(1,264)	(2,259)
Interest payable on convertible unsecured loan stock	(3,821)	(147)
	<b>(10,040)</b>	(10,607)
<b>Investment return on syndicate funds:</b>		
Investment income	11,184	11,881
Realised gains on investments	1,352	1,117
Investment management expenses	(228)	(361)
	<b>12,308</b>	12,637
<b>Investment return on insurance company funds:</b>		
Investment income	5,578	5,872
Unrealised (losses)/gains on investments	(152)	51
Realised gains/(losses) on investments	63	(56)
Investment management expenses	(196)	(134)
	<b>5,293</b>	5,733
<b>Total investment return</b>	<b>7,561</b>	7,763

Note 4

Investment return *continued*

**(ii) Investment return – the long-term investment return**

The transfer to the technical account represents the estimated long-term rate of return applied to the Group's share of investment assets supporting the insurance business of Brit Insurance Limited and Lloyd's syndicates, together with Funds at Lloyd's. The long-term rates of return were based on the historical asset performance, current and prospective bond yields and the estimated risk premium for holding equity investments. For the investment assets of Brit Insurance Limited and the Funds at Lloyd's, separate rates were established and applied to the average bond and equity components of the underwriting investment assets. For the syndicate investments, a single weighted rate was applied to all categories of investment.

The long-term rates of return used were:

	<b>31 December 2002</b>	31 December 2001
	%	%
Brit Insurance Limited and Funds at Lloyd's		
Equities – capital return	<b>5.0</b>	6.0
Equities – income	<b>2.0</b>	2.0
Bonds	} <b>5.0</b>	6.0
Cash		4.0
Syndicate investments	<b>5.0</b>	5.5

Comparison of long-term investment return with actual return:

	<b>1999 to 2002</b>	1999 to 2001
	£'000	£'000
Actual return attributable to Shareholders:		
Funds at Lloyd's	<b>9,362</b>	9,598
Syndicate funds	<b>35,483</b>	23,175
Insurance company funds	<b>5,777</b>	4,089
	<b>50,622</b>	36,862
Long-term return credited to technical account:		
Funds at Lloyd's	<b>35,775</b>	27,815
Syndicate funds	<b>30,530</b>	19,603
Insurance company funds	<b>7,330</b>	4,662
	<b>73,635</b>	52,080
Excess of the long-term investment return over actual returns	<b>23,013</b>	15,218

The figures for the period 1999-2002 are based on the 31 December 2002 long-term rates of return. The figures for the period 1999-2001 are based on the 31 December 2001 long-term rates of return.

# Notes to the Financial Statements *continued*

## Note 5 *Fees and commissions*

	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000
Managing and members' agents' fees	<b>1,624</b>	1,470
Sale and administration of private motor and household insurance (Peoples Choice (Europe) Limited)	<b>10,663</b>	10,085
Marham Consortium Management Limited fees and profit commission	<b>2,597</b>	619
Broking commission earned	<b>1,097</b>	1,371
	<b>15,981</b>	13,545

## Note 6 *Other income*

	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000
Income from syndicates (use of assets)	<b>22</b>	344
Rental and other income	<b>970</b>	536
	<b>992</b>	880

## Note 7 *Other expenses*

	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000
The following items have been charged/(credited) in operating profit/(loss):		
Amortisation of goodwill	<b>2,502</b>	2,866
Impairment of goodwill	<b>1,570</b>	–
Amortisation of syndicate capacity	<b>2,150</b>	1,081
Depreciation of tangible fixed assets	<b>1,925</b>	1,619
Profit on sale of fixed assets	<b>(27)</b>	(46)
Operating lease rentals – land and buildings	<b>2,140</b>	1,184
Consortium losses/(profits) due to managed syndicates	<b>1,328</b>	(473)

Details of Auditors' remuneration are given in Note 10.

Note 8

Staff costs

	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000
Wages and salaries (including profit commission)	<b>24,604</b>	20,820
Social security costs	<b>2,202</b>	1,838
Other pension costs	<b>1,860</b>	1,491
	<b>28,666</b>	24,149

The employment costs of certain employees are charged to the Group's managed syndicates and are not included in the profit and loss account.

The average number of employees, including Executive Directors during the year was as follows:

	<b>31 December 2002</b>	31 December 2001
	<b>Number</b>	Number
Management	<b>42</b>	46
Administration	<b>413</b>	423
Underwriting	<b>284</b>	254
	<b>739</b>	723

# Notes to the Financial Statements *continued*

## Note 9 *Directors' emoluments*

The following table gives the disclosures required by the Directors' Remuneration Report Regulations 2002 in respect of the Directors who participated during the year in Group defined benefit pension plans:

	<b>Increase/ (decrease) in accrued pension during the year</b>	<b>Accrued pension benefits at 31 December 2002</b>	<b>Transfer value of accrued benefits at 31 December 2002</b>	Transfer value of accrued benefits at 31 December 2001	Increase in transfer value in the year after contributions
	<i>£ p/a</i>	<i>£ p/a</i>	<i>£</i>	<i>£</i>	<i>£</i>
Andrew Holland	<b>2,400</b>	<b>13,700</b>	<b>126,800</b>	115,100	11,700
Andrew Shone	<b>(15,200)</b>	<b>105,200</b>	<b>2,310,900</b>	1,533,400	777,500

The transfer value has been calculated on the basis of actuarial advice in accordance with the actuarial guidance note, GN 11.

The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme.

The disclosures given above are those required by the Directors' Remuneration Report Regulations 2002. Disclosures in relation to Directors' pensions continue to also be required under the Listing Rules until those Rules are revised to take account of the Directors' Remuneration Report Regulations 2002. The Listing Rules disclosures, the figures for which are calculated after excluding the effects of inflation, are as follows:

	<b>Increase/ (decrease) in accrued pension during the year in excess of inflation</b>	<b>Accrued pension benefits at 31 December 2002</b>	Accrued pension benefits at 31 December 2001	Increase in transfer value during the year
	<i>£ p/a</i>	<i>£ p/a</i>	<i>£ p/a</i>	<i>£</i>
Andrew Holland	<b>2,200</b>	<b>13,700</b>	11,300	20,200
Andrew Shone	<b>(17,200)</b>	<b>105,200</b>	107,900	819,000

Andrew Shone retired on 19 April 2002.

Neil Eckert and Matthew Scales are members of the FURBS scheme and the Brit Insurance Limited defined contribution scheme. Dane Douetil is a member of the FURBS scheme and in addition moved during the year from the defined contribution Brit Insurance Limited scheme to the defined contribution Brit Group Services Limited stakeholder scheme. Simon Clapham moved during the year from receiving contributions into his private pension plan to becoming a member of the Brit Group Services Limited stakeholder scheme. Jo Welman was not a member of any Group pension scheme but contributions have been made to his private pension plan. The Non-Executive Directors do not have any pension entitlements.

Payments made to private pension plans have been made subject to Inland Revenue limits. Further details of the pension schemes are given in Note 37.

Further details of Directors' emoluments and interests are included in the Directors' Remuneration Report on pages 30 to 40. These details include, as specified for audit by the UK Listing Authority, an analysis, by Director, of salary and other payments and benefits on page 33 and an analysis of Directors' share interests, share options and details of the Directors' conditional rights over the Company's shares under the Long-Term Incentive Plan and the Brit All Employee Share Ownership Plan in Note 39 and page 38 of the Directors' Remuneration Report, all of which form part of these audited financial statements.

Note 10

*Auditors' remuneration*

	31 December 2002 Mazars	31 December 2002 Other	31 December 2001 Mazars	31 December 2001 Other
	£'000	£'000	£'000	£'000
Audit services:				
Corporate audit	299	–	261	9
Syndicate audit (includes non Brit share)*	75	–	40	–
Non-audit services:				
Taxation	138	–	93	3
Capital raising**	257	–	207	–
Other services	44	–	21	35
	<b>813</b>	<b>–</b>	<b>622</b>	<b>47</b>

Of the above charges, £481,000 (2001: £422,000) has been charged to the non-technical accounts.

\*The Brit share has been charged in the technical account.

\*\*Charged to the share premium account.

Note 11

*Taxation*

(i) Analysis of (charge)/credit in year

	31 December 2002	31 December 2001
	£'000	£'000
Current taxation:		
UK corporation tax on profits of the year	(2)	–
Adjustments in respect of prior years	2,282	361
Overseas tax	(38)	(23)
Share of associates' tax	346	429
	<b>2,588</b>	<b>767</b>
Deferred tax:		
Origination and reversal of timing differences	(4,951)	27,800
	<b>(4,951)</b>	<b>27,800</b>
Tax (charge)/credit on profit/(loss) on ordinary activities	<b>(2,363)</b>	<b>28,567</b>

Included in adjustments in respect of prior years is £2.3m of overseas tax refunds.

# Notes to the Financial Statements *continued*

## Note 11 *Taxation continued*

### (ii) Factors affecting tax charge for year

	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	<b>£'000</b>
Profit/(loss) on ordinary activities before tax	<b>9,982</b>	(114,465)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	<b>(2,995)</b>	34,340
Effects of:		
Expenses not deductible for tax purposes and other permanent differences	<b>(1,960)</b>	(1,637)
Investment losses for which no tax relief is available in future	<b>(6,709)</b>	(4,746)
Equity dividends not subject to corporation tax	<b>604</b>	754
Short-term timing differences:		
Syndicate results	<b>11,648</b>	(27,425)
Realised and unrealised investment losses	<b>835</b>	1,241
Other timing differences	<b>(1,079)</b>	(2,098)
Overseas taxation not recoverable	<b>(38)</b>	(23)
Adjustments to tax charge in respect of prior years	<b>2,282</b>	361
Current tax credit for the year (per Note 11(i))	<b>2,588</b>	767

### (iii) Factors that may affect future tax charges

The future tax charge for the Company is dependent on the ability of the Company to utilise tax losses as they become available.

## Note 12 *Earnings per share*

The calculation of basic earnings per share is based on profits of £5,361,000 (2001: losses of £85,183,000) and on 481,174,679 (2001: 250,390,809) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profits of £5,361,000 (2001: losses of £85,183,000) and on 481,256,290 (2001: 250,390,809) ordinary shares, calculated as follows:

	<b>31 December 2002</b>	31 December 2001 (restated)
	<b>Number</b>	<b>Number</b>
Basic weighted average number of shares	<b>481,174,679</b>	250,390,809
Dilutive potential ordinary shares:		
Employee share options	<b>81,611</b>	–
Diluted weighted average number of shares	<b>481,256,290</b>	250,390,809

The 2001 figures have been restated for the bonus element contained within the placing and open offer (see Note 26).

Note 13 *Intangible assets*

	Syndicate participations	Goodwill	Total
	£'000	£'000	£'000
Cost:			
At 1 January 2002	7,519	29,427	36,946
Additions	1,506	8,432	9,938
Disposals	–	(1,332)	(1,332)
Impairment	–	(1,570)	(1,570)
<b>At 31 December 2002</b>	<b>9,025</b>	<b>34,957</b>	<b>43,982</b>
Amortisation:			
At 1 January 2002	2,720	5,848	8,568
Charge for the year	2,150	2,502	4,652
<b>At 31 December 2002</b>	<b>4,870</b>	<b>8,350</b>	<b>13,220</b>
Net book value:			
<b>At 31 December 2002</b>	<b>4,155</b>	<b>26,607</b>	<b>30,762</b>
At 31 December 2001	4,799	23,579	28,378

In accordance with the provisions of Financial Reporting Standard 10 "Goodwill and Intangible Assets", the goodwill arising on the acquisition of Peoples Choice (Europe) Limited has been subject to an impairment review being the first full financial year after its acquisition. The Directors believe that following the above impairment provision, the net book value of the goodwill of £4.5m carried in respect of Peoples Choice (Europe) Limited does not exceed its recoverable amount.

# Notes to the Financial Statements *continued*

## Note 14 *Investments*

### (i) Investments – corporate

Group:	Listed investments	Unlisted investments	Certificates of deposit	Deposits with credit institutions	Total financial investments
	£'000	£'000	£'000	£'000	£'000
Cost at 1 January 2002	162,870	10,413	76,145	123,742	373,170
Opening unrealised (depreciation)/appreciation	(19,749)	(3,480)	117	–	(23,112)
Value at 1 January 2002	143,121	6,933	76,262	123,742	350,058
Movements in the year:					
Purchases at cost	892,768	474	412,285	3,216	1,308,743
Sales – proceeds	(604,652)	(208)	(395,354)	(93,500)	(1,093,714)
Sales – realised (losses)/gains on sales	(10,987)	81	153	–	(10,753)
Increase in unrealised depreciation	(5,921)	(1,908)	(150)	–	(7,979)
<b>Value at 31 December 2002</b>	<b>414,329</b>	<b>5,372</b>	<b>93,196</b>	<b>33,458</b>	<b>546,355</b>
Cost at 31 December 2002	439,999	10,760	93,229	33,458	577,446
Closing unrealised depreciation	(25,670)	(5,388)	(33)	–	(31,091)
<b>Value at 31 December 2002</b>	<b>414,329</b>	<b>5,372</b>	<b>93,196</b>	<b>33,458</b>	<b>546,355</b>

If the investments held at 31 December 2002 had been sold at that date, there would have been no liability to tax.

Company:	Listed investments	Unlisted investments	Total financial investments
	£'000	£'000	£'000
Cost at 1 January 2002	55,600	7,414	63,014
Opening unrealised depreciation	(17,705)	(3,480)	(21,185)
Value at 1 January 2002	37,895	3,934	41,829
Movements in the year:			
Purchases at cost	291,579	474	292,053
Sales – proceeds	(241,512)	(208)	(241,720)
Sales – realised (losses)/gains on sales	(9,273)	81	(9,192)
(Increase)/decrease in unrealised depreciation	3,559	(1,908)	1,651
<b>Value at 31 December 2002</b>	<b>82,248</b>	<b>2,373</b>	<b>84,621</b>
Cost at 31 December 2002	96,394	7,761	104,155
Closing unrealised depreciation	(14,146)	(5,388)	(19,534)
<b>Value at 31 December 2002</b>	<b>82,248</b>	<b>2,373</b>	<b>84,621</b>

If the investments held at 31 December 2002 had been sold at that date, there would have been no liability to tax.

Note 14 *Investments continued*

(ii) Investments – syndicate participations

	31 December 2002	31 December 2001
	£'000	£'000
Financial investments:		
Shares and other variable yield securities	4,736	32,556
Debt securities and other fixed interest securities	153,563	151,671
Participation in investment pools	29,184	526
Loans guaranteed by mortgage	–	528
Deposits with credit institutions	45,561	15,099
Other investments	1,773	–
	<b>234,817</b>	200,380

Note 15 *Investments in subsidiary undertakings*

Company:	£'000
Cost at 1 January 2002	218,802
Opening provision for permanent diminution in value	(10,973)
Value at 1 January 2002	207,829
Movements in the year	
Purchase at cost	87,000
Reclassification of associated undertakings to investment in subsidiaries:	
cost	1,101
provision for permanent diminution in value	(1,101)
Increase in provision for permanent diminution in value	(1,332)
<b>Value at 31 December 2002</b>	<b>293,497</b>
Cost at 31 December 2002	<b>306,903</b>
Closing provision for permanent diminution in value	<b>(13,406)</b>
<b>Value at 31 December 2002</b>	<b>293,497</b>

# Notes to the Financial Statements *continued*

## Note 15 *Investments in subsidiary undertakings continued*

Details of the Company's principal subsidiaries are as follows:

Name of company	Nature of business	Proportion of ordinary shares held by the Company %	Proportion of ordinary shares held by subsidiary %
<b>Underwriting companies</b>			
Brit Insurance Limited	Insurance company	100	
Brit Syndicates Limited	Lloyd's managing agent		100
Brit UW Limited	Lloyd's corporate member		100
Wren Insurance Services Limited	Lloyd's syndicate support company		100
Marham Consortium Management Limited	Lloyd's syndicate support company		100
Wren Underwriting Agencies Limited*	Lloyd's members' agent		100
<b>Investment company</b>			
Masthead Insurance Underwriting Limited	Investment company	100	
<b>Distribution companies</b>			
Peoples Choice (Europe) Limited	Insurance distribution company	82.3	
Ri3K Limited**	E-commerce solutions company	80.0	
Ri3K Asia Pte Limited	E-commerce solutions company		83.5
<b>Group services company</b>			
Brit Group Services Limited	Group services company		100
<b>Intermediate holding companies</b>			
Wren Limited	Intermediate holding company	100	
Wren Holdings Group PLC	Intermediate holding company		100
HCG Holdings Limited	Intermediate holding company	100	
Finsbury Underwriting Limited	Intermediate holding company		100
<b>Lloyd's corporate members (last year of account 1999)</b>			
HCG Alpha Limited	Lloyd's corporate member		100
HCG Bravo Limited	Lloyd's corporate member		100
HCG Charlie Limited	Lloyd's corporate member		100
HCG Delta Limited	Lloyd's corporate member		100
HCG Echo Limited	Lloyd's corporate member		100
HCG Foxtrot Limited	Lloyd's corporate member		100
FUIT One Limited	Lloyd's corporate member		100
FUIT Two Limited	Lloyd's corporate member		100
FUIT Three Limited	Lloyd's corporate member		100
FUIT Four Limited	Lloyd's corporate member		100
FUIT Five Limited	Lloyd's corporate member		100
Masthead A Limited	Lloyd's corporate member		100
Masthead B Limited	Lloyd's corporate member		100
Masthead C Limited	Lloyd's corporate member		100
Masthead D Limited	Lloyd's corporate member		100
Masthead E Limited	Lloyd's corporate member		100

All companies are registered and operate in England with the exception of Ri3K Asia Pte Limited which is incorporated and operates in Singapore.

\*Wren Underwriting Agencies Limited ceased to trade on 31 December 2000.

\*\*On 31 December 2002 the Company converted £7 million of the loans it had made to Ri3K Limited into 7 million ordinary shares of 1p each in the capital of Ri3K Limited, thereby increasing its interest in the share capital of Ri3K Limited to 80%. On 7 February 2003, employee share options over 363,749 Ri3K Limited shares were exercised reducing the Company's holding to 77.2%. See note 18 for further information.

All subsidiaries are included in the Group consolidated financial statements.

Note 16

*Investments in associated undertakings*

As at 31 December 2002				
Group:	Ri3K Limited	The Equity Partnership Limited	Harlequin Insurance PCC Limited	Total
	£'000	£'000	£'000	£'000
<b>Profit and loss accounts, Group share:</b>				
Turnover	29	873	73	975
(Loss)/profit on ordinary activities before tax	(1,230)	156	24	(1,050)
Tax credit/(charge) on loss	369	(49)	(7)	313
(Loss)/profit on ordinary activities after tax	(861)	107	17	(737)
<b>Balance sheet, Group share:</b>				
Fixed assets	–	5	–	5
Current assets	–	297	–	297
Current liabilities	–	(186)	–	(186)
Net assets	–	116	–	116

The movements in the Group's investments in associated undertakings are as follows:

	Ri3K Limited	The Equity Partnership Limited	Harlequin Insurance PCC Limited	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2002	5,955	66	562	6,583
Share of (losses)/profit after tax arising in the year	(861)	107	17	(737)
Loans made to associated undertakings	2,750	–	–	2,750
Goodwill amortisation	(76)	(57)	–	(133)
Disposal	–	–	(579)	(579)
Reclassification to subsidiary	(7,768)	–	–	(7,768)
<b>Balance at 31 December 2002</b>	<b>–</b>	<b>116</b>	<b>–</b>	<b>116</b>

On 31 December 2002, the Company increased its holding of ordinary shares from 33.3% to 80.0% in Ri3K Limited. From that date it has been accounted for as a subsidiary (Note 18).

The carrying value of The Equity Partnership Limited in the Group balance sheet represents the Group's share of its net assets.

# Notes to the Financial Statements *continued*

## Note 16 *Investments in associated undertakings continued*

<b>Company:</b>	<b>£'000</b>
Cost at 1 January 2002	1,663
Opening provision for permanent diminution in value	(1,101)
<b>Value at 1 January 2002</b>	<b>562</b>
Movements in the year	
Sales – proceeds	(400)
Sales – realised loss on sale	(100)
Reclassification of associated undertaking to investment in subsidiaries:	
cost	(1,101)
unrealised provision for permanent diminution in value	1,101
<b>Value at 31 December 2002</b>	<b>62</b>
Cost at 31 December 2002	<b>62</b>
Closing provision for permanent diminution in value	–
<b>Value at 31 December 2002</b>	<b>62</b>

### Harlequin Insurance PCC Limited

On 16 August 2002 the Company sold its entire 50% holding in the ordinary share capital of Harlequin Insurance PCC Limited. The Company's principal activity is the management of protected cell companies which underwrite general insurance business. The Company's accounting reference date is 31 December. It is registered and operates in Guernsey, Channel Islands.

#### Group loss on disposal of associated undertaking:

	<b>Harlequin Insurance PCC Limited</b>
	<b>£'000</b>
Equity carrying value (gross of tax on equity profits)	<b>612</b>
Proceeds	<b>(400)</b>
<b>Loss before tax</b>	<b>212</b>

### The Equity Partnership Limited

The Company owns 34.1% of the ordinary share capital of The Equity Partnership Limited ("EPL"). As at the balance sheet date, EPL had issued £850,000 of preference shares to a third party. These preference shares do not have dividend rights but EPL is prevented from paying a dividend on the ordinary shares until the preference shares have been repaid in full. The Company's principal activity is that of an investment manager. The Company's accounting reference date is 31 December. It is registered and operates in England.

#### Summary of Group share of loss in associated undertakings:

	<b>£'000</b>
Group share in net loss on ordinary activities before tax	<b>(1,050)</b>
Goodwill amortisation	<b>(133)</b>
Loss on disposal of associated undertaking	<b>(212)</b>
<b>Loss before tax</b>	<b>(1,395)</b>

## Note 17 *Significant interests in other companies*

At 31 December 2002, the Company/Group had holdings in the companies listed below which exceeded 20% of any class of equity share capital. The Company/Group does not exercise control over or significantly influence the activities of these companies and therefore the holdings have not been equity accounted.

Name of undertaking	Country of incorporation and registration	Class of capital	Percentage of class held by Company	Percentage of class held by Group	Latest available accounts	Aggregate capital and reserves	Profit/(loss) after tax for the year
			%	%		£'000	£'000
Insurance Broadcast Systems Inc	USA	Ordinary shares	23.16	23.16	31 Dec 2001	(1,632)	(626)
P I Direct Limited	England	'B' shares	50.00	50.00	31 Aug 2001	961	915
P I Direct Limited	England	Preference shares	50.00	50.00	31 Aug 2001	961	915
ebix.com Inc	USA	Common stock	40.60	40.60	31 Dec 2002	2,953	314
The Equity Partnership Investment Company PLC	Isle of Man	Capital shares	14.40	34.72	31 Jul 2002	34,438	3,278
The Equity Partnership Investment Company PLC	Isle of Man	Income shares	–	4.82	31 Jul 2002	34,438	3,278

During the year, the investment in Insurance Broadcast Systems Inc was written down to nil in the books of the Company.

On 14 March 2003, the Company sold its entire holding in P I Direct Limited.

## Note 18 *Acquisitions*

During the year, the Group acquired two subsidiaries:

### (i) **Ri3K Limited**

On 31 December 2002, the Group increased its interest in Ri3K Limited, formerly an associated undertaking, by converting £7,000,000 of loans to Ri3K Limited into ordinary shares. This transaction increased its overall share of the controlling share capital from 33.3% to 80% and has been accounted for as an acquisition.

# Notes to the Financial Statements *continued*

## Note 18 *Acquisitions continued*

### Goodwill

The goodwill arising in respect of the acquisition of Ri3K Limited is as follows:

	£'000
Fair value of consideration	
Cash – 25 May 2000	1,101
Loan conversion – 31 December 2002	7,000
	8,101
Fair value of net assets/liabilities acquired	
Net assets acquired – 25 May 2000	340
Net liabilities acquired – 31 December 2002	(867)
	(527)
Goodwill capitalised	8,628
Less goodwill amortised as at 31 December 2002	(196)
Goodwill carried forward	8,432

In accordance with Financial Reporting Standard 2 "Accounting for Subsidiary Undertakings", and in order to give a true and fair view, purchased goodwill has been calculated as the sum of the goodwill arising on each purchase of shares in Ri3K Limited, being the difference at the date of each purchase between the fair value of the consideration given and the fair value of the identifiable assets and liabilities attributable to the interest purchased. This represents a departure from the statutory method, under which goodwill is calculated as the difference between cost and fair value on the date that Ri3K Limited became a subsidiary undertaking. The statutory method would not give a true and fair view because it would result in the Group's share of Ri3K Limited's retained reserves, during the period that it was an associated undertaking being recharacterised as goodwill. The effect of this departure is to decrease retained profits by £958,000, and to decrease purchased goodwill by £958,000.

The net liabilities acquired of Ri3K Limited on 31 December 2002 were as follows:

	Book value and fair value at acquisition
	£'000
Tangible fixed assets	128
Debtors and prepayments	107
Cash at bank and in hand	148
Other creditors and accruals	(131)
Loan	(68)
	184
Loan from Brit Insurance Holdings PLC	(1,051)
Net liabilities	(867)

There are no fair value adjustments necessary to the net assets of Ri3K Limited at the date of acquisition.

The Group booked losses of £2,386,000 in respect of Ri3K Limited during its period as an associated undertaking. In accordance with UK GAAP, on the reclassification of Ri3K Limited from an associated undertaking to a subsidiary, these losses were reversed. The transfer to reserves of £1,428,000 resulting from the reclassification of Ri3K Limited differs from these losses due to the capitalisation of £7,000,000 of loans in December 2002 by Ri3K Limited.

## Note 18 *Acquisitions continued*

The summarised consolidated profit and loss account for Ri3K Limited from 1 July 2001 (the beginning of its accounting period) to 31 December 2002 (the date of acquisition) and for the year ended 30 June 2001 (being its previous accounting period) were as follows:

	Period 1 July 2001 to 31 December 2002	Year 1 July 2000 to 30 June 2001
	£'000	£'000
Turnover	85	17
Loss before interest	(6,074)	(4,141)
Net interest payable	(22)	–
Loss before tax	(6,096)	(4,141)
Tax	354	–
Loss after tax	(5,742)	(4,141)
Equity minority interests	1,148	828
Loss for the financial period	(4,594)	(3,313)

On 7 February 2003, employee share options over 363,749 Ri3K Limited shares were exercised reducing the Company's holding to 77.2%.

### (ii) IBS TV Europe Limited

On 11 February 2002, the Group purchased the entire share capital of IBS TV Europe Limited. The fair value of both the assets acquired and the consideration amounted to £1 and hence there was no goodwill created on acquisition. IBS TV Europe Limited had not traded prior to acquisition and did not trade subsequently during the year.

## Note 19 *Debtors*

Amounts due within one year:

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	£'000	£'000	£'000	£'000
Trade debtors	15,644	7,876	–	–
Amounts owed by managed syndicates	4,394	2,932	750	27
Amounts owed by Group undertakings	–	–	205,837	109,149
Loans to associated undertakings	–	–	–	6,500
Tax recoverable	231	1,413	–	1,698
Other debtors	1,827	3,430	255	589
	22,096	15,651	206,842	117,963

# Notes to the Financial Statements *continued*

## Note 20 *Tangible assets*

The net book value of tangible assets is made up as follows:

	Freehold property	Office refurbishment	Computers and office machinery, furniture and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost:</b>					
At 1 January 2002	509	1,750	9,676	227	12,162
Additions	–	501	1,686	–	2,187
Acquisitions	–	70	446	–	516
Disposals	–	–	(12)	(151)	(163)
<b>At 31 December 2002</b>	<b>509</b>	<b>2,321</b>	<b>11,796</b>	<b>76</b>	<b>14,702</b>
<b>Depreciation:</b>					
At 1 January 2002	311	606	6,722	168	7,807
Charge for the period	9	428	1,470	18	1,925
Acquisitions	–	22	219	–	241
Disposals	–	–	(1)	(137)	(138)
<b>At 31 December 2002</b>	<b>320</b>	<b>1,056</b>	<b>8,410</b>	<b>49</b>	<b>9,835</b>
<b>Net book value:</b>					
<b>At 31 December 2002</b>	<b>189</b>	<b>1,265</b>	<b>3,386</b>	<b>27</b>	<b>4,867</b>
At 31 December 2001	198	1,144	2,954	59	4,355

## Note 21 *Own shares*

In December 1999, the trustees of the Directors' Long-term Incentive Plan acquired Brit Insurance Holdings PLC shares on behalf of certain employees, in accordance with the terms of that plan. Additional shares were purchased in May 2000 and December 2001 bringing the current total held to 1,182,680 ordinary 25p shares. Details of the Long-term Incentive Plan are given in Note 38.

As at 31 December 2002 Brit Insurance Limited held 265,623 ordinary 25p shares of Brit Insurance Holdings PLC.

Shares and loan stock in Peoples Choice (Europe) Limited are held by its 100% owned subsidiary, Peoples Choice (Europe) Trustees Limited. The main activity of this company is to hold shares and loan stock as a trustee of the Peoples Choice All Employee Share Ownership Plan. The shares and loan stock are held at their nominal value of £89,350 in the subsidiary and Group balance sheet.

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	£'000	£'000	£'000	£'000
Brit Insurance Holdings PLC shares – Long-term Incentive Plan	920	920	920	920
Brit Insurance Holdings PLC shares – Held by Brit Insurance Limited	202	201	–	–
Peoples Choice (Europe) Ltd Shares and loan stock – Held by Peoples Choice (Europe) Trustees Ltd	89	89	–	–
	<b>1,211</b>	1,210	<b>920</b>	920

In October 2001, the Brit All Employee Share Ownership Plan ("the ESOP") commenced purchasing shares to be held in trust for the benefit of employees of the Group. Ongoing purchases of shares are made on a monthly basis. Details of the ESOP including the market value of its shares are given in Note 38.

## Note 22 *Deferred tax*

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	£'000	£'000	£'000	£'000
Declared underwriting losses	35,037	37,107	–	–
Provision for future underwriting losses	2,386	2,703	–	–
Unrealised losses on investments	764	1,599	295	926
Other timing differences	208	1,937	–	–
	<b>38,395</b>	43,346	<b>295</b>	926
Undiscounted provision for deferred taxation at the start of the year	43,346	15,546	926	4,800
Deferred tax (charge)/credit in profit and loss account for the year (Note 11(i))	(4,951)	27,800	(631)	(3,874)
Provision at the end of the year	<b>38,395</b>	43,346	<b>295</b>	926

# Notes to the Financial Statements *continued*

## Note 22 *Deferred tax continued*

In determining the deferred tax position, it has been assumed that Group relief will be available between companies within the Group.

It has been assumed that the Group will make profits in the foreseeable future sufficient to recover the deferred tax asset.

There are unrealised equity losses of £12.4m on which deferred tax has not been provided because of uncertainty as to the timing of their utilisation. If these losses were included at 31 December 2002, the deferred tax asset would be increased by £3.7m (2001: £nil).

In addition the Group has unclaimed capital allowances on which deferred tax has not been provided because of the uncertainty as to the timing of their utilisation. If the capital allowances were included at 31 December 2002, the deferred tax asset would be increased by £0.9m (2001: £0.5m).

## Note 23 *Prepayments and accrued income*

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	£'000	£'000	£'000	£'000
<b>Accrued income:</b>				
underwriting	1,003	449	–	–
investment income	4,832	1,933	48	95
other	284	85	12	41
Prepayments	1,249	899	–	–
	<b>7,368</b>	3,366	<b>60</b>	136

## Note 24 *Other creditors*

Amounts payable within one year:

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	1,037	2,703	–	1,000
Trade creditors	93,216	106,944	–	–
Amounts due to managed syndicates	737	660	–	–
UK Corporation tax	–	–	–	–
Other taxes and social security costs	1,470	732	–	–
Other creditors	1,338	1,837	95	209
	<b>97,798</b>	112,876	<b>95</b>	1,209

Note 24

Other creditors *continued*

	Group		Company	
	31 December 2002	31 December 2001	31 December 2002	31 December 2001
	£'000	£'000	£'000	£'000
Amounts payable between two and five years:				
Bank borrowings	21,000	27,000	21,000	27,000
Amounts payable after five years:				
Convertible Unsecured Subordinated Loan Stock 2008	43,625	43,419	43,625	43,419
	<b>64,625</b>	70,419	<b>64,625</b>	70,419

On 3 February 2000, the Group entered into an £80,000,000 facility with Barclays Bank PLC and National Westminster Bank PLC. The interest rate payable on the loan is equal to LIBOR plus 1.0%. £21,000,000 remains outstanding as at 31 December 2002.

Under the terms of this facility, the lenders have a fixed and floating charge over certain investments owned by the Company.

The convertible unsecured subordinated loan stock attracts interest at 8.5%. The holders have the right, which expires on 31 October 2005, to convert each £100 of loan stock into £28.41 nominal of ordinary share capital. Issue costs are being amortised over the term of the loan stock.

Note 25

Provisions for other risks and charges

	Provision for lease shortfall	Provision for rent-free period	Provision for pensions and similar obligations	Group Total
	£'000	£'000	£'000	£'000
At 1 January 2002	660	769	46	1,475
Arising during the year	–	–	61	61
Utilised during the year	(54)	(307)	(46)	(407)
<b>At 31 December 2002</b>	<b>606</b>	<b>462</b>	<b>61</b>	<b>1,129</b>

The provision for lease shortfall is in respect of a property which is leased by Wren Underwriting Agencies Limited and sublet to third parties. Under the terms and conditions of the leases, the Directors anticipate a loss arising over the period of the lease which has been recognised as a provision.

The provision for rent-free period relates to a lease agreement entered into in July 1999 which provides an 18 month rent-free period. The lease is being charged evenly to the profit and loss account up to the date of the first rent review, being five years after the lease agreement commenced.

The provision for pensions and similar obligations relates to the defined contribution scheme in operation for employees of Brit Insurance Limited.

# Notes to the Financial Statements *continued*

## Note 26 *Share capital*

	<b>31 December 2002</b>	31 December 2001	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000	<b>Number '000</b>	Number '000
<b>Authorised:</b>				
Ordinary shares of 25p each	<b>280,000</b>	155,000	<b>1,120,000</b>	620,000
<b>Allotted, issued and fully paid:</b>				
Ordinary shares of 25p each	<b>186,867</b>	105,398	<b>747,466</b>	421,594

### Number of 25p ordinary shares allotted, issued and fully paid:

	<b>2002</b>	2001
	<b>Number</b>	Number
At 1 January	<b>421,593,793</b>	237,870,287
Conversion of a loan note	–	1,015,452
Acquisition of Peoples Choice (Europe) Limited	–	2,025,000
Rights issue	–	180,683,054
Exercised share options	<b>25</b>	–
Settling contingent share capital	<b>5,737,705</b>	–
Converted unsecured loan stock	<b>52,406</b>	–
Placing and open offer	<b>319,109,052</b>	–
Terminating Brit Insurance Limited phantom share option scheme	<b>973,333</b>	–
<b>At 31 December</b>	<b>747,466,314</b>	421,593,793

On 18 February 2002 the Company issued 25 ordinary shares in relation to exercised share options.

On 10 May 2002 the Company issued 5,737,705 ordinary shares. These shares were issued to Lennoxhurst Limited in full settlement of the contingent share capital arising from the acquisition of Brit Insurance Limited on 16 November 1999.

During the May and October 2002 conversion periods, the Company issued 26,617 and 25,789 shares respectively to converting holders of the Convertible Unsecured Loan Stock 2008 issued on 18 December 2001.

On 18 October 2002 the Company issued 319,109,052 25p ordinary shares at 64p per share. Proceeds before issue costs amounted to £204,229,793.

On 11 November 2002 the Company issued 973,333 25p ordinary shares. These shares were issued to key employees of Brit Insurance Limited in settlement of their accrued benefits under the Brit Insurance Limited phantom share option scheme. Details of share options and other long-term incentive schemes are given in Note 38.

On 17 October 2002, the Company's authorised share capital was increased from 620,000,000 to 1,120,000,000 25p ordinary shares.

Note 27

Reserves

<b>Group:</b>	Contingent share capital	Share premium	Capital redemption	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2002	5,291	252,817	586	(88,008)	170,686
Issue of shares	–	117,290	–	–	117,290
Settlement of Brit Insurance Limited contingent purchase consideration	(5,291)	–	–	–	(5,291)
Profit for the year	–	–	–	5,361	5,361
Acquisition of Ri3K Limited (Note 18)	–	–	–	1,428	1,428
<b>At 31 December 2002</b>	<b>–</b>	<b>370,107</b>	<b>586</b>	<b>(81,219)</b>	<b>289,474</b>

<b>Company:</b>	Contingent share capital	Share premium	Capital redemption	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2002	5,291	252,817	586	(10,028)	248,666
Issue of shares	–	117,290	–	–	117,290
Settlement of Brit Insurance Limited contingent purchase consideration	(5,291)	–	–	–	(5,291)
Loss for the year	–	–	–	(17,119)	(17,119)
<b>At 31 December 2002</b>	<b>–</b>	<b>370,107</b>	<b>586</b>	<b>(27,147)</b>	<b>343,546</b>

Note 28

Reconciliation of Equity Shareholders' funds

	<b>Group</b>		<b>Company</b>	
	<b>31 December 2002</b>	31 December 2001	<b>31 December 2002</b>	31 December 2001
	£'000	£'000	£'000	£'000
Total recognised gains/(losses) for the year	<b>6,789</b>	(85,183)	<b>(17,119)</b>	(22,888)
Issue of shares	<b>208,840</b>	119,040	<b>208,840</b>	119,040
Issue costs charged to the share premium account	<b>(10,081)</b>	(5,192)	<b>(10,081)</b>	(5,192)
Settlement of Brit Insurance Limited contingent purchase consideration	<b>(5,291)</b>	–	<b>(5,291)</b>	–
Total movements during the year	<b>200,257</b>	28,665	<b>176,349</b>	90,960
Opening Equity Shareholders' funds	<b>276,084</b>	247,419	<b>354,064</b>	263,104
Closing Equity Shareholders' funds	<b>476,341</b>	276,084	<b>530,413</b>	354,064

# Notes to the Financial Statements *continued*

## Note 29 *Equity minority interests*

	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000
At 1 January	<b>(2,258)</b>	–
Equity minority interest at date of acquisition – Ri3K Limited	<b>(371)</b>	–
Equity minority interest at date of acquisition – Peoples Choice (Europe) Limited	–	(1,543)
Write down of equity minority interests – Peoples Choice (Europe) Limited	<b>2,258</b>	–
Loss on ordinary activities after tax	–	(715)
<b>At 31 December</b>	<b>(371)</b>	(2,258)

The equity minority interest in Peoples Choice (Europe) Limited represents holdings of 0.4% "A" ordinary shares and 100% "B" ordinary shares. The combined equity minority interest in both "A" and "B" shares amounted to 17.7%.

The write down of Peoples Choice (Europe) Limited equity minority interests follows an impairment review as described in Note 13.

The equity minority interest in Ri3K Limited represents holdings of 20% of the ordinary shares.

The holders of these equity minority interest shares have no rights against any other group company.

## Note 30 *Capital commitments*

	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000
Capital expenditure contracted but not provided for in the financial statements	<b>57</b>	28

## Note 31 *Operating leases*

At 31 December 2002, the Group was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2003:

	Land and buildings		Other	
	<b>31 December 2002</b>	31 December 2001	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Annual commitments under operating leases which expire:				
– within one year	73	12	93	7
– between two to five years	235	19	115	106
– after five years	2,042	2,355	–	–
	<b>2,350</b>	2,386	<b>208</b>	113

**Note 32** *Reconciliation of operating profit/(loss) to net cash outflow from operating activities*

	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000
Profit/(loss) before tax on ordinary activities	<b>9,982</b>	(114,465)
Profit on sale of fixed assets	<b>(18)</b>	(46)
Loss on disposal of associated undertaking	<b>212</b>	–
Depreciation of fixed assets	<b>1,925</b>	1,619
Amortisation of goodwill	<b>2,502</b>	2,866
Impairment of goodwill	<b>1,570</b>	–
Amortisation loan stock issue costs	<b>252</b>	–
Settlement of share option scheme	<b>603</b>	–
Amortisation of syndicate capacity	<b>2,150</b>	1,081
(Increase)/decrease in debtors	<b>(94,599)</b>	7,674
(Decrease)/increase in creditors	<b>(13,518)</b>	34,814
Increase in provisions	<b>63,492</b>	15,033
Realised and unrealised investment losses	<b>18,732</b>	15,110
Share of result of associated undertakings	<b>1,183</b>	1,762
Interest payable	<b>5,072</b>	2,162
Net cash outflow from operating activities	<b>(460)</b>	(32,390)

**Note 33** *Movement in opening and closing portfolio investments net of financing*

	<b>31 December 2002</b>	31 December 2001
	<b>£'000</b>	£'000
Net cash (outflow)/inflow for the year	<b>(36,484)</b>	39,786
Cash flow – portfolio investments	<b>215,029</b>	67,878
Movement arising from cashflows	<b>178,545</b>	107,664
Changes in market value	<b>(18,732)</b>	(15,110)
Total movement in portfolio investments net of financing	<b>159,813</b>	92,554
Portfolio at 1 January	<b>420,568</b>	328,014
Portfolio at 31 December	<b>580,381</b>	420,568

# Notes to the Financial Statements *continued*

## Note 34 *Movement in cash and portfolio investments*

	At 1 January 2002	Cash flow	Changes to market value	At 31 December 2002
	£'000	£'000	£'000	£'000
Cash at bank and in hand	70,510	(36,484)	–	<b>34,026</b>
Deposits with credit institutions	123,742	(90,284)	–	<b>33,458</b>
<b>Total cash</b>	<b>194,252</b>	<b>(126,768)</b>	<b>–</b>	<b>67,484</b>
Fixed income investments	107,903	313,966	719	<b>422,588</b>
Variable income investments	9,512	(3,086)	(363)	<b>6,063</b>
Protected funds	11,680	(2,055)	122	<b>9,747</b>
Equities	97,221	(3,512)	(19,210)	<b>74,499</b>
<b>Total portfolio investments</b>	<b>226,316</b>	<b>305,313</b>	<b>(18,732)</b>	<b>512,897</b>
<b>Total cash and portfolio investments</b>	<b>420,568</b>	<b>178,545</b>	<b>(18,732)</b>	<b>580,381</b>
Borrowings	(29,703)	7,666	–	<b>(22,037)</b>
<b>Total cash and portfolio investments, net of debt</b>	<b>390,865</b>	<b>186,211</b>	<b>(18,732)</b>	<b>558,344</b>

## Note 35 *Net cash outflow on portfolio investments*

	Year ended 31 December 2002			Year ended 31 December 2001		
	Purchases	Sales	Net cash flow	Purchases	Sales	Net cash flow
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits with credit institutions	<b>3,216</b>	<b>93,500</b>	<b>(90,284)</b>	93,500	303	93,197
Fixed income investments	<b>1,254,048</b>	<b>940,082</b>	<b>313,966</b>	351,110	347,201	3,909
Variable income investments	<b>5,072</b>	<b>8,158</b>	<b>(3,086)</b>	4,134	3,010	1,124
Protected funds	–	<b>2,055</b>	<b>(2,055)</b>	12,279	22,579	(10,300)
Equities	<b>46,407</b>	<b>49,919</b>	<b>(3,512)</b>	84,834	104,886	(20,052)
	<b>1,308,743</b>	<b>1,093,714</b>	<b>215,029</b>	545,857	477,979	67,878

## Note 36 *Purchase of subsidiaries*

During the period, the Group acquired Ri3K Limited, formerly an associate. The assets of Ri3K Limited on the date of acquisition included cash of £315,943.

During the period, the Group acquired IBS TV Europe Limited. The assets of IBS TV Europe Limited on the date of acquisition did not include any cash.

Full details of these acquisitions and the assets acquired are given in Note 18.

## Note 37 *Pensions*

The Group has the following pension schemes in operation:

### (i) Brit Group Services Limited – defined benefit pension scheme

For Brit Group Services Limited employees, the Group operates a funded pension scheme providing benefits for its employees based on final pensionable emoluments. The assets of the Scheme are held in a separate trustee administered fund. The most recent completed actuarial valuation of the Scheme was carried out as at 31 July 2000 by a professionally qualified actuary using the projected unit method. The actuarial assumptions made for the valuation were that the investment returns would be 7.5% per annum, salary increases would average 5% per annum and that present and future pensions for members retiring from the Scheme would increase at the rate of 3% per annum. For the Minimum Funding Requirement (MFR), the Scheme's assets at 31 July 2000 taken at a value of £66.4m, exceed 120% of the amount of liabilities of the Scheme as at that date. Due to the significant fall in equity markets since the valuation date the position has worsened. However, at 31 December 2002 the value of assets was still over 100% of the amount of liabilities on the MFR basis. Following a review of current conditions, the employer has increased its contribution rate from 15% to 24.8% of pensionable salaries with effect from 1 January 2003.

The pension cost charge represents contributions payable by the Group to the fund and amounted to £1,305,154 (2001: £1,109,930).

At 31 December 2002 no contributions were payable to the fund (2001: £nil).

### Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17") disclosures

While the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs", under Financial Reporting Standard 17 "Retirement Benefits" transitional disclosures are required as at 31 December 2002 using the different measurement basis prescribed by the Standard. None of the information set out in a) to g) below is reflected in the primary statements of the Group for the year ended 31 December 2002.

#### (a) Composition of the scheme

The actuarial valuation was updated to 31 December 2002, by an independent qualified actuary. The major assumptions in accordance with the transitional arrangements of FRS 17 were:

	31 December 2002	31 December 2001
	%	%
Retail Price Index inflation	2.30	2.50
Discount rate	5.60	6.00
Pension increases in payment	2.30	2.50
General salary increases	4.30	4.50

# Notes to the Financial Statements *continued*

## Note 37 *Pensions continued*

The assets in the scheme and the expected long-term rates of return were:

	31 December 2002		31 December 2001	
	Expected return	Value	Expected return	Value
	%	£'000	%	£'000
Equities	7.40	37,906	8.00	46,957
Bonds	5.60	5,537	6.00	6,020
Gilts	4.40	2,733	4.90	3,712
Cash	4.00	1,862	5.10	3,138
Total market value of assets		48,038		59,827
Present value of liability		(58,401)		(53,434)
(Deficit)/surplus in the scheme		(10,363)		6,393
Gross pension (liability)/asset		(10,363)		6,393
Related deferred tax asset/(liability) at 30%		3,109		(1,918)
Net pension (liability)/asset		(7,254)		4,475

Notes:

- (1) Figures have been estimated, where necessary.
- (2) Contributions have been paid at the rate of 15% of pensionable salaries until 31 December 2002, thereafter they will be at the rate of 24.8% of pensionable salaries.
- (3) The Scheme closed to new entrants with effect from 4 October 2001. Under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

### (b) Analysis of the amounts to be charged to operating profit/(loss) (for illustrative purposes only)

	31 December 2002	31 December 2001
	£'000	£'000
Employer's part of current service cost	2,144	1,782
Vested past service cost	118	–
Total operating charge	2,262	1,782
<b>(c) Analysis of the amount to be credited to other finance income (for illustrative purposes only)</b>		
Expected return on pension scheme assets	4,418	4,820
Interest on pension scheme liabilities	(3,199)	(2,991)
Net return – credit	1,219	1,829

	31 December 2002	31 December 2001
	£'000	£'000
<b>(d) Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (for illustrative purposes only)</b>		
Actual return less expected return on pension scheme assets	(15,155)	(10,421)
Experience gains and (losses) arising on the scheme liabilities	190	(403)
Changes in assumptions underlying the present value of scheme liabilities	(2,093)	(3,897)
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	(17,058)	(14,721)
<b>(e) Movement in scheme (deficit)/surplus during the year (for illustrative purposes only)</b>		
Surplus in scheme at beginning of the year	6,393	19,942
Movement in year:		
Current service cost (total)	(2,143)	(1,782)
Aggregate contributions	1,344	1,125
Past service costs (vested and non-vested)	(118)	–
Other finance income	1,219	1,829
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	(17,058)	(14,721)
(Deficit)/surplus in scheme at end of the year	(10,363)	6,393
<b>(f) History of experience gain and losses (for illustrative purposes only)</b>		
Difference between expected and actual return on scheme assets:		
Amount – (loss)	(15,155)	(10,421)
Percentage of scheme assets	(32%)	(17%)
Experience gains and losses on scheme liabilities		
Amount – gain/(loss)	190	(403)
Percentage of the present value of the scheme liabilities	0%	(1%)
Total amount recognised in the Statement of Total Recognised Gains and Losses		
Amount – (loss)	(17,058)	(14,721)
Percentage of the present value of the scheme liabilities	(29%)	(28%)
<b>(g) Reserves note (for illustrative purposes only)</b>		
Profit and loss reserve excluding pension (liability)/asset	(81,219)	(88,008)
Pension reserve	(7,254)	4,475
Profit and loss reserve	(88,473)	(83,533)

**(ii) Brit Group Services Limited – Defined Contributions Stakeholder Scheme**

From 5 October 2001, Brit Group Services Limited has operated a defined contribution stakeholder pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £458,506 (2001: £nil). At 31 December 2002 no contributions were payable to the fund (2001: £nil).

# Notes to the Financial Statements *continued*

## Note 37 *Pensions continued*

### **(iii) Brit Group Services Limited – Funded Unapproved Retirement Benefits Scheme ("FURBS")**

Brit Group Services Limited also operates a defined contribution FURBS, into which additional contributions are paid in respect of certain employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £161,968 (2001: £37,497). At 31 December 2002, contributions amounting to £88,898 (2001: £37,497) were payable to the fund and are included in creditors.

### **(iv) Brit Insurance Limited**

For Brit Insurance Limited employees, the Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £110,589 (2001: £161,409). At 31 December 2002, contributions amounting to £95,040 (2001: £8,661) were payable to the fund and are included in creditors.

### **(v) Peoples Choice (Europe) Limited**

Peoples Choice (Europe) Limited makes contributions into a group of personal pensions on behalf of its employees. The assets of the schemes are held separately from those of the Company. The pension cost charge represents contributions payable by the Company and amounted to £138,087 (2001 period from acquisition: £104,600). At 31 December 2002 £11,994 (2001: £11,140) was outstanding and is included in creditors.

## Note 38 *Long-term incentive schemes*

There are five active schemes and two further schemes, which are closed to future entrants, details of which are set out below:

### **(i) All Employee Share Ownership Plan ("the ESOP")**

Approved by members at the AGM on 20 June 2001, the ESOP comprises a Trust Deed and Rules establishing an All Employee Share Ownership Scheme which was approved by the Inland Revenue, pursuant to the Finance Act 2000. All eligible employees of the Company and participating subsidiaries are entitled to participate subject to various detailed provisions. An independent Trustee holds all shares purchased under the plan and dividends are payable on shares held in the Trust. Pursuant to the ESOP, the Board may award free shares or give employees the opportunity to acquire partnership shares or make an award of matching shares to those employees who have invested in partnership shares or require or allow employees to reinvest dividends paid on their plan shares in further dividend shares.

An aggregate of 148,500 free shares were awarded on 18 October 2002 to 297 members of staff, including certain Executive Directors, (each of whom were awarded 500 shares) at a cost per share of 62p. Since the initial award, all participating employees have had the opportunity to subscribe for partnership shares on a monthly basis and to be awarded matching shares. All shares are held in trust for a three year qualifying period.

As at 31 December 2002, the Trust held 265,500 free shares, 136,353 matching shares and 274,095 partnership shares with a total nominal value of £168,987 and a market value, based on mid-market value of the Company's shares at close of business on 31 December 2002, as shown in the Official List of the London Stock Exchange of £513,720. This equates to 0.09% of the Company's issued share capital as at 31 December 2002.

### **(ii) Brit 1998 Approved Executive Share Option Scheme ("the Approved Scheme")**

The Approved Scheme is a discretionary share option scheme approved by the Inland Revenue. Options may only be granted within certain periods and no option can be granted more than ten years after the date of adoption of the Approved Scheme. Options granted under this scheme will be subject to performance criteria at the discretion of the Board.

The price payable for each option is determined by the Remuneration Committee at the date of grant, but will not be less than the middle market price for the day immediately preceding that date. The aggregate market value of the shares (determined at the time of grant of the option) which may be acquired in pursuance of options granted to a person other than of the Approved Scheme may not exceed £30,000.

Options are generally exercisable between three and ten years from the date of grant.

**Note 38** *Long-term incentive schemes* continued

Options granted at nil cost under the Approved Scheme, which are exercisable or awaiting maturity, are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
6 Dec 99	4	118,379	80.25	6 Dec 02	5 Dec 09
8 Jun 00	1	38,710	77.50	8 Jun 03	7 Jun 10
20 Nov 00	9	162,164	74.00	20 Nov 03	19 Nov 10
7 Jun 01	25	387,673	113.50	7 Jun 04	6 Jun 11
27 May 02	1	28,368	70.50	27 May 05	26 May 12
6 Feb 03	11	130,118	75.50	6 Feb 06	5 Feb 13

**(iii) Brit 1998 Approved Executive Share Option Scheme – Part B (formerly Wren Approved Share Option Scheme 1998)**

This is a discretionary share option scheme approved by the Inland Revenue. Options may only be granted within certain periods and no option can be granted more than ten years after the date of adoption of the scheme. Options granted under this scheme, to date, are not subject to performance criteria. The aggregate market value of the shares (determined at the time of grant of the option) which may be acquired in pursuance of options granted to a person other than of the Approved Scheme may not exceed £30,000. Options may generally be exercised between three and ten years from date of grant.

Options granted at nil cost under the Approved Scheme, which are exercisable or awaiting maturity, are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
10 Sep 98	20	504,827	112.00	10 Sep 01	9 Sep 08

All option holders accepted rollover terms granting them options over shares in the Company on 21 September 1999. It is not expected that any future options will be granted under this scheme.

**(iv) Brit 1998 Unapproved Executive Share Option Scheme (“The Unapproved Scheme”)**

The Unapproved Scheme is a discretionary share option scheme not approved by the Inland Revenue. Options may only be granted within certain periods and no option can be granted more than ten years after the date of adoption of the Unapproved Scheme. Options granted under this scheme will be subject to performance criteria as are determined by the Board.

The price payable for each option is determined by the Remuneration Committee at the date of the grant, but will not be less than the middle market price for the day immediately preceding that date. Options are generally exercisable between three and ten years from the date of grant.

# Notes to the Financial Statements *continued*

## Note 38 *Long-term incentive schemes continued*

Options granted at nil cost under the Approved Scheme, which are exercisable or awaiting maturity, are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
10 Sep 98	2	799,999	142.50	10 Sep 01	9 Sep 08
6 Dec 99	8	2,025,000	80.25	6 Dec 02	5 Dec 09
24 May 00	2	550,000	66.00	24 May 03	23 May 10
20 Nov 00	5	715,000	74.00	20 Nov 03	19 Nov 10
7 Jun 01	1	125,000	113.50	7 Jun 04	6 Jun 11
31 May 02	37	2,497,550	70.50	31 May 05	30 May 12
31 May 02	8	2,460,000	70.83	31 May 05	30 May 12
5 Jun 02	10	635,500	70.50	5 Jun 05	4 Jun 12
23 Oct 02	3	1,353,913	62.50	23 Oct 05	22 Oct 12
4 Nov 02	2	839,844	64.00	4 Nov 05	3 Nov 12
15 Jan 03	1	240,000	78.00	15 Jan 06	14 Jan 13

### (v) Brit 1998 Unapproved Executive Share Option Scheme – Part B (formerly Wren Unapproved Share Option Scheme 1998)

This is a discretionary share option scheme not approved by the Inland Revenue. Options may only be granted within certain periods and no option can be granted more than ten years after the date of adoption of the scheme. Options granted under this scheme were subject to performance criteria (other than those granted on 18 May 1998) determined by the Board of Wren Limited.

Options are generally exercisable between three and ten years from the date of grant (with the exception of those granted on 18 May 1998).

Options granted at nil cost under this scheme, which are exercisable are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
18 May 98	2	542,920	119.00	22 Dec 00	17 May 08
14 Aug 98	1	117,500	130.50	14 Aug 01	13 Aug 08

All option holders accepted rollover terms granting them options over shares in the Company on 21 September 1999. It is not expected that any future options will be granted under this scheme.

### (vi) Brit Long-Term Incentive Plan 1999 ("the LTIP")

The LTIP is controlled by the Remuneration Committee, which sets performance targets in respect of all allocations.

The LTIP is established under a discretionary employee share participation trust set up for the provision of benefits and assistance to employees of the Company and its subsidiaries. Accordingly, the trust operates a new employee share scheme to enable such employees to acquire shares in the Company or be granted options over such shares. The trustees have waived their entitlement to dividends on any shares acquired.

Only executives and Directors who devote substantially the whole of their working time to the business of the Group are eligible to participate. The trustees make awards on the recommendation of the Remuneration Committee and any such awards will normally vest following the achievement of pre-determined performance criteria over a performance period of no less than three years and generally provided that the participant is still in the employment of the Group.

## Note 38 *Long-term incentive schemes* continued

The maximum value of awards in any one year shall not exceed 100% of a participant's basic annual salary. Awards may not be granted under the LTIP more than 10 years after its approval by Shareholders in general meeting. Awards have been made under the LTIP as follows:

Date of grant	Number of employees including Directors	Number of shares	Value of shares at date of grant (£)	Latest vesting date
6 Dec 99	5	594,412	474,935	31 Dec 02
24 May 00	3	266,500	181,220	31 Dec 03
18 Dec 01	1	67,030	50,000	31 Dec 04

The shares held by the trust represent 0.2% of the issued share capital of the Company.

### (vii) Brit Insurance Limited Phantom Share Option Scheme ("the BIL Phantom Scheme")

Pursuant to an agreement dated 11 November 2002, the BIL Phantom Scheme has been terminated. Further details are contained in the Directors' Remuneration Report on pages 30 to 40.

## Note 39 *Related party transactions*

### (i) Directors' interests in share capital

The interests of the Directors who held office as at 31 December 2002 and their families in the ordinary shares of 25p each of the Company are as follows:

	Held at 31 December 2002			Held at 31 December 2001*		
	Shares	Options	LTIP	Shares	Options	LTIP
Dane Douetil	770,483	1,449,224	102,500	85,000	250,000	102,500
Neil Eckert	1,561,588	1,114,473	187,708	1,017,067	1,114,473	187,708
Andrew Holland	389,696	923,555	125,139	389,696	523,555	125,139
Matthew Scales	82,185	872,646	136,667	–	300,000	136,667
Clive Coates	20,000	–	–	–	–	–
Glyn MacAulay	40,000	–	–	30,000	–	–
Don McCrickard	–	–	–	–	–	–
Anthony Townsend	352,538	–	–	253,565	–	–
Jo Welman	128,500	510,526	93,855	100,000	510,526	93,855
Michael Wade**	30,306,964	–	–	30,306,964	–	–

\*or on appointment if later

\*\*Michael Wade's interest in Brit Insurance Holdings PLC shares arises as a result of his indirect interest in Rostrum Limited (a wholly owned subsidiary of Rostrum Group Limited), which is the general partner of the Rostrum Investors limited partnerships which are together with certain capital limited partners interested in 30,306,964 Brit Insurance Holdings PLC Shares.

With the exception of Michael Wade, all Directors' interests in the ordinary shares of the Company are beneficial. Neil Eckert, Anthony Townsend and Jo Welman are also interested in 456,761, 47,543 and 40,077 units of 8.5% Convertible Unsecured Subordinated Loan Stock 2008 respectively (2001: 456,761, nil and 40,077 respectively). No other Director held any interest in the 8.5% Convertible Unsecured Subordinated Loan Stock 2008 and no Director held any interest in any other group company.

# Notes to the Financial Statements *continued*

## Note 39 *Related party transactions continued*

There were no changes to the above holdings between 31 December 2002 and the date of this report.

The interests of the Directors who held office as at 31 December 2002 in the Brit All Employee Share Ownership Plan 2001 ('the ESOP') are set out in the Directors' Remuneration Report on pages 30 to 40. Details of the operation of the ESOP can be found in Note 38.

### (ii) Directors' interests in transactions

Paul Gaunt is a Non-Executive Director of Numis Corporation PLC, the ultimate holding company of Numis Securities Limited, the joint financial adviser, sponsor and stockbroker to the Company. Total fees payable by the Company amounted to £3,455,028 (2001: £2,827,719) of which £15,000 was outstanding at the year end (2001: £nil). Paul Gaunt retired as a non-executive director of Brit Insurance Holdings PLC by rotation at the AGM on 19 June 2002.

Neil Eckert is a Shareholder in the Benfield Group PLC, the parent company of Benfield Greig Limited, Benfield Advisory Limited and Benfield Greig Asset Management Services Limited and was interested in the agreements to provide insurance advisory and investment management services to the Group. Total fees payable to these subsidiaries of the Benfield Group PLC amounted to £51,036 (2001: £300,833) of which £1,036 was outstanding at the year end (2001: £nil).

Jo Welman is a Shareholder in The Equity Partnership Limited ('EPL'). EPL's subsidiary, EPIC Asset Management Limited, has entered into certain investment management agreements with the Group and, accordingly, Jo Welman is interested in these contracts. Details of these contracts are set out in part (iv) below.

### (iii) Loans

As at the balance sheet date, Brit Insurance Holdings PLC had loans outstanding made to related parties as follows:

A loan of £8,350,000 made to Peoples Choice (Europe) Limited, an 82.3% owned subsidiary. This amount has been written down to £5,000,000 in the books of the Company. With effect from 1 January 2003 interest will be charged on outstanding balances at an annual rate of 3% above the prevailing LIBOR rate.

A loan of £2,250,000 made to Ri3K Limited, an 80.0% owned subsidiary. With effect from 1 January 2004 interest will be charged on outstanding balances at an annual rate of 1% above the prevailing LIBOR rate.

In addition, Brit Insurance Holdings PLC held the following loan stock in Peoples Choice (Europe) Limited:

	£
Secured Subordinated Loan Stock 2004	3,698,775
Secured Loan Stock 2004	5,000,000
Secured Loan Stock 2005	4,255,238
	12,954,013

The Secured Loan Stock 2005 includes accumulated interest of £1,755,238, of which £827,293 relates to the post-acquisition period. The £12,954,013 has been written down to nil in the books of the Company.

**(iv) Trading****The Equity Partnership Limited and EPIC Asset Management Limited**

During the year, the Group traded with The Equity Partnership Limited ("EPL"), an associated undertaking 34.1% owned by Brit Insurance Holdings PLC. and with EPIC Asset Management Limited ("EPAM"), a subsidiary of EPL. Jo Welman, a Non-Executive Director of Brit Insurance Holdings PLC is also a Director of EPL. Brit Insurance Holdings PLC charged EPL 70% of Jo Welman's employment costs until 30 September 2002, representing the agreed split of Jo Welman's time between the companies. Since that date, EPL has borne all of these costs. In addition, Brit Insurance Holdings PLC charges £8,500 per annum per EPL employee in respect of operational office costs.

EPL and EPAM also have an agreement with Brit Group Services Ltd ("BGS"), a 100% subsidiary of Brit Insurance Holdings PLC, whereby BGS pays certain expenses on behalf of these companies which it then recovers in full. The total of all of these costs amounted to £2,032,782 (2001: £472,091), of which £260,634 (2001: £196,398) was outstanding at the balance sheet date.

EPL also traded during the year with The Equity Partnership Investment Company PLC ("EPIC"), a company with a 29.9% holding in EPL. Brit Insurance Holdings PLC owns 34.72% of the ordinary share capital of EPIC. EPIC purchased investment management services from EPL amounting to £712,876 (2001: £253,937). As at the balance sheet date the amounts owed in relation to these services amounted to £105,000 (2001: £115,000).

EPAM is an Investment Manager regulated by the Financial Services Authority and provided the following services to Brit Insurance Holdings PLC and its subsidiaries:

	Commenced	Fund value	Fee charged per annum	Fees outstanding	
		As at 31 December 2002		As at 31 December 2002	As at 31 December 2001
			£	£	£
Investment Management:					
Brit Insurance Holdings PLC	2001		100,000	<b>8,400</b>	8,500
		£m	%	£	£
Investment advisory:					
Brit Syndicates Limited	2001	<b>456</b>	0.18	<b>68,800</b>	52,500
Brit Insurance Holdings PLC	2002	<b>58</b>	0.15	<b>7,300</b>	–
Masthead Insurance Underwriting Ltd	2002	<b>111</b>	0.15	<b>13,000</b>	–
Brit Insurance Limited	2002	<b>68</b>	0.15	<b>8,400</b>	–

# Notes to the Financial Statements *continued*

## Note 39 *Related party transactions continued*

### **ebix.com Inc**

The Group entered into various software and service agreements with ebix.com Inc, a company in which Brit Insurance Holdings PLC owns 40.6% of the common stock. The cost of these contracts in 2002 was £1,292,799. £413,298 was outstanding at the year end.

### **Protected insurance cell companies managed by Harlequin Insurance PCC Limited**

The Group has traded during the year with a number of protected insurance cell companies ("PCCs") managed by Harlequin Insurance PCC Limited. Brit Insurance Holdings PLC owned 50% of the ordinary share capital of Harlequin Insurance PCC Limited until 16 August 2002 when it sold its entire holding in that company.

Syndicates managed by Brit Syndicates Limited placed reinsurance contracts with a PCC (B24). The total premium payable was £52,637 (2001: £644,241), of which £nil (2001: £26,975) was outstanding at the year end. Reinsurance recoveries of £866,681 (2001: £513,699) resulting from these contracts were outstanding at the year end.

Brit Insurance Limited provided reinsurance cover for one PCC (B11), for which it received a premium of £1,873,742 (2001: £1,386,000). No amounts were outstanding at the year end (2001: £nil). Brit Insurance Limited also placed a reinsurance contract with another PCC (B24) at a premium of £51,769 in 2001. Reinsurance recoveries of £312,500 (2001: £342,466) resulting from this 2001 contract were outstanding at the year end.

### **Brit Insurance Limited/managed syndicates**

During the year, a syndicate managed by Brit Syndicates Limited paid a gross premium quota share to Brit Insurance Limited, a 100% owned subsidiary, amounting to £78,644. This was in addition to £3,394,654 paid in 2001 relating to the same contract.

During the year, another syndicate managed by Brit Syndicates Limited entered into two transactions with Brit Insurance Limited. The syndicate paid a gross premium quota share to Brit Insurance Limited amounting to £75,000,000. Brit Insurance Limited paid a gross premium quota share to the syndicate amounting to £15,256,312.

## Note 40 *Contingent liabilities*

### **(i) Fixed and floating charges**

#### **(a) Company**

Lloyd's has a floating guarantee over the assets of Brit Insurance Holdings PLC.

#### **(b) Group**

If any of the corporate member subsidiaries fails to meet any of its Lloyd's obligations, after having called on the Group under its guarantees, then:

- (a) Lloyd's will be entitled to require the other corporate member subsidiaries to cease or reduce their underwriting; and/or
- (b) having regard to the fact that the Central Fund or the New Central Fund may be applied to discharge the obligations of the defaulting corporate member subsidiary, Lloyd's will be entitled to require each of the other corporate member subsidiaries to make contributions to the New Central Fund up to the amount of their respective net profits held from time to time in Premium Trust Funds, sufficient to reimburse the Central Fund or the New Central Fund in full for any payment made on behalf of the defaulting member.

At the date of these financial statements the Group is not aware of any corporate member subsidiary failing to meet its Lloyd's obligations.

On 26 November 1999, there was a reorganisation of the Group such that:

- (i) all underwriting at Lloyd's is now conducted through one corporate member subsidiary, and;
- (ii) all investments and assets supporting the underwriting at Lloyd's are held in one subsidiary, being Masthead Insurance Underwriting Limited ('Masthead').

## Note 40 *Contingent liabilities* *continued*

A number of agreements were entered into in order to achieve this.

A deed of charge was entered into by Masthead with Lloyd's to support the underwriting activities of all corporate member subsidiaries within the Brit Insurance Holdings PLC Group. Masthead entered into deeds of covenant with Lloyd's to cover the Run-Off liabilities of these corporate members. It also entered into guarantees with respect to interavailable funds of £118,738,728. As at 31 December 2002 the value of these funds was £88,126,983 (2001: £88,126,983).

Lloyd's has the right to retain the income on charged investments, although it is not expected to exercise this right unless it considers there to be a risk that one or more of the covenants might need to be called and, if called, might not be honoured in full.

The parent company, Brit Insurance Holdings PLC, has given an indemnity to Lloyd's, of up to £63,333,500, in the event that Masthead fails to meet its obligations. The Directors do not consider this to be likely.

### **(ii) Bank borrowings**

As detailed in Note 24, Brit Insurance Holdings PLC had a Term Facility Agreement with National Westminster Bank PLC and Barclays Bank PLC at 31 December 2002. Under the terms of this facility, the lenders have a fixed and floating charge over certain investments owned by the Company. The lenders have priority over the charges held by Lloyd's.

### **(iii) Guarantees**

Brit Insurance Holdings PLC has given various unsecured guarantees in respect of subsidiaries and associated undertakings. In the opinion of the Directors, it is unlikely that the value of these guarantees exceeded £2,000,000 at 31 December 2002.

## Note 41 *Post balance sheet events*

On 9 April 2003 the Company announced an all-share offer for the whole of the share capital of PRI Group PLC, an AIM listed specialist UK liability underwriting group, which valued the issued share capital of PRI Group PLC at approximately £156m based on the 70.5p price of a Brit Insurance Holdings PLC share at that date.

# *Independent Auditors' Report to the Shareholders of Brit Insurance Holdings PLC*

We have audited the financial statements of Brit Insurance Holdings PLC for the year ended 31 December 2002, which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein. We have also audited the information in the remuneration committee report that is described in Note 9 as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## *Respective responsibilities of Directors and Auditors*

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the remuneration committee report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration committee report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## *Basis of audit opinion*

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the remuneration committee report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances consistently applied and adequately disclosed.

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

## *Opinion*

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2002 and of the Group's profit for the year then ended; and
- the financial statements and the part of the remuneration committee report to be audited have been properly prepared in accordance with the Companies Act 1985.

### **MAZARS**

Chartered Accountants and Registered Auditors

24 Bevis Marks

London

EC3A 7NR

14 April 2003

# Executive Directors



**Neil David Eckert**  
Chief Executive Officer

Born 1962. He became a reinsurance broker in 1980, joining Benfield Lovick & Rees & Co Limited in 1986. In 1991, he joined the main board of Benfield Group plc and he resigned on 14 January 2000. He is Non-Executive Chairman of Design Technology and Innovations Limited, a patenting and intellectual property company. He has been a Director of the Company since its flotation in 1995 and was appointed as Chief Executive Officer in 1999.



**Andrew Holland**  
Chief Operating Officer

Born 1954. He is Fellow of the Chartered Association of Certified Accountants and has worked in the Lloyd's market since 1975. He joined the Wren group as Managing Director of Wren Syndicates Management Limited in 1996 and was appointed a Director of Wren Holdings Group plc in 1996. He was formerly Managing Director of Ockham Worldwide, Sturge Non-Marine, and Sturge Reinsurance over the period 1991 to 1996. He was appointed a Director and Chief Operating Officer of Brit on 2 August 1999.



**Matthew Scales**

Finance Director

Born 1954. He is a Fellow of the Institute of Chartered Accountants and joined the C T Bowring Group in 1979, transferring within that group to English & American Group in 1982. He was the Finance Director of English & American Group plc (1991-1993). He also acted as Group Financial Controller of Benfield Group plc from February 1996 to March 1999. He has been Finance Director of Brit Insurance Limited, the Company's FSA regulated insurance company, since its establishment in 1993 and joined the Board of the Company as Finance Director on 30 November 1999.



**Dane Jonathan Douetil**

Executive Director (Underwriting)

Born 1960. He graduated in 1982 from Birmingham University with an Honours Degree in commerce, joined the Willis Faber Group in 1982 and was appointed Executive Director of the Political & Financial Risk Division in 1988. He was a founding shareholder and Director of Special Risk Services Limited from January 1989 to 1994. Between 1994 and 1998 he acted as a consultant on the sale of a number of mortgage operations, as well as acting as a risk consultant for several financial institutions. He was appointed a full time consultant to Benfield in July 1997 prior to joining Brit Insurance Limited, the Company's FSA regulated insurance company, in August 1998 and became that company's Chief Executive in December 1998. He was appointed a Director of the Company on 30 November 1999. He was appointed Chief Executive of Brit Syndicates Limited on 18 July 2002 and Head of Underwriting for the Brit Group on 8 August 2002.

# Non-Executive Directors



**Clive Frederick Coates**  
Chairman<sup>+Δ</sup>



**George Franklin MacAulay**  
Non-Executive Director<sup>\*+Δ</sup>



**Donald Cecil McCrickard**  
Non-Executive Director<sup>\*+Δ#</sup>

**100** Born 1944. He is a Fellow of the Chartered Association of Certified Accountants and has over 30 years' experience in the insurance industry. He was formerly Chief Executive of Eagle Star Insurance Company Limited, Group Deputy Chairman of Eagle Star Holdings PLC and Finance Director of British American Financial Services Limited until his retirement in December 1997. He has been Non-Executive Chairman of Brit Insurance Limited since September 1999 and is a Director of Eagle Star Executives' Pension Trustees Limited and Western Provident Association Limited. He was appointed as a Director and Deputy Chairman of Brit on 29 April 2002 and became the Chairman of the Company on 24 September 2002.

Born 1937. He joined Neville Russell (now Mazars), UK chartered accountants, in 1964, becoming a Partner in the London office in 1966 and Senior Partner of the national firm in 1991. He retired from Neville Russell in December 1995. Whilst at Neville Russell, he advised audit clients that included Lloyd's syndicates and UK insurance and reinsurance companies. He has also acted as representative and adviser in the UK to many overseas insurance companies. He was appointed as a Director of the Company on 1 January 1996.

Born 1936. He was previously a Director of American Express International Inc (1978-83), Chief Executive of TSB Group Plc (1990-92), TSB Bank Plc (1989-92) and Chairman of Hill Samuel Bank (1991-92). He was also a member of the executive committee of the British Bankers Association (1988-92) and a member of the Bank of England's Deposit Protection Board (1989-92). He is a fellow of the Chartered Institute of Bankers. He has been a Director of the Company since its flotation in 1995.



**John Anthony Victor Townsend**  
Non-Executive Director\*†

Born 1948. A merchant banker with the Rea Brothers Group from 1988 to 1998, he is Chairman of the Association of Investment Trust Companies. He has been a Name at Lloyd's since 1974 and was a member of the Lloyd's Regulatory Board from 1996 to 2002. He has been a Director of Brit since 2 August 1999.



**Jo Mark Pole Welman**  
Non-Executive Director†<sup>Δ</sup>

Born 1958. He graduated in economics from Exeter University in 1979. He joined Baring Brothers where he managed several large segregated UK and US public company pension funds and two authorised unit trusts. In 1989 he was recruited by Rea Brothers (Investment Management) Limited to become that company's Managing Director. He resigned as a Director of Rea Brothers Group PLC on 6 May 1999 following the bank's take-over by Close Brothers. He is a Non-Executive Director of London Town Plc, Cathedral Capital Plc and The Equity Partnership Investment Company Plc and Chairman of the Close FTSE 100 Investment Trust Plc. He has been a Director of Brit since its flotation in 1995 and was Chairman from January 2000 to September 2002. He founded and is Chief Executive of The Equity Partnership Limited, Brit's investment management associated undertaking.

\*member of the Audit Committee

† member of the Nomination Committee

<sup>Δ</sup> member of the Remuneration Committee

#Senior Independent Director

# Company Information

## Executive Directors

**Neil David Eckert**

**Andrew Holland**

**Matthew Scales**

**Dane Jonathan Douetil**

Chief Executive Officer

Chief Operating Officer

Finance Director

Executive Director (Underwriting)

## Non-Executive Directors

**Clive Frederick Coates**<sup>†Δ</sup>

**George Franklin MacAulay**<sup>\*†Δ</sup>

**Donald Cecil McCrickard**<sup>\*†Δ#</sup>

**John Anthony Victor Townsend**<sup>\*†</sup>

**Jo Mark Pole Welman**<sup>†Δ</sup>

Chairman

Non-Executive Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

\*member of the Audit Committee

† member of the Nomination Committee

Δ member of the Remuneration Committee

#Senior Independent Director

## Secretary

Peter John Goddard

Telephone: 020 7984 8741

e-mail: peter.goddard@britinsurance.com

## Investor relations

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Telephone: 020 7984 8511

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## Company number

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## Joint stockbrokers

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9th Floor

88 Wood Street

London EC2V 7QR

Telephone: 020 7726 2317

Numis Securities Limited

Cheapside House

138 Cheapside

London EC2V 6LH

Telephone: 020 7776 1500

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Capita Registrars

The Registry

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Beckenham

Kent BR3 4TU

## Auditors

Mazars

Chartered Accountants

24 Bevis Marks

London EC3A 7NR

## Investment managers

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London EC2A 2AW

Investec Guinness Flight Global Asset

Management Limited

2 Gresham Street

London EC2V 7QP

Artemis Investment Management Limited

28 Melville Street

Edinburgh EH3 7HA

Ruffer Investment Management Limited

12 Upper Grosvenor Street

London W1K 2ND

Scottish Widows Investment Partnership

Limited

10 Fleet Place

London EC4M 7RH

Gartmore Investment Management plc

8 Fenchurch Place

London EC3M 4PH

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Royal Bank of Scotland Group plc

City of London Office

1 Princes Street

London EC2R 8PA

Barclays Bank plc

54 Lombard Street

London EC3V 9EX

## Financial Calendar 2003

Full year figures

April

Annual Report posted

April

Annual General Meeting

June

Half year figures announced

September

Interim Report posted

September

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