

Annual Report 31 December 1999

# BRIT

## Insurance Holdings PLC

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## Chairman's Statement



During the nine month period to 31 December 1999 your company acquired the Wren Group and BRIT Insurance Limited and, as a consequence, relisted as an insurance based holding company. The initial integration process has gone well and we have relocated our London based businesses under one roof at 55 Bishopsgate.

The results for the period reflect the cyclical downturn in rates coupled with an increasing frequency and severity of claims in 1998 and 1999. These conditions have adversely affected both our recently acquired trading businesses and also our insurance investment portfolio.

In line with the policy stated in the listing particulars for the acquisition of BRIT Insurance Limited and after careful consideration of the capital requirements of the business going forward, the Board is recommending a final dividend of 2.0 pence per share payable on 18 July 2000 to shareholders on the register on 9 June 2000. This will make the total dividend for the nine month period 3.0 pence per share compared with 6.5 pence per share for the full twelve months to 31 March 1999.

The group strategy is to develop a portfolio of insurance businesses both underwriting and service based that will be able to deliver value to shareholders throughout the insurance cycle.

Currently these activities can be divided into 3 core areas:

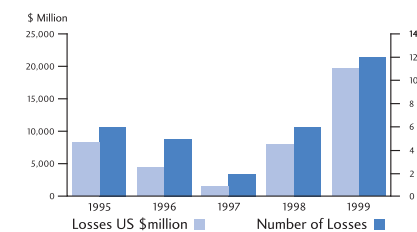
1. Lloyd's underwriting (through both in house and externally managed syndicates) and related managing agency and advisory activities.
2. Specialist financial risks and catastrophe reinsurance underwriting through BRIT Insurance Limited.
3. Other insurance based activities including investments in Lloyd's corporate capital vehicles and unquoted entities. It is intended to realise a number of these investments when appropriate value can be obtained.

As was stated in our March 1998 Annual Report : *"As both 1996 and 1997 develop, we are now beginning to see signs of attritional losses affecting the reduced*

*premium bases. This is a sure sign that difficulties will ensue for a number of underwriters as soon as anything like a normal claims frequency returns."*

1998 was the year "normal" claims frequency returned and the chart demonstrates that 1999 was one of the two worst catastrophe years in history. We believe that we have recognised these losses in our figures. This approach was designed to ensure that BRIT entered the 2000 underwriting year in a position to recognise underwriting profits resulting from the hardening of rates without erosion from 1998 and 1999.

Worldwide Catastrophe Losses in excess of US \$ 0.5bn



As we said in our annual report a year ago, *"We believe that there is already inherent damage in the insurance system which will lead to balance sheet stress and a consequent hardening of rates."*

It would appear ironic that capital is most scarce at times when it can be used to best advantage by insurance underwriters. It is of course a truism that the shortage of capital is the prerequisite for a hardening of insurance premium rates. The pain inflicted by the coincidence of a low rating environment and high claims frequency has given rise to real concern about the availability of retrocessional reinsurance cover for 2001. There is already evidence of significant rate increases in this core component of BRIT's underwriting activity. Likewise, in fleet motor, where we are a market leader, rates have risen to what we now expect to be profitable levels after four successive loss-making years.

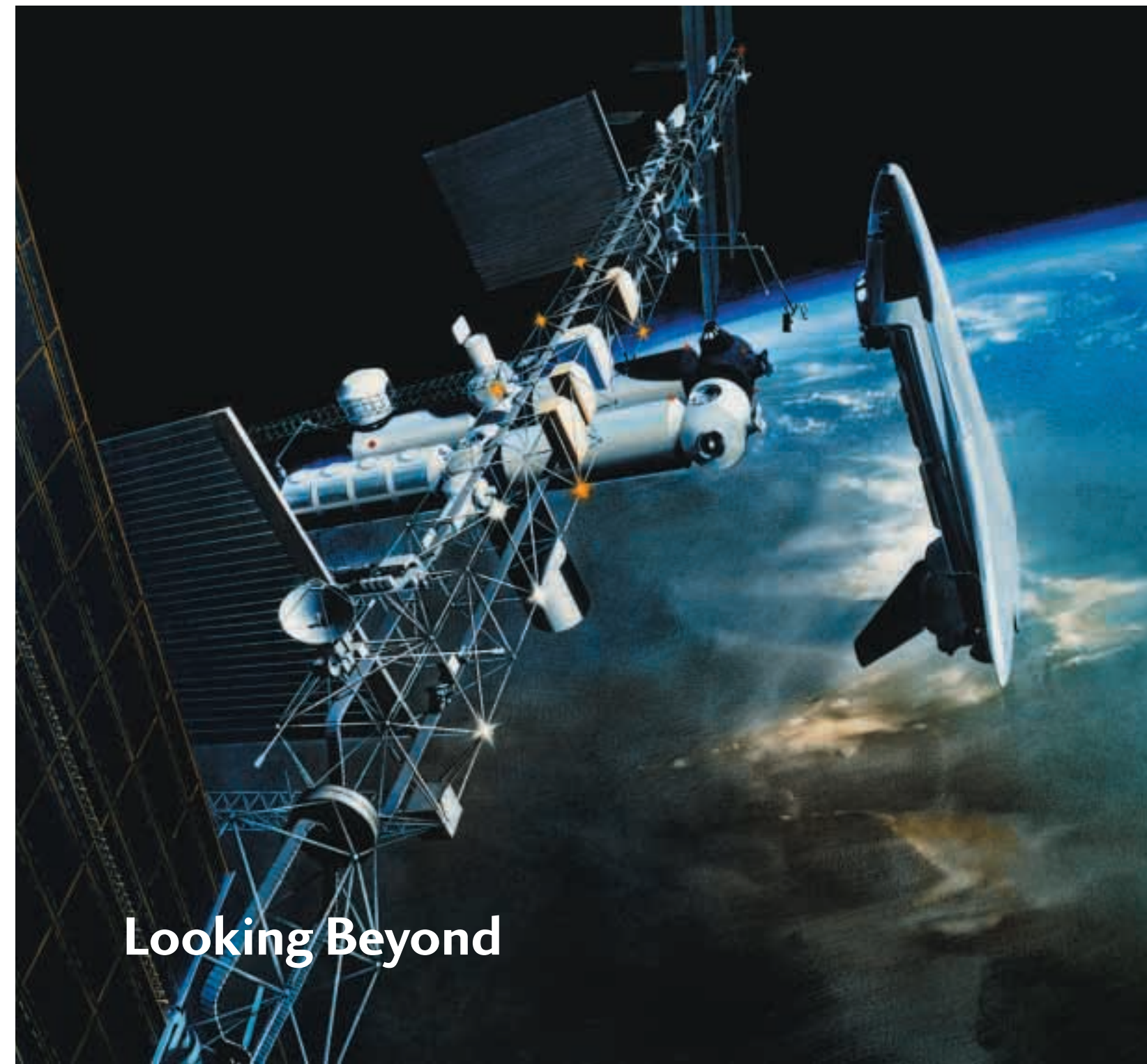
BRIT has emerged from the soft part of the insurance cycle with both the capital and the underwriting talent to take full advantage of an improving outlook, and we would expect to generate significant underwriting returns from 2001.

We are increasingly confident that the insurance cycle has turned and that returns to shareholders will improve significantly over the next few years. However we are aware that the insurance sector is competing for institutional capital with companies with more predictable earnings. It is our stated objective to earn a premium rating for our shares and this will only be achieved if we play to our strengths and succeed in developing a focussed business model for consistent long term profits growth around areas of expertise within our Group.

Jo Welman  
23 May 2000

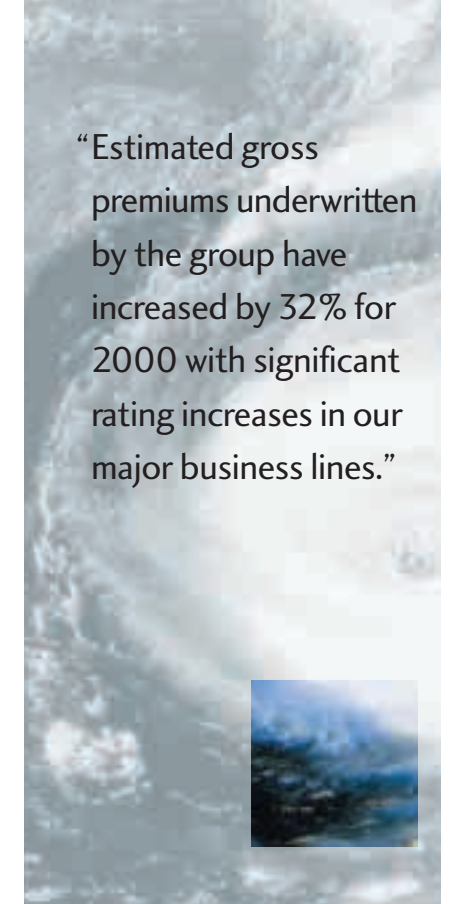
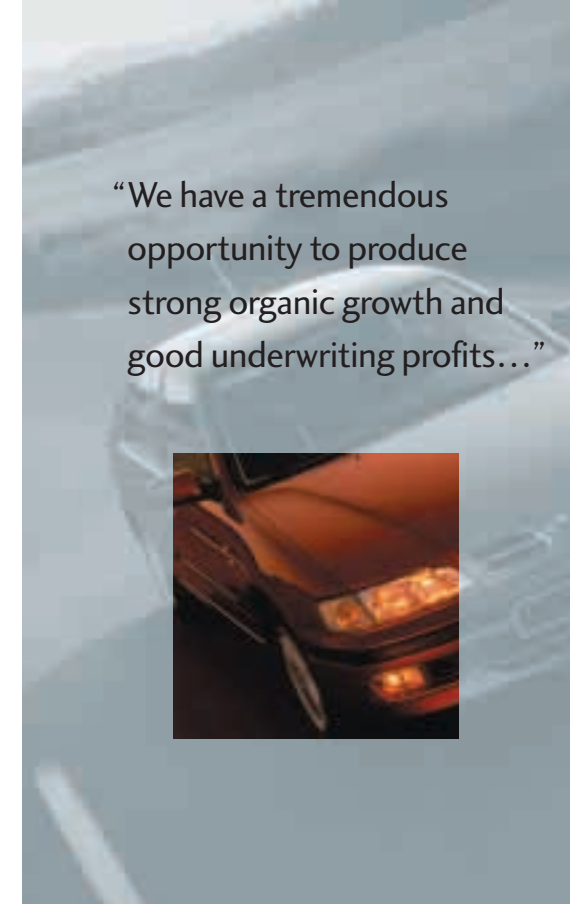


“ BRIT has emerged from the soft part of the insurance cycle with both the capital and the underwriting talent to take full advantage of an improving outlook.”



Looking Beyond

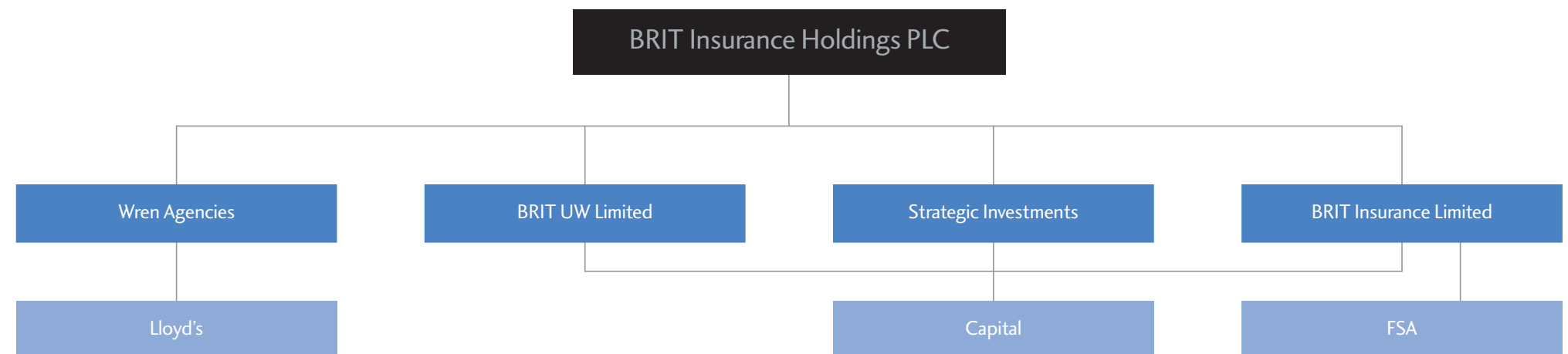
## The Group at a Glance



The major classes of business underwritten (estimated gross premium income) within the group for the 2000 year of account are as follows:

	£'000
Reinsurance	63,650
Motor	48,000
Space	20,100
Hull/Cargo	18,750
Aviation	14,100
Financial Risks	9,500
Professional Indemnity	9,499
Liability	9,000
Other	30,945
<b>Total</b>	<b>223,544</b>

The business of the group is split into four main areas, as follows:



“The group strategy is to develop a portfolio of insurance businesses both underwriting and service based that will be able to deliver value to shareholders throughout the insurance cycle.”

## Chief Executive's Statement



“Estimated gross premiums underwritten by the group have increased by 32% for 2000 with significant rating increases in our major business lines.”

BRIT Insurance Holdings is a new insurance holding company, which in 1999 acquired two established businesses, Wren and BRIT Insurance Limited. There is a real air of change and improvement throughout the group. This process was started before we completed the acquisitions of Wren and BRIT Insurance Limited and there is now tangible evidence that we have top quartile performers within the group. This has to be set alongside disappointing results in certain areas where we are taking remedial action.

### Underwriting 1999 & 2000

The estimated gross premium for 1999 and 2000 for BRIT Insurance Limited and our managed syndicates are shown below:

#### Estimated Gross Premium

	1999 £'000	2000 £'000	change %
Financial risk & reinsurance (BRIT Insurance)	23,038	36,000	56
Non Marine (Syndicate 250)	23,170	49,612	114
Life (Syndicate 389)	3,050	3,500	15
Marine/Reinsurance (Syndicate 735)	39,775	48,300	21
Aerospace (Syndicate 800)	37,830	36,031	-5
Motor (Syndicate 1202)	42,195	50,101	19
Total	169,058	223,544	32

Estimated gross premiums underwritten by the group have increased by 32% for 2000 with significant rating increases in our major business lines. BRIT has increased its support for its managed syndicates to 50.5% for 2000.



Looking Further

“Wren has produced another outstanding result from our aerospace operation.”

#### Market Commentary

Calendar year 1999 has produced an exceptionally high frequency of losses at both catastrophe and attritional levels. However, there is now considerable evidence that the insurance cycle is turning with both increasing premium rates and stricter terms and conditions. This is particularly relevant to two of the group's core areas of activity – catastrophe reinsurance and motor insurance. It seems very likely that there will be shortage of reinsurance capacity in 2001, which will maintain the upward pressure on rates. Motor rates have already shown significant increases during 2000 and the signs are that this trend will continue. The recovery is still patchy in certain areas, but we envisage a hardening of rates across most classes as we progress into 2001.

#### Operations

We are very encouraged with the progress being made at Wren, and in particular the arrival of Roger Field and Richard Finn who have restructured the non-marine business. Wren has also produced one of the smallest motor losses in the market place and another outstanding result from our aerospace operation. The marine syndicate's 1997 result is relatively satisfactory, although after many years of making substantial profits in the catastrophe reinsurance market we expect a difficult run of results for the 1998 and 1999 years. The group has restructured its corporate underwriting in order to optimise future efficiency from a risk based capital perspective. Previously the group had 16 corporate members originating from HCG, Wren and Masthead. For 2000 year of account all underwriting has been done through a single corporate member, BRIT UW Limited.

In the light of a disastrous year for the catastrophe market, BRIT Insurance Limited's pre-tax loss of £4.4 million was creditable, and with reinsurance rates now hardening dramatically I am extremely positive about the future outlook. Dane Douetil and his team are also attracting high quality financial risk business and the company's overall premium income is growing rapidly. BRIT Insurance Limited has strong financial strength ratings: A- (Excellent) from A.M. Best and A- from Standard & Poor's. Both these ratings were assigned during 1999.

#### Insurance Investments

Our insurance investment portfolio continues to consolidate. The acquisition of CLM by SVB Holdings, LIMIT's cash acquisition of Torch and the recent announcement of their offer for Wellington together with a potential cash offer for

LIMIT by QBE, provide evidence that the trend towards consolidation into fewer, larger entities, continues apace. However our Lloyd's investments have not escaped the global under-performance of insurance shares and our results have been materially affected by a further de-rating of these shares. Although this has continued into the current financial year, we believe that the process of consolidation will help us to release value from our third party investment portfolio. However I would stress that we consider that the market is significantly under valuing the prospects for these companies and are not willing sellers at current levels unless we see compelling opportunities elsewhere.

The shortage of capital which is contributing to the upturn in insurance premium rates has also contributed to the sentiment that has depressed values of insurance stocks just at the time when there is a genuine improvement in underwriting conditions. We are confident that the improving rating environment will eventually feed through to more appropriate valuations.

We have a tremendous opportunity to produce strong organic growth and good underwriting profits and want to use that base to develop fee income which will enable the group to continue to produce profits when underwriting conditions are less favourable. The Marham Space Consortium is the best operating model for this in our current portfolio and we wish to build on this strategy.

We are acutely sensitive to our recent share performance but are now seeing some light at the end of the tunnel. The recent period has been exceptionally difficult for both investors and management but we have strong belief in our ability to deliver greatly improved shareholder returns going forward.



Neil Eckert  
23 May 2000



Looking Outward

## Financial Review

The nine month period to 31 December 1999 has been one of considerable transition for the group. The major driver to this transition has been the completion of the acquisitions of the Wren Group and BRIT Insurance Limited and the consequent change in status of the company from an investment trust to a trading company.

The group has used the acquisition method of accounting in respect of the above acquisitions. All profits and losses arising from the acquisition of a Lloyd's business relating to underwriting periods commencing prior to the date of acquisition are treated as pre-acquisition. Accordingly the results arising from the acquisition of the Wren Group relating to 1999 and prior years' underwriting activities will not be reflected in the trading results of the group, other than through the amortisation of goodwill.

Goodwill of £18.7m has been capitalised during the period of which £17.5 m relates to the Wren Group and £1.2 m to BRIT Insurance Limited.

The group has utilised the Lloyd's inter-availability provisions to restructure its corporate underwriting in order to optimise future efficiency from a capital perspective. Previously the group had sixteen corporate members originating from HCC, Wren and Masthead. For the 2000 year of account all underwriting at Lloyd's is through a single corporate member, BRIT UW Limited. The full benefit of this restructuring will not be seen until 2003 following closure of the 1999 underwriting year. It is anticipated that the ratio of Funds at Lloyd's to capacity supported will progressively reduce as 1998 and subsequent underwriting years are closed.

Consideration has been given to changing the current group accounting policy in respect of Lloyd's underwriting. Currently the 3-year funded method is being used. It is intended to adopt annual accounting for the 2000 financial year at least in respect of in house capacity. BRIT Insurance Limited already accounts on an annual basis.

### Result for the period

The results for the period reflect a cyclical downturn in insurance rates coupled with increased severity and frequency of claims in the 1998 and 1999 underwriting years. To fully appreciate the impact of this downturn on the company it is important to understand the history of BRIT Insurance Holdings PLC, which dates back to 1995, and its formation as an investment trust focused on insurance related investments. The legacy of this has been a substantial strategic investment holding in the Lloyd's quoted investment sector. The valuations of these securities have been adversely impacted by the same underwriting difficulties referred to above. As a consequence not only have underwriting losses been incurred but also the strategic investment portfolio has declined in value. The corollary should be that, as the underwriting environment recovers, the company has the potential to benefit from both its own underwriting and a stock market re-rating of its insurance based investment holdings.

The result for the period is attributed to the various divisions of the group as below:

	Nine months ended 31 December 1999 £'000	Year ended 31 March 1999 £'000
Lloyd's activities	(21,119)	1,838
Corporate investment return	(5,074)	(11,318)
BRIT Insurance Limited	94	-
Central costs/consolidation adjustments	(1,341)	-
Loss before tax	(27,440)	(9,480)

“ We have a tremendous opportunity to produce strong organic growth and good underwriting profits...”



Looking Ahead

### Underwriting Result

The technical loss for the period was £22.6m compared with a profit of £1.8m for the year to 31 March 1999. Of this loss, £20.9m is in respect of open year reserving provisions of the 1998 and 1999 underwriting years. This level of reserving includes a margin for deterioration which has been added to the forecasts received from the managing agents in respect of the 1998 underwriting year. The provisions for 1998 and 1999 underwriting years totalled 12.57% and 13.51% of capacity respectively.

The group has the capacity to increase underwriting income both through its Lloyd's syndicates and BRIT Insurance Limited as the expected hardening of rates in the market develops during the rest of this year and into 2001.

The underwriting result by class of business is as below:

	Nine months ended 31 December 1999 £'000	Year ended 31 March 1999 £'000
<b>Direct Business:</b>		
Accident & Health	53	(103)
Motor – third party liability	(2,049)	(353)
Motor – other classes	(3,902)	(2,021)
Marine, Aviation & Transport	1,044	1,364
Fire and other Damage to Property	(1,772)	2,364
Third Party Liability	(3,548)	(4,617)
Credit and Suretyship	(4)	(180)
Legal Expenses	(140)	(96)
Other	(605)	(18)
Total Direct	(10,923)	(3,660)
<b>Reinsurance Business:</b>		
Reinsurance Acceptances	(13,624)	(367)
Reinsurance to Close	(1,541)	(781)
Total Reinsurance	(15,165)	(1,148)
<b>Total</b>	<b>(26,088)</b>	<b>(4,808)</b>
Investment return	3,516	6,582
	<b>(22,572)</b>	1,774

The underwriting result can be further analysed between the closure of the 1997 account and open year provisions as below:

	Nine months ended 31 December 1999 £'000	Year ended 31 March 1999 £'000
Technical result on closing syndicates	(2,870)	2,547
Release of open year provisions on closing year of account	1,455	2,128
Net technical result on closing year of account	(1,415)	4,675
Additional provisions on open years of account	(20,940)	(2,901)
BRIT Insurance Limited	(217)	-
Group underwriting result	(22,572)	1,774

### Investment Return

Net investment return, excluding return on syndicate investments, during the period was a loss of £5.1m compared to a loss of £11.3m in the year to 31 March 1999. These figures include a fall in the value of strategic investments of £15.9m (31 March 1999: £36.4m).

Excluding strategic investments the annualised investment return for the period was 8.9% (31 March 1999: 12.7%).

### Expenses

Total expenses in respect of the non-technical account amounted to £5.2m and are analysed below:

	Nine months ended 31 December 1999 £'000	Year ended 31 March 1999 £'000
Salary and related costs	1,585	72
Accommodation costs	414	-
Legal and professional	549	564
Irrecoverable VAT	444	99
Use of fixed assets	311	-
Amortisation of goodwill and underwriting capacity	1,025	-
Administration expenses	890	974
Total	5,218	1,709

### Taxation

The tax credit in the profit and loss account is high at 38.6%. This is as a result of a variety of factors, the most significant being the high level of franked investment income received (not liable to corporation tax) and a deferred tax credit of £2.7m in respect of unrealised losses brought forward on equities and gilts.

## Summary of Results

	Nine months ended 31 December 1999 £'000	Year ended 31 March 1999 £'000
Technical account result before open year provisions	(3,087)	2,547
Movement in open year provisions	(19,485)	(773)
Balance on technical account	(22,572)	1,774
Corporate investment income	10,805	25,086
Agency fees and commissions	1,824	-
Other income	3,600	1,773
Expenses	(5,218)	(1,709)
Operating (loss) / profit	(11,561)	26,924
Unrealised losses on strategic investments	(15,879)	(36,404)
Loss on ordinary activities before tax	(27,440)	(9,480)

## Balance Sheet Structure

The corporate balance sheet (exclusive of assets and liabilities relating to participations on Lloyd's syndicates) can be summarised into its main components as shown below:

	31 December 1999 £'000	31 March 1999 £'000
Goodwill	17,964	-
Syndicate participations	5,066	1,287
Investments	328,952	228,435
Cash at bank and in hand	25,539	17,387
Losses foreseen on open years	(52,350)	(8,088)
BRIT Insurance Limited, net technical provisions	(27,450)	-
Financing	(44,500)	(35,000)
Other	2,856	(7,499)
Shareholders' funds	256,077	196,522

## Investment Activity

The Group has a Capital Management Committee which determines the overall balance of the group's investment portfolio. The committee has recently undertaken a study to quantify the risk associated with different investment strategies. Benchmarks are currently being reviewed as is the performance of the Group's investment managers.

As at 31 December 1999 the asset class allocation, split by different group activities, was as below:

	31 December 1999 £'000	31 March 1999 £'000
Funds at Lloyd's	- shares 85,871 - fixed income 45,022 - protected fund 27,305	65,620 3,500 -
	158,198	69,120
Lloyd's strategic investments	- shares 74,486	120,308
Unquoted investments	- shares 7,589 - fixed income 6,564	33,604 5,403
Other uncharged investments	- shares 4,065 - fixed income 2,304	- -
BRIT Insurance Limited	- shares 4,484 - fixed income 71,262	- -
Total	328,952	228,435

The overall structure of the investment portfolio has remained largely unchanged since the year-end.

## Gearing

The group had a 17% gearing ratio of total bank lending to shareholders' funds as at 31 December 1999. The group banking facilities have been renegotiated since that date, the total available new facility being £60m of which £50m has been drawn at the date of this report.

## Funds at Lloyd's

As mentioned earlier in this report the group has restructured its underwriting such that BRIT UW Limited is the sole corporate underwriting member for the 2000 year of account. This has made use of the inter availability rules in respect of Funds at Lloyd's with regard to the sixteen corporate members now in run off. The short term effect of this change is to increase the total Funds at Lloyd's requirements until such time as those years in run off are closed. Thereafter BRIT UW Limited will have a wide spread of business in the one corporate member with consequent benefits to the risk based capital and Funds at Lloyd's requirements.

## Net Asset Value / Net Tangible Assets per share

As at 31 December 1999 the net asset value per share was 107.6 p (31 March 1999: 131.4p) and the net tangible asset value per share was 97.9 p (31 March 1999: 130.5p).

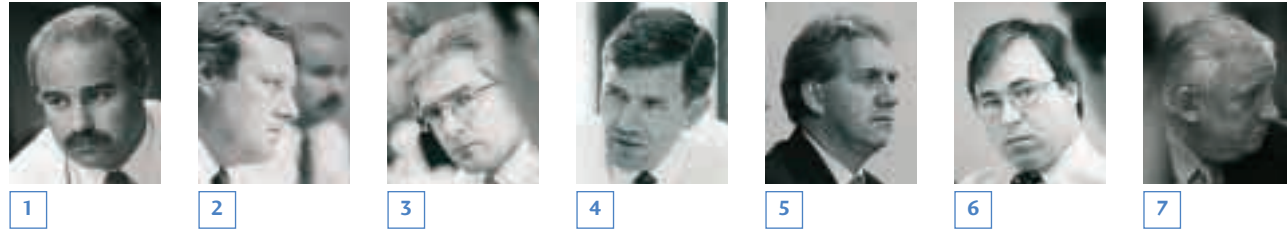
## Capital Adequacy

The group has a strong balance sheet with net assets at 1 January 2000 totalling £256m. This supports the 2000 underwriting capacity at Lloyd's of £187m and budgeted gross written premium income in BRIT Insurance Limited of £36m. Accordingly the group is operating with a very comfortable solvency margin and is well placed to benefit from a hardening insurance market both as a result of its own underwriting and the potential revaluation of the strategic investment portfolio.



Matthew Scales  
23 May 2000

# Executive Board



- 1 Jo Mark Pole Welman, Executive Chairman
- 2 Neil David Eckert, Chief Executive Officer
- 3 Andrew Holland, Chief Operating Officer (appointed 2 August 1999)
- 4 Matthew Scales, Finance Director (appointed 30 November 1999)
- 5 Simon Dudley Clapham, Executive Director (appointed 2 August 1999)
- 6 Dane Jonathan Douetil, Executive Director (appointed 30 November 1999)
- 7 Andrew Shone, Deputy Executive Chairman (appointed 2 August 1999)

The executive directors are members of the Executive Management Committee and the Capital Management Committee.

## Jo Mark Pole Welman

Born in 1958, graduated in economics from Exeter University in 1979. He joined Baring Brothers where he was involved with the management of several large segregated UK and US public company pension funds and two authorised unit trusts. In 1989 he was recruited by Rea Brothers to become the Managing Director of the investment management subsidiary. He resigned as a director of Rea Brothers Group PLC on 6 May 1999. He is a non-executive director of Finsbury Income and Growth Investment Trust Plc, London Town Plc, Cathedral Capital Plc and non-executive chairman of the Close FTSE 100 Investment Trust PLC. He has been a director of the company since its flotation in 1995 and was appointed chairman on 6 January 2000.

## Neil David Eckert

Born 1962, came into reinsurance broking in 1980, joining Benfield Lovick & Rees & Co Limited (now called Benfield Ellinger Limited) in 1986. In 1991, he joined the Board of The Benfield Group, which became Benfield Greig Group PLC in November 1997. He resigned as a director of all companies in the Benfield Greig group on 14 January 2000. He has been a director of the company since its flotation in 1995. He was appointed a non-executive director of BRIT Insurance Limited on 16 November 1999. He is Chairman (non-executive) of Design Technology and Innovation Limited, a patenting and intellectual property company.



#### Andrew Holland

Born 1954, is a qualified accountant and has worked in the Lloyd's market for 24 years. He joined the Wren group as managing director of Wren Syndicates Management Limited in 1996 and was appointed a director of Wren Holdings 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 the company on 2 August 1999.

#### Matthew Scales

Born 1954, has been finance director and company secretary of BRIT Insurance Limited since its establishment in 1993. He qualified as a chartered accountant in 1978 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 The Benfield Group Limited (which became Benfield Greig Group PLC in November 1997) from February 1996 to March 1999. He was appointed Finance Director of the company on 30 November 1999.

#### Simon Dudley Clapham

Born 1960, has worked in the Lloyd's market for 21 years. After 12 years as a Lloyd's broker he joined Syndicate 282 in 1990 as the space and aviation underwriter. In 1994 he set up the Marham Space Consortium of which he is the managing director. He was elected to the Committee of the Lloyd's Aviation Underwriters Association in 1994 and in 1998 was elected to be its deputy chairman. He has been a director of the Lloyd's North American Unit Board since 1998. In October 1994, he joined Syndicate 800 as underwriter designate, becoming the active underwriter on 1 January 1996. He was appointed a director of Wren Syndicates Management Limited in January 1996 and was appointed a director of the company on 2 August 1999.

#### Dane Jonathan Douetil

Born 1960, has been chief executive of BRIT Insurance Limited since December 1998. 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 and 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 the Benfield Greig group in July 1997 prior to joining BRIT Insurance Limited in August 1998. He was appointed a director of the company on 30 November 1999.

#### Andrew Shone

Born 1948, has worked on Syndicate 735 since 1965. He was appointed deputy underwriter in 1977 and active underwriter in 1993 and is one of the longest serving Lloyd's underwriters in the market. He has underwritten in all areas in which his syndicate currently trades and now concentrates on reinsurance business in which he is a leading underwriter in the London market. He was appointed a director of a predecessor agency to Wren Syndicates Management Limited in 1978, of BRIT Group Services Limited in 1993, of Wren Holdings Group PLC in 1995 and of Wren Limited in 1996. He was appointed deputy Chairman of the company on 2 August 1999.

#### Donald Cecil McCrickard

Born 1936, previously a director of American Express International Inc (1978-83), chief executive of TSB Group Plc (1990-92), TSB Bank Plc (1989-1992) and Chairman of Hill Samuel Bank (1991-92). He was also a member of the executive committee of the British Bankers Association (1988-1992) 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 BRIT since its flotation in 1995. He is Senior Independent Director and Chairman of both the Nomination and Remuneration Committees.

#### Paul Gaunt

Born 1949, from 1987, was a senior investment manager of The Equitable Life Assurance Society, a position he resigned in June 1997 in order to pursue a number of private interests. He is a non-executive director of a number of companies, including Prelude Trust plc, Enviros Limited, Numis Corporation PLC, Aurora Investment Trust PLC and Finsbury Worldwide Pharmaceutical Trust plc. He has been a director of the company since its flotation in 1995.

#### George Franklin (Glyn) MacAulay

Born 1937, formerly the senior partner of Neville Russell (now Mazars Neville Russell). He joined Neville Russell, 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 was a leading accountant in the insurance industry having 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 has been a director of the company since January 1996 and is Chairman of the Audit Committee.

#### Dr Richard Sandor

Born 1941, has held many senior positions in the financial services industry, including Vice President and Chief Economist at the Chicago Board of Trade and until recently was the Second Vice Chairman of Strategy, Chicago Board of Trade. He has served on the Board of the Chicago Mercantile Exchange, and is a member of the International Advisory Board of Marche a Terme International de France. He was a faculty member of the School of Business Administration at the University of California, Berkeley and held a position at Stanford University. On 14 June 1999, Dr Sandor was appointed as a consultant to PricewaterhouseCoopers. He has been a director of the company since its flotation in 1995.

#### John Anthony Victor Townsend

Born 1948, is Chairman of Adam & Harvey Group plc and a director of Gartmore Split Capital Opportunities Trust plc, The Zero Preference Growth Trust plc, British and American Investment Trust plc and of five Finsbury investment trusts. He has been a Name at Lloyd's since 1974 and is a member of the Lloyd's Regulatory Board. He was appointed a director of the Company on 2 August 1999 and Chairman of Wren Syndicates Management on 16 December 1999.

#### Philip Richard (Dick) Withers Green

Born 1948, is a director of Jupiter Asset Management Limited. He was formerly a partner of de Zoete & Bevan and was, respectively, a director and vice chairman of BZW Asset Management Limited and BZW Investment Management Limited. He was appointed a director of the company on 2 August 1999.

## Non-Executive Board

**Donald Cecil McCrickard,**  
Non-Executive Director \* # ‡

**Paul Gaunt,**  
Non-Executive Director †

**George (Glyn) Franklin MacAulay,**  
Non-Executive Director \* #

**Dr Richard Sandor,**  
Non-Executive Director #

**John Anthony Victor Townsend,**  
Non-Executive Director \*  
(appointed 2 August 1999)

**Phillip Richard (Dick) Withers Green,**  
Non-Executive Director #  
(appointed 2 August 1999)

**David John Coldman,**  
(resigned 6 January 2000)

- \* Member of the Audit Committee
- † Member of the Capital Management Committee
- # Member of the Remuneration and Nomination Committees
- ‡ Senior Independent Director



#### Secretary

John Anthony Lynch

#### Registered Office

55 Bishopsgate  
London EC2N 3AS

#### Company Number

3121594

#### Members' Agent

Wren Underwriting Agencies Limited  
55 Bishopsgate  
London EC2N 3AS

#### Investment Managers

Close Private Asset Management Limited  
(formerly Rea Brothers (Investment Management) Ltd)  
12 Appold Street  
London EC2A 2AW

Investec Guinness Flight Global Asset Management Limited  
2 Gresham Street  
London EC2V 7QP

Apax Finsbury Investment Management Limited  
28 Melville Street  
Edinburgh EH3 7HA

#### Auditors

Mazars Neville Russell  
Chartered Accountants  
24 Bevis Marks  
London EC3A 7NR

#### Bankers

National Westminster Bank plc  
City of London Office  
1 Princes Street  
London EC2R 8PA

Barclays Bank plc  
54 Lombard Street  
London EC3V 9EX

#### Stockbrokers

Numis Securities Limited  
(formerly Raphael Zorn Hemsley Limited)  
Cheapside House  
138 Cheapside  
London EC2V 6LH

#### Registrars

IRG plc  
Balfour House  
390-398 High Road  
Ilford  
Essex IG1 1NQ

#### Financial Calendar 2000

Full Year Figures	May
Annual Report Posted	June
Annual General Meeting	July
Final Dividend Paid	July
Half Year Figures Announced	September
Interim Report Posted	September
Interim Dividend Paid	October

[www.britholdings.com](http://www.britholdings.com)

# Report of the Directors

## Report of the Directors

The directors present their report and financial statements for the nine months ended 31 December 1999.

## Change of Registered Office

During the period, the company changed its registered office to 2nd Floor, 55 Bishopsgate, London EC2N 3AS.

## Change of Name

The name of the company was changed at an Extraordinary General Meeting held on 26 July 1999 from The Benfield & Rea Investment Trust PLC to BRIT Insurance Holdings PLC. The change of name was made to reflect the loss of investment trust status and the fact that the company became the holding company of an insurance group.

## Principal Activity and Review of the Business

Following the acquisition of Wren Limited (formerly Wren plc) on 26 July 1999, and the later acquisition of BRIT Insurance Limited on 16 November 1999, the group became, through its subsidiaries, a specialist insurer and reinsurer. Included within the group are an FSA registered insurance company, a Lloyd's managing agent, a Lloyd's members' agent and seventeen corporate members, one of which is underwriting at Lloyd's for the 2000 year of account.

The principal activity of BRIT Insurance Limited is that of insurance and reinsurance underwriting. It has traditionally written a catastrophe account and, during the past year, has commenced underwriting financial risks on both a direct insurance and reinsurance basis. The company expects to expand its financial risk account further during 2000.

Wren Syndicates Management Limited, the Lloyd's managing agent, currently manages five syndicates, one in each of the main market areas, with a total capacity for the 2000 year of account of £242 million.

Wren Underwriting Agencies Limited, the Lloyd's members' agent, advises Names providing a total of £244 million of capacity (which includes approximately £190 million provided by the BRIT Group) for the 2000 year of account.

A detailed review of the activities and results of the group is included in the Chairman's Statement, Chief Executive's Statement and Financial Review.

## Results and Dividends

The result attributable to shareholders for the period and the transfer from reserves are shown on page 39.

The corresponding results have been restated to reflect the loss of investment trust status following the acquisition of Wren Limited.

The dividends paid and proposed are as follows:

	9 Months ended 31 December 1999 £'000	12 Months ended 31 March 1999 £'000
Interim dividend of 1p (31 March 1999: 3p) paid 14 January 2000	2,373	4,488
Second Interim dividend of nil (31 March 1999: 3.5p)	–	5,237
Final dividend of 2p (31 March 1999: nil)	4,742	–
	7,115	9,725

It is intended that the final dividend will be payable on 18 July 2000 to shareholders on the register at the close of business on 9 June 2000.

## Authority to Purchase Ordinary Shares

At the Annual General Meeting held on 27 August 1999, the company renewed its authority to purchase up to a maximum of 20,000,000 shares of 25p each. During the period ending 31 December 1999, the company purchased 2,175,000 of its own shares at an average price of 80.2p per ordinary 25p share. On 4 January 2000, the company purchased a further 170,000 shares at a price of 76.9p per ordinary 25p share.

A resolution seeking renewal of the authority will be put to the forthcoming Annual General Meeting.

## Future Developments

Details of future plans for the group are set out in the Chairman's Statement and the Chief Executive's Statement on pages 2 to 9.

## Share Capital

On 26 July 1999, an Extraordinary General Meeting was held at which an ordinary resolution was passed increasing the authorised share capital of the company from 218,000,000 to 250,000,000 ordinary shares of 25p each. 60,120,618 ordinary shares of 25p each were allotted and issued as consideration for the acquisition of Wren Limited at an aggregate value of £57,276,000.

On 18 October 1999, an Extraordinary General Meeting was held at which an ordinary resolution was passed to increase the authorised share capital of the company to 315,000,000 shares from 250,000,000 ordinary shares of 25p each.

On 16 November 1999, 30,479,798 ordinary shares of 25p each were issued in consideration of the acquisition of the remaining 70.01 per cent. of BRIT Insurance Limited at an aggregate value of £25,146,000.

During December 1999, the company purchased 2,175,000 of its own ordinary shares of 25p each. These shares were purchased at an aggregate value of £1,743,741. The company cancelled these shares in December 1999. On 4 January 2000, a further 170,000 ordinary 25p shares were purchased by the company at an aggregate value of £130,664. These shares have also been cancelled.

Details of the share capital in issue are set out in Note 23 to the accounts on page 71.

# Report of the Directors

## Continued

### Directors

The directors who served during the period are as shown on pages 16 to 19. This includes those directors appointed during the period. Since the period end, John Coldman has resigned as a director of the company. John Coldman's intended resignation was announced in the listing particulars that were circulated to shareholders with respect to the company's acquisition of Wren Limited. This is a requirement of the Lloyd's Act 1982, which implemented a statutory regime known as divestment. In essence this precluded any director of a Lloyd's broker, or its holding company, also being a director of a Lloyd's managing agent or its holding company. Lloyd's granted an extension of six months from the date the company acquired Wren Limited for John Coldman to continue in his position as Chairman of the company.

Jo Welman, previously Deputy Chairman, succeeded John Coldman as executive Chairman of the Company on 6 January 2000.

### Directors' Interest in Transactions

Neil Eckert, Jo Welman, Andrew Holland, Simon Clapham, Andrew Shone, Anthony Townsend and Dick Withers Green all had an interest in the company's acquisition of Wren Limited, which was completed on 26 July 1999. All of these were shareholders of Wren Limited and the latter five were directors of Wren Limited.

Neil Eckert and his wife sold 58,672 ordinary 25p shares in Wren Limited to the company for the consideration of 68,939 ordinary 25p shares in the company, at an equivalent value of 114.6p per ordinary share.

Jo Welman sold 3,000 ordinary 25p shares in Wren Limited to the company for the consideration of 3,525 ordinary 25p shares in the company, at an equivalent value of 114.6p per ordinary share.

Simon Clapham sold 561,380 ordinary 25p shares in Wren Limited to the company for the consideration of 659,621 ordinary 25p shares in the company, at an equivalent value of 114.6p per ordinary share. Simon Clapham did not participate in the Board's deliberations concerning the acquisition of Wren Limited, as he was not appointed a director until 2 August 1999.

Andrew Holland sold 331,657 ordinary 25p shares in Wren Limited to the company for the consideration of 389,696 ordinary 25p shares in the company, at an equivalent value of 114.6p per ordinary share. Andrew Holland did not participate in the Board's deliberations concerning the acquisition of Wren Limited as he was not appointed a director of the company until 2 August 1999.

Andrew Shone sold 3,788,784 ordinary 25p shares in Wren Limited to the company for the consideration of 4,451,821 ordinary 25p shares in the company, at an equivalent value of 114.6p per ordinary share. Andrew Shone did not participate in the Board's deliberations concerning the acquisition of Wren Limited as he was not appointed a director of the company until 2 August 1999.

Dick Withers Green sold 10,000 ordinary 25p shares in Wren Limited to the company for the consideration of 11,750 ordinary 25p shares in the company, at an equivalent value of 114.6p per ordinary share. Dick Withers Green did not participate in the Board's deliberations concerning the acquisition of Wren Limited as he was not appointed a director of the company until 2 August 1999.

Anthony Townsend sold 215,800 ordinary 25p shares in Wren Limited to the company for the consideration of 253,565 ordinary 25p shares in the company, at an equivalent value of 114.6p per ordinary share. Anthony Townsend did not participate in the Board's deliberations concerning the acquisition of Wren Limited as he was not appointed a director of the company until 2 August 1999.

Neil Eckert, John Coldman, Dane Douetil and Matthew Scales all had an interest in the company's acquisition of BRIT Insurance Limited, which was completed on 16 November 1999.

John Coldman and Neil Eckert were directors of Benfield Greig Group PLC ("Benfield Greig"), which owned Lennoxhurst Limited, which sold BRIT Insurance Limited to the company. John Coldman is interested in 6,250,000 ordinary shares of 1p each in Benfield Greig and Neil Eckert is interested in 2,400,000 ordinary shares of 1p each in Benfield Greig. Benfield Greig and its subsidiaries were beneficial owners of 5,031,246 ordinary shares of the company. Matthew Scales is interested in 38,000 ordinary shares of 1p each in Benfield Greig and he held options over a further 37,000 ordinary shares of 1p each in Benfield Greig.

John Coldman and Neil Eckert as Trustees of the Benfield Greig Employee Benefit Trust were interested in 1,500,000 ordinary shares of 1p each in Benfield Greig. Neither John Coldman nor Neil Eckert participated in the Board's decision concerning the acquisition of BRIT Insurance Limited. Matthew Scales and Dane Douetil did not participate in the Board's decision concerning the acquisition of BRIT Insurance Limited, as they were not appointed directors until 30 November 1999.

John Coldman and Neil Eckert were both directors of Benfield Advisory Limited, a company owned by Benfield Greig, which advised the company on the transaction. Paul Gaunt is a non-Executive director of Numis Corporation PLC (formerly Raphael Zorn Hemsley (Holdings) plc), the ultimate holding company for Numis Securities Limited which was the joint financial advisor, sponsor and stockbroker to the company.

Anthony Townsend had a beneficial interest of 8 per cent. and a non-beneficial interest of 11.4 per cent. in the shares of Rea Brothers Group PLC, the parent company of Close Private Asset Management Limited. Jo Welman was a director of Rea Brothers Group PLC and also of Close Private Asset Management Limited for a part of the period and he and persons associated with him were interested in less than 0.1 per cent. of the issued share capital of Rea Brothers Group PLC and he had an option over 600,000 shares in Rea Brothers Group PLC.

Jo Welman and Anthony Townsend were interested in the investment management agreement with Close Private Asset Management Limited.

John Coldman and Neil Eckert were both directors of, and shareholders in, Benfield Greig Group PLC, the parent company of Benfield Advisory Limited. John Coldman and Neil Eckert were interested in the agreement to provide insurance advisory services to the company.

Total fees payable to the subsidiaries of Rea Brothers Group PLC during the period ended 31 December 1999 amounted to £617,000 and the fees payable to subsidiaries of Benfield Greig, for the same period, amounted to £2,406,000.

# Report of the Directors

## Continued

### Directors' Interests

The interests of the directors and their families in the ordinary shares of 25p each of the company are set out below:

	Held at 31 December 1999			Held at 1 April 1999 or later date of appointment		
	Shares	Options	LTIP	Shares	Options	LTIP
Jo Welman	100,000	510,526	93,855	30,000	210,526	–
Simon Clapham*	659,621	469,365	93,855	659,621	–	–
Dane Douetil*	42,000	–	–	42,000	–	–
Neil Eckert	358,169	1,114,473	187,708	65,340	589,473	–
Paul Gaunt	–	–	–	–	–	–
Andrew Holland*	389,696	523,555	125,139	389,696	–	–
Glyn MacAulay	20,000	–	–	10,000	–	–
Don McCrickard	–	–	–	–	–	–
Richard Sandor	50,000	–	–	10,000	–	–
Matthew Scales*	–	–	–	–	–	–
Andrew Shone*	5,455,705	150,000	93,855	5,455,705	–	–
Anthony Townsend*	253,565	–	–	253,565	–	–
Dick Withers Green*	11,750	–	–	11,750	–	–
John Coldman	–	–	–	25,000	–	–

\*Held at date of appointment.

All directors' interests in the ordinary shares of the company are beneficial. With the exception of Dane Douetil, all directors' interests are unchanged at the date of this report. Since the period end, a discretionary trust in which Dane Douetil has an interest acquired 35,000 ordinary 25p shares in the company.

### External Appointments

With the prior consent of the Board, 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.

### Related Parties

With respect to the company's acquisition of Wren Limited the following were deemed to be related parties:

Equitable Life had a holding of 13 per cent. of the company at the date of the company's offer for Wren Limited and also had a holding of circa 2 per cent. of Wren Limited. Listing rules of the London Stock Exchange deemed Equitable Life to be a related party.

Close Private Asset Management Limited, which is one of the investment managers of the company, was also deemed to be a related party of the company under the Listing Rules. In relation to the offer, Close Private Asset Management Limited held approximately 1.7 per cent. of the issued share capital of Wren Limited on behalf of discretionary clients other than the company.

In accordance with the Listing Rules, both Equitable Life and Close Private Asset Management Limited abstained from voting on whether or not the company should acquire Wren Limited.

With respect to the acquisition of BRIT Insurance Limited the following were deemed to be related parties:

Benfield Greig (through its shareholding in Lennoxhurst Limited was a substantial shareholder in BRIT Insurance Limited) and John Coldman and Neil Eckert (as they are directors of both the company and Benfield Greig) are deemed by the London Stock Exchange to be related parties of the company in relation to the company's acquisition of BRIT Insurance Limited. As a result, none of Benfield Greig, John Coldman, or Neil Eckert voted on the resolution as to whether or not the company wished to acquire BRIT Insurance Limited.

### Long Term Incentive Schemes

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

#### 1 1998 Approved Executive Share Option Scheme ("the approved scheme")

The approved scheme is a discretionary share option scheme, which has been approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988. 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 share under an option, will be determined by the Remuneration Committee at the time of the grant of the option, but it will not be less than the middle market price for the day immediately preceding the date of grant. 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 granted under the approved scheme may only be exercised within certain qualifying periods, such periods not to commence prior to three years after the grant of the options. Options cannot be exercised after ten years from the date of grant of the option.

Options have been granted, at nil cost, under the approved scheme as follows:

No. of Option Holders	Date of Grant of Options	Amount of Shares under Option	Exercise Price	Date from which Exercisable	Expiry Date of Options
6	06/12/99	193,145	80.25p	06/12/02	05/12/09

#### 2 1998 Unapproved Executive Share Option Scheme ("the unapproved scheme")

The unapproved scheme is a discretionary share option scheme, which is 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.

# Report of the Directors

## Continued

The price payable for each share under an option will be determined by the Remuneration Committee at the time of the grant of the option, but it will not be less than the middle market price for the day immediately preceding the date of grant. Options granted under the unapproved scheme may only be exercised within certain qualifying periods, such periods not to commence prior to three years after the grant of the options. Options cannot be exercised after ten years from the date of grant of the option.

Options have been issued under the unapproved scheme as follows:

No. of Option Holders	Date of Grant of Options	Amount of Shares under Option	Exercise Price	Date from which Exercisable	Expiry Date of Options
2	10/09/98	799,999	142.50p	10/09/01	09/09/08
9	06/12/99	2,175,000	80.25p	06/12/02	05/12/09

### 3 BRIT Long Term Incentive Plan 1999 ("LTIP")

The LTIP was approved by shareholders at an Extraordinary General Meeting held on 26 July 1999. The LTIP is under the control of the Remuneration Committee, which sets performance targets in respect of all allocations under the LTIP.

The LTIP is established under the Employee Share Participation Trust ("ESOP"), a discretionary trust, which was set up to provide or assist in the provision of benefits and assistance to employees of the company and its subsidiaries and in connection therewith to operate a new employees' 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 in the LTIP. Any awards will be made by the trustees 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.

The maximum value of awards in any one year shall not exceed 100 per cent. 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:

No. of participants	Date of Grant	Release Date	Number of shares	Value at date of grant
8	06/12/99	31/12/02	782,120	£625,000

The shares held by the ESOP represents 0.3 per cent. of the issued share capital of the company.

### 4 BRIT Insurance Phantom Share Option Scheme

This scheme is a BRIT Insurance Limited scheme that entitles key employees of that company to share in an aggregate 7.4 per cent. growth in the value of BRIT Insurance Limited, after a true money market return on capital employed. The options are normally exercisable after five years from the date from which the options are granted and once exercisable shall remain exercisable. The options cannot be exercised beyond the seventh anniversary after cessation of an employee's employment. The participating employee will receive, on exercising his phantom option, an amount by which the exercise value of their shares in relation to which the phantom option is exercised exceeds their grant value. There is no entitlement to any actual or notional dividend payments by BRIT Insurance Limited to the participants of the scheme.

There are four participants in the scheme who were granted, on 30 July 1998, the full phantom option entitlement of 7.4 per cent. and of this amount 3.7 per cent. has vested to date. The remainder will vest in four annual tranches in the period to 30 July 2003.

### 5 Wren Approved Share Option Scheme 1998

This is a discretionary share option scheme, which has been approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988. 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, 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 granted under the approved scheme may only be exercised within certain qualifying periods, such periods not to commence prior to three years after the grant of the options. Options cannot be exercised after ten years from date of grant of the option.

All option holders who were granted options under this scheme accepted the rollover terms of the company following its acquisition of Wren Limited. Approval was received from the Inland Revenue in the period to enable this to occur. The terms of the rollover granted the option holders options over shares in the company on 21 September 1999. It is not expected that any future options will be granted under this scheme.

Options have been granted, at nil cost, under the approved scheme as follows:

No. of Option Holders	Date of Grant of Options	Amount of Shares under Option	Exercise Price	Date from which exercisable	Expiry Date of Options
23	10/09/98	585,242	112p	10/09/01	09/09/08

### 6 Wren Unapproved Share Option Scheme 1998

The unapproved scheme is a discretionary share option scheme, which is 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 were subject to performance criteria, other than the options that were granted on 18 May 1998, as were determined by the board of Wren Limited.

Options granted under the unapproved scheme may only be exercised within certain qualifying periods, such periods not to commence prior to three years after the grant of the options, with the exception of those granted on 18 May 1998. Options cannot be exercised after ten years from the date of grant of the option.

All option holders who were granted options under this scheme accepted the rollover terms of the company following its acquisition of Wren Limited. Approval was received from the Inland Revenue in the period to enable this to occur. The terms of the rollover granted the option holders options over shares in the company on 21 September 1999. It is not expected that any future options will be granted under this scheme.

# Report of the Directors

## Continued

Options have been issued under the unapproved scheme as follows:

No. of Option Holders	Date of Grant of Options	Amount of Shares under Option	Exercise Price	Date from which exercisable	Expiry Date of Options
3	18/05/98	766,475	119p	22/12/00	17/05/08
1	14/08/98	117,500	130.5p	14/08/01	13/08/08

### Substantial Shareholdings

At the date of this report the following interests in the ordinary voting shares of the company that exceeded 3 per cent. of the issued share capital of that class had been notified.

	No. of Shares	Percentage of Issued Share Capital
Lennoxhurst/Benfield Greig	35,245,421	14.8
Fidelity Special Situations Trust	20,473,850	8.6
The Equitable Life Assurance Society	17,264,433	7.3
Jupiter Income Fund	8,832,852	3.7

### Employee Involvement

The company is committed to involve all employees in the performance and development of both the company and the group and employees are encouraged to discuss matters of interest and subjects affecting day to day operations.

### Disabled Employees

It is the group's policy to give full consideration to suitable applications for employment by disabled persons.

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

### 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 1999, other creditors of the company had an average 18 days outstanding.

### Donations

During the period, the group made charitable donations amounting to £250 (31 March 1999: £nil).

### Year 2000 Compliance

During 1999, the company closely monitored changes to the group's systems and infrastructure to ensure compliance with date changes at or around the Millennium; continuity and contingency plans were also developed to ensure that key areas of the business would be able to continue to operate. The estimated cost to ensure Year 2000 compliance has been calculated on the following basis:

Costs relating to Year 2000 testing and associated work carried out by external suppliers have been allocated to group companies and syndicates managed by the group based on actual expenditure. Internal staff and related overhead costs have been apportioned to the Year 2000 review based on actual time spent.

There were no costs directly incurred by the company. At the date of this report, no problems for the Year 2000 have been experienced.

### Auditors

The Auditors, Mazars Neville Russell, have signified their willingness to continue in office and a resolution proposing their re-appointment will be put to the forthcoming Annual General Meeting of the company.

### Annual General Meeting

The Annual General Meeting will be held on 11 July 2000 at the company's offices at 55 Bishopsgate, London EC2N 3AS.

In accordance with the Articles of Association, a third of all directors retire each year by rotation. Thus, Jo Welman and Glyn MacAulay retire this year by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the company.

All directors offer themselves for election at the first General Meeting following their employment. Accordingly, Dane Douetil and Matthew Scales, both of whom were appointed directors of the company on 30 November 1999, retire and offer themselves for election at the same meeting.

### Directors Responsibilities

The directors are required by Company Law to prepare financial statements, 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/loss 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; 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 so as 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

John A. Lynch, Secretary

23 May 2000

# Corporate Governance Report

## Board

The Board, comprising executive and non-executive directors, is the highest level of authority within the group. The Chairman of the company heads the Board and a full list of the directors who served during the period is set out on pages 16 to 19. The Board currently comprises seven executive directors and six non-executive directors. Throughout the period at least one third of the Board comprised independent non-executive directors. Directors are initially appointed by the Board and, in accordance with the Articles of Association, retire and seek re-appointment at the next Annual General Meeting. Thereafter, directors retire by rotation to fulfil the requirements of the Articles of Association that one third of the directors seek re-appointment at each Annual General Meeting.

The directors meet as a Board on a quarterly basis and at other times as necessary. Papers are generally distributed at least five working days in advance of the meeting. Directors have the right, both individually and collectively, to consult with the group's professional advisers or seek independent advice at the group's expense in the furtherance of their duties as directors. No director exercised this right during the period. All directors have access to the services of the Company Secretary, who is responsible for ensuring that proper Board procedures are followed. All new directors receive comprehensive training on group operations. The Company Secretary acts as secretary to all committees.

The Board specifically retains for its approval: Terms of Reference and membership of Board committees; group strategy and budget; acquisitions and/or disposal of businesses; material changes within the nature of business within the group; risk management strategy; distributions to shareholders and appointment or removal of the group Company Secretary. The Board also retains authority for the approval of all recommendations made by the Board committees within their Terms of Reference.

Under the Articles of Association, the Board can delegate any of its powers, authorities and discretion to committees and, to this end, the Board has appointed the following committees:

### Executive Management Committee

All executive directors are members of the Executive Management Committee, which is chaired by the Chief Executive Officer. In addition, selected senior management are also members of this committee. The quorum for a meeting is three, one of whom must be either the Chief Executive Officer or the Chairman. The directors who are members of the committee are identified on pages 16 to 19.

The Executive Management Committee is the primary vehicle for the day to day management of the group. It has delegated authority from the Board to make such decision and authorise such acts as are decided by the committee to be necessary to manage and control the group's affairs.

### Audit Committee

Membership of the Audit Committee is restricted exclusively to non-executive directors. The quorum for a meeting is two. The Finance Director and the Chief Operating Officer would normally attend meetings of the committee, though the committee can meet without any executives being in attendance. The directors who are members of the committee are identified on pages 16 to 19.

The Audit Committee's responsibilities include review of the internal controls, accounting policies, financial statements, contracts with external accountants, the appointment and remuneration of the external auditors and the valuation of any unquoted investments held in the group. The company's external auditors also attend meetings of the committee at its request and report on their work and procedures. The quality and effectiveness of the company's accounting records and the findings in relation to the company's statutory audit are evaluated by the committee. The committee meets at least bi-annually.

## Remuneration Committee

Membership and details of the committee's responsibilities are set out in their report on pages 33 to 37.

## Nominations Committee

The Group Board approves membership of the Nominations Committee, which is restricted to non-executive directors on the recommendation of the senior independent director. The senior independent director, who is identified on page 19, is Chairman of the committee.

The committee is responsible for nominating candidates for the approval of the Board to fill vacancies on the Board of directors. It is also responsible for assessing the independence and objectivity of all non-executive directors. This independence is assessed annually.

## Capital Management Committee

All members of the Executive Management Committee are members of the Capital Management Committee. Paul Gaunt, a non-executive director, is also a member of the committee. The Chairman of the Board is also Chairman of the Committee. The quorum for the meeting is two, one of whom must be the Chairman or Finance Director.

The committee is responsible for the asset/liability allocation policy of the group. It is also responsible for the investment strategy and insurance underwriting allocation strategy. It has responsibility for the appointment and removal of investment managers and insurance advisers. The Chairman of the committee reports at each Executive Management Committee on the meetings of the committee.

## Combined Code ("the Code") Provisions

The directors believe they have complied with the Code Provisions set out in section one of the Code other than in respect of provision D.2.1 which deals with internal controls and also C.2.4 which deals with notice of Annual General Meetings. The company complied with the Companies Act 1985 in terms of Notice of Annual General Meetings and related papers which were in the hands of shareholders 21 days before the date of the meeting, however it did not comply with the Code which required 28 days notice to be given.

## Internal Control

The Board is ultimately responsible for the group's system of control and for reviewing its effectiveness. These systems are designed to ensure and monitor the risk of the group's insurance business, that the financial information on which the business decisions are made and which are issued for publication is reliable, and that the assets of the group are safeguarded. The system is designed to provide reasonable but not absolute assurance against material mis-statement or loss.

The Code introduced a requirement that directors review the effectiveness of the group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

The Turnbull Committee issued guidance for directors on internal control in September 1999, however, the directors have adopted the London Stock Exchange transitional rules and have continued to review and report upon the effectiveness of internal control, pursuant to the guidance issued by the Rutteman Working Group in December 1994. However, the Board confirms that procedures necessary to implement the Turnbull guidance have been established, such that they can fully comply with this guidance by 31 December 2000, the end of the current financial period.

# Corporate Governance Report

## Continued

The group has developed an independent risk management/internal audit system. This independent review function is designed to identify and evaluate significant risks faced by the group. The system is responsible for monitoring the following major business risks and their associated controls:

- Underwriting, including reinsurance and claims related;
- Strategy and shareholder relations;
- Finance;
- IT;
- Employment; and
- Compliance with the London Stock Exchange Rules and the Rules of the other Regulators to the group.

In addition the group structure includes an underwriting review department; the department's objective is to minimise the impact of risks inherent in the underwriting process. Risk management/internal audit work closely with the underwriting review department to ensure that underwriting related activities are closely monitored and evaluated throughout the year.

Periodically risk management/internal audit reports are circulated to executive management, the Audit Committee and the external auditors.

### Relations with Shareholders

The company meets regularly with institutional investors to consider the group's performance and prospects. All investors are encouraged to attend the Annual General Meeting at which a presentation of the group's results is made and future prospects and direction of the company are discussed. The Chairman of the Board shall ensure attendance of the Chairmen or members of the sub-committees of the Board to answer any questions that shareholders may have.

### 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 nine month period ended 31 December 1999. Internal control has been reported pursuant to the guidance for directors on internal controls and financial reporting issued in December 1994. Following the Turnbull guidance issued in September 1999, the Board expects to be fully compliant with the requirements of this guidance by the end of the current financial period. The company has been in full compliance with all other requirements of the Code of Best Practice, with the exception disclosed above in relation to the Annual General Meeting, with which it is required to comply during the period.

**John A. Lynch, Secretary**

**23 May 2000**

# Report of the Remuneration Committee

### Membership of the Remuneration Committee

The Board established a Remuneration Committee on 29 June 1998. Membership of this committee is restricted to non-executive directors. Those directors who served on the committee in the period are listed below:

Don McCrickard, Chairman;  
Glyn MacAulay;  
Richard Sandor; and  
Dick Withers Green.

The quorum for a committee meeting is two and the committee meets at least bi-annually.

### Policy

The aim of the Remuneration Committee is to offer packages that are sufficient to attract and retain high calibre executive directors and, in addition, motivate and reward outstanding performance with remuneration packages that are aligned with the interests of shareholders. This is achieved by means of performance related annual bonuses, contractual entitlement to a percentage of profit commission received by the managing agent or profit commission earned in the insurance company. In addition, the group operates two active share options schemes, one approved and the other unapproved, designed for longer term rewards, both of which are also open to employees other than directors. During the year, the group established a new Long Term Incentive Plan, which is open to both the executive directors and senior management within the group. The group also has a Phantom Option Scheme in operation within BRIT Insurance Limited, that is open to certain executives and employees of that company.

### Statement of Compliance with the Code of Best Practice ("the Code")

The members of the committee are of the view that the group has been in compliance, throughout the period under review, with Schedule A of the Code, which is annexed to the listing rules of the London Stock Exchange. In addition, the committee 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.

### Directors' Employment Arrangements

The executive directors of the company have each waived their entitlement to receive fees for the office of director. They have employment arrangements with the group as follows:

1. Simon Clapham, Neil Eckert, Andrew Holland and Jo Welman have service agreements with BRIT Group Services Limited under which there are notice periods of twelve months which can be given by either party. There are restrictive covenants in favour of BRIT Group Services Limited throughout this twelve month notice period.
2. Andrew Shone is also employed by BRIT Group Services Limited. A notice period of one month can be given by the employee, but statutory notice, which is one week for each year of service to a maximum of twelve weeks, is required on the part of the company.
3. Dane Douetil and Matthew Scales have service contracts with BRIT Insurance Limited under which there are notice periods of twelve months, which can be given by either party. There are restrictive covenants in favour of BRIT Insurance Limited for twelve months post termination.

# Report of the Remuneration Committee

## Continued

### Basic Salary and Benefits

The basic salary payable to the directors is determined by the Remuneration Committee and is subject to annual review. Their salary is determined having regard to the performance and responsibilities of the individual and after assessing the remuneration levels paid to the executives holding comparable positions in similar insurance organisations. The committee also takes into account the remuneration of other executives throughout the group in determining increases.

Executive directors receive a number of other benefits including a car (or cash equivalent), private medical insurance, permanent health insurance and life assurance. Directors with service contracts with BRIT Group Services Limited have a death benefit equal to four times annual salary (subject to the Inland Revenue cap). Directors with service contracts with BRIT Insurance Limited have a death benefit equal to seven times annual salary (subject to the Inland Revenue cap).

### Bonus and Profit Commission

Simon Clapham is entitled to a contractual profit commission as follows: in relation to Wren, 2.5 per cent. part of 15 per cent. of the profit commission received in respect of Syndicate 800; and in relation to Marham Consortium Management Limited, 15 per cent. of the profit commission but only if Syndicate 800 has a net operating profit.

Andrew Shone is entitled to a contractual profit commission in relation to Wren of 2.5 per cent. part of 15 per cent. of the profit commission received in respect of Syndicate 735.

Dane Douetil and Matthew Scales are included in a discretionary bonus pool, at BRIT Insurance Limited level, with other employees of that company. Payments made from this bonus pool are based on performance and approved by the Remuneration Committee.

For 1999 the executive directors, who have service contracts with BRIT Group Services Limited, and who are not entitled to contractual profit commission at syndicate level, were included in a discretionary bonus pool with other senior management. Payments made from this bonus pool are based on performance.

### Pension Schemes and Contributions

The group operates two pension schemes: a final salary, non-contributory pension scheme for BRIT Group Services Limited employees and a money purchase retirement benefit scheme for BRIT Insurance Limited employees. Note 33 to the accounts on page 78 sets out details of both schemes.

Contributions are paid to the BRIT Group Services Limited scheme at a rate of 21 per cent. per annum subject to the Inland Revenue cap of pensionable remuneration. Contributions to the BRIT Insurance Limited money purchase scheme are dependent on age and subject to the Inland Revenue cap and in addition there is an employee contribution of 1 per cent. of pensionable salary. Employees in the money purchase scheme can elect to pay additional voluntary contributions subject to a maximum of 15 per cent. of total remuneration. Benefits in kind, bonuses and profit commissions paid are not pensionable. Andrew Holland and Andrew Shone are members of the BRIT Group Services Limited pension scheme and Dane Douetil, Neil Eckert and Matthew Scales are members of the BRIT Insurance Limited money purchase scheme. Contributions to the private pension scheme up to the fully allowable contribution limit are made in respect of Simon Clapham and Jo Welman.

### Non-Executive Directors Remuneration

All non-executive directors have received service letters from the company under which there is a nil notice period on behalf of the company. Fees paid to non-executive directors are determined by the Board as a whole, with the quantum of fees payable being comparable to those of similar organisations. The Board's aim is that the fees should be sufficient to attract individuals to complement the skills of the executive and contribute to the development of the business.

1. The basic fee payable to non-executive directors is £15,000 per annum.
2. In addition, non-executive directors receive fees in respect of membership of the Board committees as follows: the Chairmen of the Audit and Remuneration Committees receive fees of £10,000 per annum and members of the committees receive fees of £5,000 per annum. Non-executive directors who serve on the Capital Management Committee receive fees of £10,000 per annum. There are no fees paid to members of the Nomination Committee.
3. Anthony Townsend is Chairman of Wren Syndicate Management Limited and receives fees in respect of his work for that company.

### Directors' Remuneration

	31 December 1999	31 March 1999
	£'000	£'000
Fees and Salaries	335	72
Benefits	20	–
Cash Bonus/Profit Commission	–	–
Pension Contribution	29	–
<b>Total for the Period</b>	<b>384</b>	<b>72</b>

The emoluments of the directors during the period ended 31 December 1999 were as follows:

	31 December 1999					31 March 1999
	Fees & salaries	Benefits in kind	Bonus	Pension	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Simon Clapham*	65	8	–	8	81	–
Dane Douetil*	14	–	–	2	16	–
Neil Eckert	7	–	–	–	7	–
Andrew Holland*	63	5	–	7	75	–
Matthew Scales*	16	1	–	1	18	–
Andrew Shone*	65	6	–	11	82	–
Jo Welman	19	–	–	–	19	–

# Report of the Remuneration Committee

## Continued

Amounts earned by non-executive directors		
	31 December 1999	31 March 1999
	£	£
John Coldman	–	–
Paul Gaunt	22,500	17,500
Glyn MacAulay	15,000	17,500
Don McCrickard	15,000	17,500
Richard Sandor	15,000	17,500
Anthony Townsend*	8,750	–
Dick Withers Green*	8,750	–
Pierre Van der Mersch	–	1,586

\* The amounts earned by these directors have been calculated since their date of appointment.

None of the non-executive directors received any pension contributions, benefit in kind, bonuses, or compensation for loss of office.

### Pension Entitlements

The pension entitlements of the directors are as follows:

	Increase in accrued pension during the period	Transfer value of increase #	Accumulated total accrued pension at 31 December 1999	Accumulated total accrued pension at 31 March 1999
	£	£	£	£
Andrew Holland*	2,000	22,300	6,700	–
Andrew Shone*	100	1,500	70,300	–

\* The pension entitlements of these directors have been calculated since their date of appointment.

# The transfer value has been calculated on the basis of actuarial advice in accordance with the actuarial guidance note, GN11.

The non-executive directors do not have any pension entitlements. Simon Clapham and Jo Welman are not members of either of the group pension schemes but the contributions, subject to Inland Revenue limits, have been made to their private pension schemes. Neil Eckert, Dane Douetil and Matthew Scales are members of the BRIT Insurance Limited money purchase scheme and contributions have been made to that scheme on their behalf.

### Long Term Incentive Plans

The company has three active long-term incentive plans, which are available to both directors and employees of the company. In addition there is a long-term incentive plan in operation to the executives and employees of BRIT Insurance Limited.

Details of the 1998 Approved Executive Share Option Scheme and the 1998 Unapproved Executive Share Option Scheme are set out on page 25. Details of the BRIT Long Term Incentive Plan 1999 and the BRIT Insurance Limited Phantom Share Option Scheme are set out on page 26.

Details of any options granted, to directors, under these schemes are set out below. All options and shares under the above long-term incentive plans were granted at nil cost and none lapsed during the year.

There were no options granted to directors under the 1998 Approved Share Option Scheme or the Wren Approved Share Option Scheme 1998.

### 1998 Unapproved Executive Share Option Scheme:

	As at 1 April 1999	No. options granted in period	As at 31 December 1999	Exercise price at date of grant	Date from which exercisable	Expiry date
Simon Clapham	–	150,000	150,000	80.25p	06/12/02	05/12/09
Neil Eckert	589,473	–	589,473	142.50p	10/09/01	09/09/08
	–	525,000	525,000	80.25p	06/12/02	05/12/09
Andrew Holland	–	300,000	300,000	80.25p	06/12/02	05/12/09
Andrew Shone	–	150,000	150,000	80.25p	06/12/02	05/12/09
Jo Welman	210,526	–	210,526	142.50p	10/09/01	09/09/08
	–	300,000	300,000	80.25p	06/12/02	05/12/09

### BRIT Long Term Incentive Plan 1999:

	As at 1 April 1999	No. of plan shares allocated in period	As at 31 December 1999	Value at date of grant	Allocation date	Release date
Simon Clapham	–	93,855	93,855	£75,000	06/12/99	31/12/02
Neil Eckert	–	187,708	187,708	£150,000	06/12/99	31/12/02
Andrew Holland	–	125,139	125,139	£100,000	06/12/99	31/12/02
Andrew Shone	–	93,855	93,855	£75,000	06/12/99	31/12/02
Jo Welman	–	93,855	93,855	£75,000	06/12/99	31/12/02

### Wren Unapproved Share Option Scheme 1998:

	No. of options post roll-over	Grant date	Conversion date	Strike price post roll-over	Date from which exercisable	Expiry date
Simon Clapham	319,365	18/05/98	21/09/99	119p	22/12/00	17/05/08
Andrew Holland	223,555	18/05/98	21/09/99	119p	22/12/00	17/05/08

It is not expected that there will be any further options granted under this scheme.

The company's share price at 31 December 1999 was 76p (31 March 1999: 115p). The highest and lowest prices during the period were 115p and 76p respectively.

### BRIT Insurance Limited Phantom Share Option Scheme

Dane Douetil was granted 5 per cent. part of the 7.4 per cent. options available through this scheme on 30 July 1998. To date, 2.8 per cent. of the options granted have vested and the remainder will vest (in even tranches) annually on 30 July, during the years 2000 to 2003. Matthew Scales was granted 0.6 per cent. part of the 7.4 per cent. options available through this scheme on 30 July 1998. To date 0.3 per cent. has vested and the remainder will vest on 30 July 2000.

Don McCrickard, Chairman of the Remuneration Committee

23 May 2000

## Consolidated Profit and Loss Account

### Technical Account – General Business

For the nine month period ended 31 December 1999

		Nine months ended 31 December 1999	Year ended 31 March 1999 (Restated)
	Notes	£'000	£'000
<b>Earned premiums, net of reinsurance:</b>			
Gross premiums written:			
Continuing operations - ongoing		127,239	139,285
- acquisitions		3,456	-
	1	<b>130,695</b>	139,285
Outward reinsurance premiums		(26,109)	(26,287)
<b>Net premiums written</b>		<b>104,586</b>	112,998
Change in the provision for unearned premiums		(424)	-
Change in the provision for unearned premiums, reinsurers' share		-	-
		<b>104,162</b>	112,998
Allocated investment return transferred from the non-technical account	5	<b>3,516</b>	6,582
<b>Claims paid:</b>			
Gross amount	1	(81,500)	(66,939)
Reinsurers' share		28,822	20,801
		<b>(52,678)</b>	(46,138)
<b>Change in the provisions for claims:</b>			
Gross amount	1	(118,511)	(76,227)
Reinsurers' share		59,395	28,483
		<b>(59,116)</b>	(47,744)
<b>Claims incurred, net of reinsurance</b>	3	<b>(111,794)</b>	(93,882)
<b>Change in other technical provisions</b>		<b>1,630</b>	-
<b>Net operating expenses</b>	4	<b>(20,086)</b>	(23,924)
<b>Balance transferred to the non-technical account</b>		<b>(22,572)</b>	1,774

An analysis of the technical account between ongoing and acquired business is given in note 2.

## Consolidated Profit and Loss Account

### Non-Technical Account

For the nine month period ended 31 December 1999

		Nine months ended 31 December 1999	Year ended 31 March 1999 (Restated)
	Notes	£'000	£'000
Balance on technical account for general business		(22,572)	1,774
Net investment return	5	(1,558)	(4,736)
Allocated investment return transferred to the general business technical account		(3,516)	(6,582)
Fees and commissions	6	1,824	-
Other income	7	3,600	1,773
Other expenses	8	(5,218)	(1,709)
(Loss) / profit on ordinary activities before tax:			
Continuing operations - ongoing		(32,810)	(9,480)
- acquisitions		5,370	-
		<b>(27,440)</b>	(9,480)
Tax on loss on ordinary activities	11	<b>10,629</b>	834
Loss on ordinary activities after tax		<b>(16,811)</b>	(8,646)
Dividends	12	(7,115)	(9,725)
Transfer from reserves		<b>(23,926)</b>	(18,371)
Basic earnings per share	14	<b>(8.90)p</b>	(5.78)p
Diluted earnings per share	14	<b>(8.58)p</b>	(5.78)p
Operating earnings per share	14	<b>(4.20)p</b>	15.12p

An analysis of the non-technical account between ongoing and acquired business is given in note 2.

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.

No Statement of Total Recognised Gains and Losses is provided as there were no recognised gains or losses during the period, other than the loss for the period.

# Consolidated Balance Sheet

As at 31 December 1999

	As at 31 December 1999			As at 31 March 1999 (restated)			
	Notes	Corporate £'000	Syndicate £'000	Total £'000	Corporate £'000	Syndicate £'000	Total £'000
<b>Intangible assets:</b>							
Syndicate participations		5,066	–	5,066	1,287	–	1,287
Goodwill		17,964	–	17,964	–	–	–
	15	23,030	–	23,030	1,287	–	1,287
<b>Investments:</b>							
Financial Investments	16	328,952	159,596	488,548	228,435	77,755	306,190
Deposits with Ceding Undertakings		–	195	195	–	175	175
		328,952	159,791	488,743	228,435	77,930	306,365
<b>Reinsurers' share of technical provisions:</b>							
Claims outstanding		65,867	121,866	187,733	–	39,713	39,713
<b>Debtors:</b>							
Arising out of direct insurance operations		–	52,649	52,649	–	22,659	22,659
Arising out of reinsurance operations		5,010	165,369	170,379	–	79,494	79,494
Other	17	5,038	11,186	16,224	269	5,470	5,739
		10,048	229,204	239,252	269	107,623	107,892
<b>Other Assets:</b>							
Tangible assets	18	1,479	–	1,479	–	–	–
Cash at bank and in hand		25,539	17,140	42,679	17,387	9,188	26,575
Own shares	19	827	–	827	–	–	–
Other		–	9,183	9,183	–	4,950	4,950
		27,845	26,323	54,168	17,387	14,138	31,525
<b>Prepayments and accrued income</b>	20	22,057	1,852	23,909	10,511	654	11,165
<b>Total assets</b>		477,799	539,036	1,016,835	257,889	240,058	497,947

	As at 31 December 1999			As at 31 March 1999 (restated)			
	Notes	Corporate £'000	Syndicate £'000	Total £'000	Corporate £'000	Syndicate £'000	Total £'000
<b>Capital and reserves:</b>							
Called up share capital	23	59,510	–	59,510	37,404	–	37,404
Contingent share capital	24	5,291	–	5,291	–	–	–
Share premium	24	184,899	–	184,899	127,615	–	127,615
Capital redemption reserve	24	544	–	544	–	–	–
Profit and loss reserve	24	5,833	–	5,833	31,503	–	31,503
<b>Equity shareholders' funds</b>		256,077	–	256,077	196,522	–	196,522
<b>Technical provisions:</b>							
Provision for unearned premiums		3,495	–	3,495	–	–	–
Claims outstanding - gross		88,653	503,662	592,315	–	220,994	220,994
Equalisation provision		1,169	–	1,169	–	–	–
Provision for losses foreseen on open years		–	52,350	52,350	–	8,088	8,088
		93,317	556,012	649,329	–	229,082	229,082
<b>Provisions for other risks &amp; charges:</b>							
Provision for deferred taxation		–	–	–	1,142	–	1,142
Other provisions		1,190	–	1,190	–	–	–
	22	1,190	–	1,190	1,142	–	1,142
<b>Creditors:</b>							
Arising out of direct insurance operations		–	8,351	8,351	–	2,925	2,925
Arising out of reinsurance operations		4,234	21,096	25,330	–	8,227	8,227
Amounts owed to credit institutions		–	–	–	–	52	52
Other creditors	21	119,281	(47,321)	71,960	50,649	(656)	49,993
		123,515	(17,874)	105,641	50,649	10,548	61,197
<b>Accruals and deferred income</b>		3,700	898	4,598	9,576	428	10,004
<b>Total liabilities</b>		477,799	539,036	1,016,835	257,889	240,058	497,947

## Balance Sheet of the Company

As at 31 December 1999

		31 December 1999	31 March 1999 (Restated)
	Notes	£'000	£'000
<b>Fixed asset investments:</b>			
Investments in subsidiary undertakings	16	141,320	–
Other investments	16	95,008	228,435
Own shares	19	625	–
		<b>236,953</b>	228,435
<b>Current assets:</b>			
Debtors	17	77,057	4,018
Prepayments and accrued income	20	10,845	466
Cash at bank		3,724	15,340
		<b>91,626</b>	19,824
<b>Creditors: Amounts falling due within one year</b>			
Creditors	21	(63,689)	(39,561)
Accruals and deferred income		(1,496)	(1,587)
		<b>(65,185)</b>	(41,148)
<b>Net current assets / (liabilities)</b>		<b>26,441</b>	(21,324)
<b>Total assets less current liabilities</b>		<b>263,394</b>	207,111
<b>Creditors: Amounts falling due after more than one year</b>	21	–	(11,538)
<b>Provisions for liabilities and charges:</b>			
Deferred taxation		–	(1,877)
		–	(13,415)
<b>Net assets</b>		<b>263,394</b>	193,696
<b>Capital and reserves:</b>			
Called-up share capital	23	59,510	37,404
Contingent share capital	24	5,291	–
Share premium	24	184,899	127,615
Capital redemption reserve	24	544	–
Profit and loss reserve	24	13,150	28,677
<b>Total shareholders' funds</b>		<b>263,394</b>	193,696

The financial statements on pages 38 to 80 were approved by the Board of Directors on 23 May 2000 and were signed on its behalf by

Jo Welman, Chairman

Matthew Scales, Finance Director

## Consolidated Cash Flow Statement

For the nine month period ended 31 December 1999

		Nine months ended 31 December 1999	Year ended 31 March 1999 (Restated)
	Notes	£'000	£'000
<b>Net cash inflow from operating activities</b>			
	29	<b>16,631</b>	17,569
<b>Returns on investment and servicing of finance:</b>			
Interest paid		(2,226)	(2,017)
<b>Taxation:</b>			
Corporation tax paid		(12,960)	(3,148)
<b>Capital expenditure:</b>			
Purchase of syndicate capacity		(2,197)	–
Purchase of tangible fixed assets		(127)	–
Proceeds from disposal of syndicate capacity		4,558	2,287
Proceeds from disposal of tangible fixed assets		81	–
		<b>2,315</b>	2,287
<b>Acquisitions and disposals:</b>			
Acquisition of Wren Limited		(3,737)	–
Net cash acquired with Wren Limited		8,682	–
Acquisition of BRIT Insurance Limited		(1,157)	–
Net cash acquired with BRIT Insurance Limited		2,623	–
Acquisition of own shares for Long Term Incentive Plan		(625)	–
		<b>5,786</b>	–
<b>Equity dividends:</b>			
Equity dividends paid		(5,238)	(9,725)
<b>Financing:</b>			
Increase in bank loans		2,000	20,000
Buy back of own shares		(1,744)	–
		<b>256</b>	20,000
<b>Increase in cash in the period</b>		<b>4,564</b>	24,966
<b>Cash flows were invested as follows:</b>			
Increase in cash holdings	30	2,716	6,875
<b>Net portfolio investments:</b>			
Deposits with credit institutions	32	5,436	303
Fixed income investments	32	3,084	(18,287)
Shares	32	(6,672)	36,075
<b>Increase in cash in the period</b>		<b>4,564</b>	24,966

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 and Accounting Policies

For the nine month period ended 31 December 1999

## I 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.

### a) Loss of investment trust status on 1 April 1999

The loss of investment trust status on 1 April 1999 has resulted in the following changes in accounting policy:

- (i) all capital items are no longer segregated from revenue items and are included within the profit and loss account;
- (ii) the revenue reserve is now called the profit and loss reserve;
- (iii) the realised capital reserve and unrealised capital reserve have both been transferred to the profit and loss reserve for the group; and
- (iv) for the company, the realised capital reserve has been transferred to the profit and loss reserve and the unrealised capital reserve is now called the investment revaluation reserve.

### b) Basis of Consolidation

The financial statements of the group 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 period ended 31 December 1999.

Wren Limited (and its subsidiaries) and BRIT Insurance Limited have been included in the group accounts using the acquisition method of accounting. Accordingly, the group profit and loss account and cash flow statement include the results and cashflows of Wren Limited (and its subsidiaries) from the date of acquisition (being 26 July 1999) and the results and cashflows of BRIT Insurance Limited from the date of acquisition (being 16 November 1999).

There are some new accounting policies for the enlarged group in addition to those previously adopted by BRIT Insurance Holdings PLC. These accounting policies are explained below.

The nature of the information relating to underwriting at Lloyd's which managing agents can make available is insufficient for the group to make reliable estimates of the necessary technical provision on an annual basis of accounting. Consequently, the accounting policies in respect of underwriting at Lloyd's and underwriting by BRIT Insurance Limited differs and is described separately below.

## II ACCOUNTING POLICIES

### 1. Syndicate Transactions

#### a) 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 (under the column headed 'Syndicate'). Syndicate assets are held subject to trust deeds for the benefit of the group's 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 group deals with the managing agents of the syndicates on which it participates through its members' agent subsidiary. 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 group after consultation with the members' agent.

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 this purpose by the managing agents of the syndicates ("the Returns"). These Returns have been audited by the syndicate auditors and are based on the audited syndicate returns to Lloyd's and the audited annual reports to syndicate members. This base data has been adjusted as necessary to reflect the differences in preparation between syndicate annual reports and 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 analysing it into the group's corporate members' results. The Returns cover the 12 months to 31 December 1999 with the comparative period including the Returns for the 12 months to 31 December 1998. No adjustment has been made to the Returns to reflect the fact that the group's accounting period for the nine months to 31 December 1999 was not of the same length as that covered by the Returns. No adjustment has been made to the Returns to reflect the fact that the group's comparative accounting period for the twelve months to 31 March 1999 was not coterminous with the Returns.

# Basis of Preparation of Financial Statements and Accounting Policies

## Continued

For the nine month period ended 31 December 1999

### b) 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. The nature of the information managing agents can make available is insufficient for the group to make reliable estimates of the necessary technical provision on an annual basis of accounting. 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 (f) 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.

### c) Premiums

Premiums written are stated gross of commission payable to intermediaries but exclude insurance premium tax. They relate to business incepting during the twelve months to 31 December, 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 (f) 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.

### d) 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 twelve months to 31 December with the amount by which settlement or reassessment of claims from prior years differs from the provision at the beginning of the year. For further details of reinsurance to close payable, which is included in claims incurred, see (f) below.

### e) Provision for claims

The provision has been increased as appropriate by the directors to the extent that deficits are anticipated on underwriting years at the 12 and 24 months stage or on underwriting years not closed at the 36 month stage at the balance sheet date. This additional provision is determined by the directors following discussions with the group's members' agent subsidiary.

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.

### f) 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.

### g) Investments

Investments are treated as sold and repurchased at 31 December of each year in recognition of the annual venture nature of participation on a syndicate. Their cost is therefore their market value at that date.

### h) Investment income

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.

All investment income net of realised losses arising on syndicate participations is recognised in the Consolidated Technical Account, as an integral part of the group's underwriting business.

### i) 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.

### j) Net operating expenses

Operating expenses have been charged to the underwriting year for which they were incurred. These include the group's share of syndicate operating expenses, the remuneration payable to Managing Agents and the direct costs of membership of Lloyd's.

# Basis of Preparation of Financial Statements and Accounting Policies

## Continued

For the nine month period ended 31 December 1999

### k) Foreign currencies

Transactions in currencies other than sterling, United States dollars and Canadian dollars are converted at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States dollars and Canadian dollars and assets and liabilities in currencies other than sterling are converted at the rate of exchange ruling at 31 December of each year. Exchange differences arising on conversion are dealt with in the technical account.

## 2. BRIT Insurance Limited

### a) Basis of accounting

An annual basis of accounting has been applied to all classes of business. Under the annual basis of accounting, a result is determined at the end of each financial year reflecting the profit or loss from providing insurance cover during the financial year (in respect of periods of risk within the financial year and anticipating any loss arising on unexpired periods of risks) and adjustments to the result of providing insurance cover in previous financial years.

### b) Premiums

Written premiums comprise the total premiums receivable for the whole period of cover provided by contracts incepting during the financial period, together with adjustments arising in the financial year to such premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related inwards reinsurance business being reinsured.

### c) Unearned premiums

#### *Catastrophe business*

The proportion of the premiums written in a year relating to the period of risk from 1 January to subsequent dates of expiry of policies is carried forward as a provision for unearned premiums. The provision is calculated on the 365ths method.

#### *Financial risks business*

The reserve for unearned premiums is calculated separately for each individual risk based upon the term and exposure profile of the contracts written.

### d) Unexpired risks

Provision is made for any excess, over the provision for unearned premiums, of claims and administrative expenses likely to arise after the end of the year from contracts concluded before that date. The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available as at the balance sheet date. No account is taken of future investment income.

### e) Outstanding claims

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs, anticipated inflation and settlement trends. A provision for claims incurred but not reported is also established on a similar individual case basis. Any differences between the provisions and subsequent settlements are dealt with in the technical accounts of later years.

### f) Equalisation provisions

Equalisation provisions have been calculated in accordance with the requirements of the Insurance Companies (Reserves) Regulations 1996.

### g) Deferred acquisition costs

Commission and management costs which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts are deferred to the extent that they are attributed to premiums unearned at the balance sheet date.

## 3. Other Accounting Policies

### a) Investments

The values of fixed asset investments are stated in the financial statements on the following basis:

- (i) Listed investments are stated at closing middle market prices on recognised stock exchanges; and
- (ii) Unlisted investments and subsidiary undertakings are stated at cost or directors' valuation.

### b) Goodwill

Goodwill arising on the acquisition of companies or businesses is capitalised and amortised on a straight line basis over the period which, in the directors' opinion, is its useful economic life.

### c) Syndicate participation rights

Where the group has purchased the right to participate on syndicates, the cost is capitalised and amortised in equal annual instalments over three years. Amortisation commences at the end 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 then any related costs are offset against the disposal proceeds and any gain/loss is taken to the Non-Technical Profit and Loss Account in the same accounting period.

# Basis of Preparation of Financial Statements and Accounting Policies

## Continued

For the nine month period ended 31 December 1999

### 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.

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 syndicate results included in these financial statements (excluding any additional provisions made by directors) relate to the 1997 Year of Account and have been declared for tax purposes in the calendar year 2000.

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 respect of the tax effect of all timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future, at the rates of tax expected to apply when the timing differences reverse. One such timing difference is that between when underwriting results are reported for accounting purposes and when they are declared for tax purposes. Another such timing difference is that between when unrealised investment gains/losses are reported for accounting purposes and when they are declared for tax purposes.

### 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) 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 profit and loss account.

### h) Profit commissions

Profit commissions are recognised on 31 December when the year of account to which they relate is closed.

### i) Agency fees

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

### j) Other income

Other income includes:

- (i) gains made on disposal of syndicate participation rights (net of related costs); and
- (ii) amounts charged to managed syndicates in respect of depreciation arising on fixed assets used by those syndicates.

### 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 Wren managed syndicate, are charged as an expense to the group.

Depreciation is calculated so as to write off the value of freehold buildings and cost of other tangible fixed assets over their estimated useful economic lives on a straight line basis.

# Basis of Preparation of Financial Statements and Accounting Policies

Continued

For the nine month period ended 31 December 1999

## 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 actuary following the valuation of the fund and are charged to the profit and loss account as incurred.

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.

## m) Leased assets

Rentals in respect of assets held under operating leases are charged to the profit and loss account as incurred.

## n) Foreign currencies

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

# Notes to the Financial Statements

## 1 Segmental Information

### (i) Underwriting

	Nine month period ended 31 December 1999				
	Gross Premiums Written	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Total
	£'000	£'000	£'000	£'000	£'000
<b>Direct Business:</b>					
Accident & Health	2,316	(1,895)	(766)	398	53
Motor– third party liability	13,040	(12,400)	(2,894)	205	(2,049)
Motor– other classes	8,126	(10,685)	(2,049)	706	(3,902)
Marine, Aviation & Transport	11,654	(19,381)	(2,610)	11,381	1,044
Fire and other Damage to Property	10,985	(15,902)	(2,979)	6,124	(1,772)
Third Party Liability	15,494	(20,762)	(4,266)	5,986	(3,548)
Credit and Suretyship	861	(1,560)	(242)	937	(4)
Legal Expenses	56	(217)	(15)	36	(140)
Other	2,093	(2,562)	(524)	388	(605)
<b>Total Direct</b>	<b>64,625</b>	<b>(85,364)</b>	<b>(16,345)</b>	<b>26,161</b>	<b>(10,923)</b>
<b>Reinsurance Business:</b>					
Reinsurances Acceptances	23,222	(53,643)	(4,360)	21,581	(13,200)
Reinsurance to Close	42,848	(61,004)	–	16,615	(1,541)
<b>Total Reinsurance</b>	<b>66,070</b>	<b>(114,647)</b>	<b>(4,360)</b>	<b>38,196</b>	<b>(14,741)</b>
<b>Total</b>	<b>130,695</b>	<b>(200,011)</b>	<b>(20,705)</b>	<b>64,357</b>	<b>(25,664)</b>

Included in gross claims incurred is total reinsurance to close payable of £62,508,726.

# Notes to the Financial Statements

Continued

	Year ended 31 March 1999 (restated)				
	Gross Premiums Written	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Total
	£'000	£'000	£'000	£'000	£'000
<b>Direct Business:</b>					
Accident & Health	3,050	(2,787)	(1,100)	734	(103)
Motor– third party liability	12,362	(8,975)	(2,922)	(818)	(353)
Motor– other classes	6,026	(7,886)	(1,746)	1,585	(2,021)
Marine, Aviation & Transport	9,163	(3,753)	(2,243)	(1,803)	1,364
Fire and other Damage to Property	9,077	(7,305)	(3,065)	3,657	2,364
Third Party Liability	14,459	(14,901)	(4,568)	393	(4,617)
Credit and Suretyship	839	(1,011)	(183)	175	(180)
Legal Expenses	150	(191)	(61)	6	(96)
Other	1,561	(1,104)	(391)	(84)	(18)
<b>Total Direct</b>	<b>56,687</b>	<b>(47,913)</b>	<b>(16,279)</b>	<b>3,845</b>	<b>(3,660)</b>
<b>Reinsurance Business:</b>					
Reinsurances Acceptances	31,123	(26,057)	(6,950)	1,517	(367)
Reinsurance to Close	51,475	(69,196)	–	16,940	(781)
<b>Total Reinsurance</b>	<b>82,598</b>	<b>(95,253)</b>	<b>(6,950)</b>	<b>18,457</b>	<b>(1,148)</b>
<b>Total</b>	<b>139,285</b>	<b>(143,166)</b>	<b>(23,229)</b>	<b>22,302</b>	<b>(4,808)</b>

Included in gross claims incurred is total reinsurance to close payable of £57,704,400.

	31 December 1999	31 March 1999
	£'000	£'000
Gross premiums in respect of direct business written in:		
United Kingdom	61,290	55,536
Other EU Member States	560	311
Rest of World	2,775	840
	<b>64,625</b>	<b>56,687</b>

## (ii) Corporate

Loss before taxation is derived from the following business segments in the group:

	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
Underwriting at Lloyd's, including investment return	(26,042)	(9,480)
BRIT Insurance Limited	94	–
Agencies	(151)	–
Central costs / consolidation adjustments	(1,341)	–
<b>Loss before tax</b>	<b>(27,440)</b>	<b>(9,480)</b>

Consolidation adjustments relates to inter-group transactions which are eliminated on consolidation.

Net assets:

	31 December 1999	31 March 1999
	£'000	£'000
Underwriting at Lloyd's, including investments	190,056	196,522
BRIT Insurance Limited	55,574	–
Agencies	5,974	–
Other adjustments	4,473	–
<b>Total net assets</b>	<b>256,077</b>	<b>196,522</b>

## (iii) Analysis of provisions for losses foreseen on open years

Year of account	1 April 1999	Used	Unused	Acquired from Wren	Additional provisions	31 December 1999
	£'000	£'000	£'000	£'000	£'000	£'000
1994	–	–	–	250	–	250
1997	2,055	(2,055)	–	728	600	1,328
1998	6,033	–	–	11,672	8,689	26,394
1999	–	–	–	12,125	12,253	24,378
	8,088	(2,055)	–	24,775	21,542	52,350

# Notes to the Financial Statements

Continued

## 2 Profit and loss account

All operations are continuing. An analysis of the consolidated profit and loss account between ongoing and acquired operations is as follows:

Technical Account	Nine months ended 31 December 1999			Year ended 31 March 1999 (Restated)
	Ongoing operations £'000	Acquired operations £'000	Total £'000	£'000
<b>Earned premiums, net of reinsurance:</b>				
Gross premiums written	127,239	3,456	130,695	139,285
Outward reinsurance premiums	(24,780)	(1,329)	(26,109)	(26,287)
<b>Net premiums written</b>	<b>102,459</b>	<b>2,127</b>	<b>104,586</b>	112,998
Change in the provision for unearned premiums	–	(424)	(424)	–
Change in the provision for unearned premiums, reinsurers' share	–	–	–	–
	<b>102,459</b>	<b>1,703</b>	<b>104,162</b>	112,998
Allocated investment return transferred from the non-technical account	3,401	115	3,516	6,582
<b>Claims paid:</b>				
Gross amount	(79,567)	(1,933)	(81,500)	(66,939)
Reinsurers' share	27,993	829	28,822	20,801
	<b>(51,574)</b>	<b>(1,104)</b>	<b>(52,678)</b>	(46,138)
<b>Change in the provisions for claims:</b>				
Gross amount	(103,103)	(15,408)	(118,511)	(76,227)
Reinsurers' share	46,171	13,224	59,395	28,483
	<b>(56,932)</b>	<b>(2,184)</b>	<b>(59,116)</b>	(47,744)
<b>Claims incurred, net of reinsurance</b>	<b>(108,506)</b>	<b>(3,288)</b>	<b>(111,794)</b>	(93,882)
<b>Change in other technical provisions</b>	–	1,630	1,630	–
<b>Net operating expenses</b>	<b>(20,117)</b>	<b>31</b>	<b>(20,086)</b>	(23,924)
<b>Balance transferred to the non-technical account</b>	<b>(22,763)</b>	<b>191</b>	<b>(22,572)</b>	1,774
<b>Non-Technical Account</b>				
Balance on technical account for general business	(22,763)	191	(22,572)	1,774
Net investment return	(6,177)	4,619	(1,558)	(4,736)
Allocated investment return transferred to the general business technical account	(3,401)	(115)	(3,516)	(6,582)
Fees and commissions	–	1,824	1,824	–
Other income	740	2,860	3,600	1,773
Other expenses	(1,209)	(4,009)	(5,218)	(1,709)
<b>(Loss) / profit on ordinary activities before tax</b>	<b>(32,810)</b>	<b>5,370</b>	<b>(27,440)</b>	(9,480)

Acquired operations consists of the results of Wren Limited and its subsidiaries from 26 July 1999 and BRIT Insurance Limited from 16 November 1999.

## 3 Claims incurred, net of reinsurance

	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
<b>Gross</b>		
<i>Lloyd's:</i>		
1994 Year of Account	–	(3,507)
1995 Year of Account	–	(184)
1996 Year of Account	–	5,745
1997 Year of Account	12,414	82,099
1998 Year of Account	116,938	59,013
1999 Year of Account	53,318	–
<i>BRIT Insurance Limited:</i>		
In respect of claims incurred on acquired business	17,341	–
	<b>200,011</b>	143,166
<b>Reinsurance</b>		
<i>Lloyd's:</i>		
1994 Year of Account	–	774
1995 Year of Account	–	685
1996 Year of Account	–	(10,194)
1997 Year of Account	(7,969)	(27,193)
1998 Year of Account	(53,253)	(13,356)
1999 Year of Account	(12,942)	–
<i>BRIT Insurance Limited:</i>		
In respect of claims incurred on acquired business	(14,053)	–
	<b>(88,217)</b>	(49,284)
<b>Net claims incurred</b>	<b>111,794</b>	93,882

## 4 Net Operating Expenses

	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
Acquisition costs	13,850	14,231
Administrative expenses	5,947	5,761
(Profit) / loss on exchange	(2,361)	775
Names' personal expenses on Lloyd's syndicates	2,273	3,157
Net operating expenses on acquired business	377	–
	<b>20,086</b>	23,924

# Notes to the Financial Statements

Continued

## 5 Investment Return

Underwriting:	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
Investment income	5,425	5,982
Realised (losses) / gains on investments	(1,831)	708
Investment expenses and charges	(78)	(108)
<b>Total underwriting investment return</b>	<b>3,516</b>	<b>6,582</b>
Non-Underwriting:		
<b>Investment Income:</b>		
Income from investments	9,545	13,560
(Losses) / gains on the realisation of investments	(1,316)	13,825
	<b>8,229</b>	<b>27,385</b>
<b>Movement on unrealised investment gains / (losses):</b>		
On investments held at 31 December / 31 March	(7,601)	(23,159)
On investments realised during the period	(1,339)	(11,586)
	<b>(8,940)</b>	<b>(34,745)</b>
<b>Investment Expenses:</b>		
Investment management expenses	(2,137)	(2,084)
Interest payable	(2,226)	(1,874)
	<b>(4,363)</b>	<b>(3,958)</b>
<b>Total non-underwriting investment return</b>	<b>(5,074)</b>	<b>(11,318)</b>
<b>Total investment return</b>	<b>(1,558)</b>	<b>(4,736)</b>

## 6 Fees and commissions

	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
Managing and members' agents' fees	656	–
Marham Consortium management fees & profit commission	583	–
Broking commission earned	585	–
	<b>1,824</b>	<b>–</b>

## 7 Other income

	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
Profit on disposal of syndicate participations	3,411	1,773
Income from syndicates (use of assets)	164	–
Other income	25	–
	<b>3,600</b>	<b>1,773</b>

## 8 Other expenses

	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
<b>Other expenses include:</b>		
Depreciation of tangible fixed assets	311	–
Profit on sale of fixed assets	(57)	–
Operating lease rentals– land and buildings	350	–
Amortisation of goodwill	744	–
Consortium profits due to managed syndicate	171	–
Auditors' remuneration in respect of audit services:		
Mazars Neville Russell	170	47
Other auditors	10	–
Auditors' remuneration in respect of non-audit services:		
Mazars Neville Russell	361	40
Other auditors	16	–

# Notes to the Financial Statements

Continued

## 9 Staff costs

	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
Wages and salaries (including profit commission)	4,427	72
Social security costs	350	–
Other pension costs	576	–
	<b>5,353</b>	72

The employment costs of certain of these employees (which include the directors) are charged to the Lloyd's syndicates which are managed by the Group and are not included in the profit and loss account.

The average number of employees, including executive directors during the period was as follows:

	31 December 1999	31 March 1999 (Restated)
	No.	No.
Management	6	3
Administration	50	–
Syndicates	124	–
	<b>180</b>	3

## 10 Directors' Emoluments

Details, for each director, of remuneration, pension entitlements and interests in share options are set out on pages 33 to 37.

## 11 Taxation

	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
The credit for taxation comprises:		
Current taxation:		
UK corporation tax at 30% (March 1999: 31%)	3,839	2,621
Tax on franked investment income	748	2,165
Movement on deferred tax	(15,594)	(5,620)
Overseas tax	213	–
Under provision in respect of prior years	165	–
	<b>(10,629)</b>	(834)

## 12 Dividends

	31 December 1999	31 March 1999 (Restated)
	£'000	£'000
First interim dividend paid: 1.0p (March 1999: 3.0p)	2,373	4,488
Second interim dividend paid: nil (March 1999: 3.5p)	–	5,237
Final dividend proposed: 2.0p (March 1999: nil)	4,742	–
	<b>7,115</b>	9,725

## 13 Profit attributable to members of the parent company

The loss dealt with in the accounts of the parent company was £6,668,000 (March 1999: restated profit of £17,529,000). As permitted by Section 230 (2) of the Companies Act 1985, no separate profit and loss account for the company has been included in these financial statements.

## 14 Earnings per share

The calculation of basic earnings per share is based on losses of £16,811,000 (March 1999: restated loss of £8,646,000) and on 188,982,911 (March 1999: 149,614,871) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on losses of £16,811,000 (March 1999: restated loss of £8,646,000) and on 195,944,753 (March 1999: 149,614,871) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

	31 December 1999	31 March 1999 (Restated)
	No.	No.
Basic weighted average number of shares	188,982,911	149,614,871
Contingently issuable shares	6,961,842	–
Diluted weighted average number of shares	<b>195,944,753</b>	149,614,871

The operating earnings per share, excluding unrealised gains or losses on the Lloyd's quoted investment portfolio is calculated as follows:

	£'000	£'000
Basic earnings for the nine months ended 31 December 1999 / year ended 31 March 1999	(16,811)	(8,646)
Removal of unrealised investment losses on Lloyd's investments	15,879	36,404
Tax effect of removal of unrealised investment losses on Lloyd's investments	(7,008)	(5,140)
Operating (loss) / profit after tax for the nine months ended 31 December 1999 / year ended 31 March 1999	<b>(7,940)</b>	22,618
Based on basic weighted average number of shares	<b>188,982,911</b>	149,614,871

The directors believe that the operating earnings per share provides a better comparison over time as the short term volatility in the market value of the Lloyd's quoted investments can distort the long term trend in earnings per share.

# Notes to the Financial Statements

Continued

## 15 Intangible assets

	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost at 1 April 1999	1,287	–	1,287
Acquired from Wren Limited	3,010	–	3,010
Additions in the period	2,197	18,708	20,905
Proceeds from disposal during the period	(4,558)	–	(4,558)
Profit on disposals during the period	3,411	–	3,411
<b>Cost at 31 December 1999</b>	<b>5,347</b>	<b>18,708</b>	<b>24,055</b>
Amortisation at 1 April 1999	–	–	–
Provided during the period	281	744	1,025
<b>Amortisation at 31 December 1999</b>	<b>281</b>	<b>744</b>	<b>1,025</b>
<b>Net book value at 31 December 1999</b>	<b>5,066</b>	<b>17,964</b>	<b>23,030</b>
Net book value at 1 April 1999	1,287	–	1,287

Details of acquisitions in the period are given in note 26. Goodwill is being amortised as follows:

- (i) Goodwill arising on the acquisition of Wren Limited and its subsidiaries is being amortised evenly over the directors' estimate of its useful economic life of ten years.
- (ii) Goodwill arising on the acquisition of BRIT Insurance Limited is being amortised evenly over the directors' estimate of its useful economic life of ten years.

## 16 Investments

### (i) Investments – Corporate

Group	Listed investments £'000	Unlisted investments £'000	Total financial investments £'000
Cost at 1 April 1999	189,159	42,152	231,311
Prior year adjustment	–	535	535
Cost at 1 April 1999, as restated	189,159	42,687	231,846
Opening unrealised depreciation	(3,578)	167	(3,411)
<b>Value at 1 April 1999, as restated</b>	<b>185,581</b>	<b>42,854</b>	<b>228,435</b>
Movements in the year:			
Purchases at cost	52,245	1,839	54,084
Sales – proceeds	(57,050)	(622)	(57,672)
– realised (losses)/gains on sales	(1,334)	18	(1,316)
Acquired from Wren Ltd and BRIT Insurance Ltd (at market value)	165,553	10	165,563
Reclassification of investments to Investment in Subsidiaries	(25,542)	(25,660)	(51,202)
Decrease in unrealised appreciation	(4,929)	(4,011)	(8,940)
<b>Value at 31 December 1999</b>	<b>314,524</b>	<b>14,428</b>	<b>328,952</b>
Cost at 31 December 1999	<b>321,512</b>	<b>18,272</b>	<b>339,784</b>
Closing unrealised depreciation	<b>(6,988)</b>	<b>(3,844)</b>	<b>(10,832)</b>
<b>Value at 31 December 1999</b>	<b>314,524</b>	<b>14,428</b>	<b>328,952</b>

If the investments held at 31 December 1999 had been sold at that date, there would have been no liability to tax.

# Notes to the Financial Statements

Continued

Company	Listed	Unlisted	Investment	Total
	Investments	Investments	in subsidiaries	financial
	£'000	£'000	£'000	£'000
Cost at 1 April 1999	189,159	42,152	–	231,311
Prior year adjustment	–	535	–	535
Cost at 1 April 1999, as restated	189,159	42,687	–	231,846
Opening unrealised depreciation	(3,578)	167	–	(3,411)
Value at 1 April 1999, as restated	185,581	42,854	–	228,435
<b>Movements in the year:</b>				
Purchases at cost	27,010	1,839	–	28,849
Sales – proceeds	(25,636)	(622)	–	(26,258)
– realised (losses)/gains on sales	(120)	8	–	(112)
Acquisition of Wren Ltd and BRIT Insurance Ltd	(25,542)	(25,660)	141,320	90,118
Net transfer to other group companies	(63,223)	10	–	(63,213)
Decrease in unrealised appreciation	(17,480)	(4,011)	–	(21,491)
Value at 31 December 1999	<b>80,590</b>	<b>14,418</b>	<b>141,320</b>	<b>236,328</b>
Cost at 31 December 1999	<b>103,114</b>	<b>16,783</b>	<b>141,320</b>	<b>261,217</b>
Closing unrealised depreciation	<b>(22,524)</b>	<b>(2,365)</b>	–	<b>(24,889)</b>
<b>Value at 31 December 1999</b>	<b>80,590</b>	<b>14,418</b>	<b>141,320</b>	<b>236,328</b>

Details of the subsidiaries of the company are set out in note 16 (iii).

## (ii) Investments– Syndicate Participations

	Current value	
	31 December 1999	31 March 1999
	£'000	£'000
<b>Financial investments:</b>		
Shares and other variable yield securities	7,588	3,772
Debt securities and other fixed interest securities	137,646	63,614
Participation in investment pools	2,218	1,186
Loans guaranteed by mortgage	1,625	783
Other loans	–	1,573
Deposits with credit institutions	9,717	6,592
Other investments	802	235
	<b>159,596</b>	<b>77,755</b>

## (iii) Investments– Investments in Subsidiary Undertakings

Details of the company's 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
Wren Ltd	Intermediate holding company	100%	
BRIT Insurance Ltd	Insurance company	100%	
HCG Holdings Ltd	Intermediate holding company	100%	
HCG Alpha Ltd	Lloyd's corporate member		100%
HCG Bravo Ltd	Lloyd's corporate member		100%
HCG Charlie Ltd	Lloyd's corporate member		100%
HCG Delta Ltd	Lloyd's corporate member		100%
HCG Echo Ltd	Lloyd's corporate member		100%
HCG Foxtrot Ltd	Lloyd's corporate member		100%
HCG Golf Ltd	Dormant company		100%
HCG Hotel Ltd	Non-trading company		100%
BRIT Investment Company Ltd	Non-trading company	100%	
Benfield & Rea Investment Holdings Ltd	Non-trading company	100%	
BRIT UW Ltd	Lloyd's corporate member		100%
Finsbury Underwriting Ltd	Intermediate holding company		100%
FUIT Underwriting and Placings Ltd	Dormant company		100%
FUIT One Ltd	Lloyd's corporate member		100%
FUIT Two Ltd	Lloyd's corporate member		100%
FUIT Three Ltd	Lloyd's corporate member		100%
FUIT Four Ltd	Lloyd's corporate member		100%
FUIT Five Ltd	Lloyd's corporate member		100%
Wren Holdings Group plc	Intermediate holding company		100%
BRIT Group Services Ltd	Intermediate holding company		100%
Wren Syndicates Management Ltd	Lloyd's managing agent		100%
Wren Underwriting Agencies Ltd	Lloyd's members' agent		100%
Wren Lloyd's Advisers Ltd	Non-trading company		100%
Wren Capital Management Ltd	Investment adviser company		100%
Wren Insurance Services Ltd	Lloyd's service company		100%
Marham Consortium Management Ltd	Consortium management company		100%
Wren Group Services Ltd	Non-trading company		100%
Wren Legal Expenses Ltd	Non-trading company		100%
Masthead Insurance Underwriting Ltd	Intermediate holding company		100%
Masthead A Ltd	Lloyd's corporate member		100%
Masthead B Ltd	Lloyd's corporate member		100%
Masthead C Ltd	Lloyd's corporate member		100%
Masthead D Ltd	Lloyd's corporate member		100%
Masthead E Ltd	Lloyd's corporate member		100%

All companies are registered and operate in England.

# Notes to the Financial Statements

## Continued

### (iv) Significant interests in other companies

At 31 December 1999, the Company had holdings in the following companies where the holding exceeds 20% of any class of equity share capital of the company concerned:

Name of undertaking	Country of incorporation and registration	Class of capital	Percentage of class held	Latest available accounts	Aggregate capital and reserves £'000	Profit after tax for the year £'000
Advent Capital PLC	England	'C' shares	22.09%	31 Dec 1998	24,546	1,959
Chaucer Holdings PLC	England	Ordinary	26.38%	31 Dec 1999	59,182	(310)
Chaucer Dedicated Limited	England	'D' shares	23.35%	31 Dec 1999	(1,533)	(3,602)
Harlequin Limited	Guernsey	Ordinary	50.00%	31 Dec 1999	37,768	6,961
International Security Management Group Limited	England	Ordinary	43.80%	31 Dec 1998	628	(39)
Insurance Broadcast Systems Inc.	USA	Ordinary	58.00%	n/a	n/a	n/a
Peoples Choice Limited	England	Preference	22.10%	31 May 1999*	(15)	(2,567)
PI Direct Limited	England	'B' shares	50.00%	31 Aug 1999	265	(560)
PI Direct Limited	England	Preference	50.00%	31 Aug 1999	265	(560)

\* accounting period is for 8 months.

The Company does not exercise control over or influence the activities of the above companies and therefore these holdings have not been equity accounted.

### 17 Debtors

	Group		Company	
	31 December 1999	31 March 1999	31 December 1999	31 March 1999
	£'000	£'000	£'000	£'000
Trade debtors	2,009	–	–	–
Amounts owed by managed syndicates	222	–	–	–
Amounts owed by group undertakings	–	–	75,053	3,001
Future settlements	162	–	15	–
Tax recoverable	1,581	–	1,972	992
Other debtors	1,064	269	17	25
	<b>5,038</b>	269	<b>77,057</b>	4,018

Underwriting loans of £79,500 (31 March 1999: £nil) are due in more than one year.

### 18 Tangible Assets

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

	Freehold property £'000	Office refurbishment £'000	Computers and office machinery, furniture and equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 April 1999	–	–	–	–	–
Acquired– Wren Limited and BRIT Insurance Limited	509	401	6,361	785	8,056
Additions	–	–	127	–	127
Disposals	–	–	(18)	(221)	(239)
<b>At 31 December 1999</b>	<b>509</b>	<b>401</b>	<b>6,470</b>	<b>564</b>	<b>7,944</b>
Depreciation:					
At 1 April 1999	–	–	–	–	–
Acquired– Wren Ltd and BRIT Insurance Ltd	290	323	5,173	583	6,369
Charge for the period	3	8	250	50	311
Disposals	–	–	(15)	(200)	(215)
<b>At 31 December 1999</b>	<b>293</b>	<b>331</b>	<b>5,408</b>	<b>433</b>	<b>6,465</b>
Net book value:					
<b>At 31 December 1999</b>	<b>216</b>	<b>70</b>	<b>1,062</b>	<b>131</b>	<b>1,479</b>
At 1 April 1999	–	–	–	–	–

### 19 Own Shares

In December 1999, the trustees of the group's Long Term Incentive Plan 1999 acquired BRIT Insurance Holdings PLC shares on behalf of certain employees, in accordance with the terms of that plan. Details of the BRIT Long Term Incentive Plan 1999 are given on page 26.

In addition, BRIT Insurance Limited held 265,623 ordinary 25p shares of BRIT Insurance Holdings PLC. This was valued in the books of the group at £201,873.

# Notes to the Financial Statements

Continued

## 20 Prepayments and accrued income

	Group		Company	
	31 December 1999 £'000	31 March 1999 £'000	31 December 1999 £'000	31 March 1999 £'000
Accrued income:				
underwriting	1,807	8,469	–	466
profit commission	923	–	–	–
investment income	2,125	–	3,411	–
other	527	–	–	–
Deferred acquisition costs	324	–	–	–
Deferred tax asset	14,654	–	7,401	–
Prepayments	1,697	2,042	33	–
	<b>22,057</b>	10,511	<b>10,845</b>	466

An analysis of the deferred tax asset is shown in note 22.

## 21 Other creditors

	Group		Company	
	31 December 1999 £'000	31 March 1999 £'000	31 December 1999 £'000	31 March 1999 £'000
Dividends payable	7,115	5,237	7,115	5,237
UK Corporation tax	725	2,324	–	–
Other taxes and social security costs	413	–	–	–
Bank loans and overdrafts	44,500	35,000	44,500	35,000
Trade creditors	63,738	8,088	–	–
Amounts due to group companies	–	–	12,062	10,862
Amounts due to managed syndicates	968	–	–	–
Other creditors	1,822	–	12	–
	<b>119,281</b>	50,649	<b>63,689</b>	51,099

Analysis of bank loans and overdrafts:

Group	Group		Company	
	31 December 1999 £'000	31 March 1999 £'000	31 December 1999 £'000	31 March 1999 £'000
Due within one year				
Overdraft	–	23,462	–	23,462
Bank borrowings	44,500	–	44,500	–
Total due within one year	<b>44,500</b>	23,462	<b>44,500</b>	23,462
Due after one year	–	11,538	–	11,538

At 31 December 1999, the group had a loan with Bank Boston N.A. and ScotiaBank Europe Limited of £44,500,000. This loan was in accordance with the Facility Agreement dated 17 June 1999 between BRIT Insurance Holdings PLC and Bank Boston N.A. and ScotiaBank Europe Limited which provided a facility of £55,000,000. This loan matured on 11 January 2000 and £45,100,000 was drawn down until 4 February 2000 when the agreement was terminated. The interest rate payable on the loan was equal to LIBOR plus 1.5 per cent.

On 3 February 2000, the group entered into a £60,000,000 facility with Barclays Bank plc and National Westminster Bank plc, under which £50,000,000 was drawn down on 4 February 2000. Under the terms of this facility, the lenders have a fixed charge over certain investments owned by the company. The interest rate payable on the loan is equal to LIBOR plus 1 per cent.

# Notes to the Financial Statements

Continued

## 22 Provisions for liabilities and charges

	Provision for lease shortfall	Provision for dilapidations	Provision for rent-free period	Provision for pensions and similar obligations	Deferred tax (see below)	Group Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 1999, restated	–	–	–	–	1,142	1,142
Acquired from Wren Limited / BRIT Insurance Limited	784	250	–	15	–	1,049
Arising during the year	–	–	187	–	(1,142)	(955)
Utilised	(46)	–	–	–	–	(46)
<b>At 31 December 1999</b>	<b>738</b>	<b>250</b>	<b>187</b>	<b>15</b>	<b>–</b>	<b>1,190</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 by Wren Syndicates Management Limited. 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 dilapidations relates to the estimated potential dilapidation costs arising on the expiry of a property lease on 31 August 2000 of office accommodation which the group occupied during the year. This figure has been arrived at after taking professional advice. No credit for tax relief has been taken in these accounts.

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.

The movement in deferred tax provision/(asset) is represented by:

	1 April 1999 (Restated)	Movement	31 December 1999
	£'000	£'000	£'000
Declared underwriting profits	1,450	(3,562)	(2,112)
Provisions for future underwriting losses	(2,557)	(7,353)	(9,910)
Deferred tax on unrealised gains / losses on investments	1,742	(4,728)	(2,986)
Other timing differences	507	(153)	354
	1,142	(15,796)	(14,654)

The movement in the deferred tax provision/(asset) includes deferred tax balances acquired on the acquisition of Wren Limited. In determining the deferred tax provision, it has been assumed that group relief will be available between companies within the group. The deferred tax asset of £14,654,000 is included in prepayments and accrued income (see note 20).

Unprovided deferred tax assets amounted to £5,794,000 at 31 December 1999 (31 March 1999: £3,673,000).

The Company had a deferred tax asset at 31 December 1999 of £7,401,000 (31 March 1999: liability of £1,877,000) in respect of unrealised losses/gains on investments. The company had an unprovided deferred tax asset of £nil at 31 December 1999 (31 March 1999: asset of £2,904,000).

## 23 Share Capital

	31 December 1999	31 March 1999	31 December 1999	31 March 1999
	£'000	£'000	No. '000	No. '000
<b>Authorised:</b>				
Ordinary shares of 25p each	78,750	54,500	315,000	218,000
<b>Allotted, issued and fully paid:</b>				
Ordinary shares of 25p each	59,510	37,404	238,040	149,615
<b>Number of 25p ordinary shares allotted, issued and fully paid:</b>				
	31 December 1999	31 March 1999	No.	No.
At 1 April			149,614,871	149,614,871
Number of shares issued in respect of the acquisition of Wren Ltd			60,120,618	–
Number of shares issued in respect of the acquisition of BRIT Insurance Ltd			30,479,798	–
Number of shares acquired under share buy-back scheme			(2,175,000)	–
At 31 December / 31 March			238,040,287	149,614,871

Further details of the acquisitions of Wren Ltd and BRIT Insurance Ltd are given in note 26.

On 26 July 1999, the authorised share capital was increased from 218,000,000 ordinary shares of 25p each to 250,000,000 ordinary shares of 25p each.

On 18 October 1999, the authorised share capital was further increased from 250,000,000 ordinary shares of 25p each to 315,000,000 ordinary shares of 25p each.

After 31 December 1999, the company acquired 170,000 of its own shares under the share buy-back scheme. These shares have been cancelled since the period end.

The company has a number of share option schemes under which options to subscribe for the company's shares have been granted to certain executives and senior employees. Details are given in the Report of the Directors on pages 25 to 28.

# Notes to the Financial Statements

## Continued

### 24 Share Capital and Reserves

Movements in reserves for the nine months ended 31 December 1999

Group	Share capital £'000	Contingent Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Profit and loss reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Total £'000
Balance at 1 April 1999, as previously stated	37,404	–	128,013	–	4,906	30,824	(3,411)	197,736
Prior year adjustment:								
loss of Investment Trust status	–	–	(398)	–	26,597	(30,824)	3,411	(1,214)
Balance at 1 April 1999, as restated	37,404	–	127,615	–	31,503	–	–	196,522
Acquisition of Wren Limited	15,030	–	40,320	–	–	–	–	55,350
Acquisition of BRIT Insurance Limited	7,620	5,291	16,964	–	–	–	–	29,875
Buy back of shares	(544)	–	–	544	(1,744)	–	–	(1,744)
Loss for the period	–	–	–	–	(16,811)	–	–	(16,811)
Dividends	–	–	–	–	(7,115)	–	–	(7,115)
<b>At 31 December 1999</b>	<b>59,510</b>	<b>5,291</b>	<b>184,899</b>	<b>544</b>	<b>5,833</b>	<b>–</b>	<b>–</b>	<b>256,077</b>

As contingent consideration for the acquisition of BRIT Insurance Limited, there is contingent share capital of £5,291,000 representing ordinary shares to be issued to Lennoxhurst Limited (refer to note 26).

The loss for the period ended 31 December 1999 without the change in accounting policy would have amounted to £10,267,000. The effect of the change in accounting policy was to increase the loss by £6,544,000 (31 March 1999: change from profit to a loss by £19,589,000).

Company	Share capital £'000	Contingent Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Profit and loss reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Total £'000
Balance at 1 April 1999, as previously stated	37,404	–	128,013	–	2,427	30,605	(3,411)	195,038
Prior year adjustment:								
loss of Investment Trust status	–	–	(398)	–	26,250	(30,605)	3,411	(1,342)
Balance at 1 April 1999, as restated	37,404	–	127,615	–	28,677	–	–	193,696
Acquisition of Wren Limited	15,030	–	40,320	–	–	–	–	55,350
Acquisition of BRIT Insurance Limited	7,620	5,291	16,964	–	–	–	–	29,875
Buy back of shares	(544)	–	–	544	(1,744)	–	–	(1,744)
Loss for the period	–	–	–	–	(6,668)	–	–	(6,668)
Dividends	–	–	–	–	(7,115)	–	–	(7,115)
<b>At 31 December 1999</b>	<b>59,510</b>	<b>5,291</b>	<b>184,899</b>	<b>544</b>	<b>13,150</b>	<b>–</b>	<b>–</b>	<b>263,394</b>

The loss for the period ended 31 December 1999 without the change in accounting policy would have amounted to £124,000. The effect of the change in accounting policy was to increase the loss by £6,544,000 (31 March 1999: change from profit to a loss by £19,589,000).

### 25 Reconciliation of shareholders' funds

for the nine months ended 31 December 1999

	Group		Company	
	31 December 1999 £'000	31 March 1999 £'000	31 December 1999 £'000	31 March 1999 £'000
Total recognised (losses)/gains for the period	(16,811)	(8,646)	(6,668)	17,529
Dividends	(7,115)	(9,725)	(7,115)	(9,725)
Issue of shares	85,225	–	85,225	(398)
Buy back of shares	(1,744)	–	(1,744)	–
Movement in unrealised gains on investments	–	–	–	(31,334)
Total movements during the period	59,555	(18,371)	69,698	(23,928)
Opening shareholders' funds	196,522	214,893	193,696	217,624
Closing shareholders' funds	256,077	196,522	263,394	193,696

### 26 Acquisitions

During the period, the group acquired the following:

#### (i) Wren Limited

On 26 July 1999, the company acquired the remaining issued share capital of Wren Limited (formerly Wren plc) which it did not previously own. The transaction has been accounted for as an acquisition.

Goodwill:

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

	£'000
Total consideration	57,384
Investment already held in books	25,542
Expenses capitalised in respect of the acquisition	1,703
Net assets acquired	(67,103)
Goodwill capitalised	17,526
Amortisation in the period	(730)
Goodwill carried forward	16,796

The open years of account are classed as pre-acquisition. Due to the three year nature of Lloyd's business, any results relating to the open years of account will not be known until after the relevant year of account closes. The goodwill at at 31 December 1999 is based on management estimates of those results and will be revised at 31 December 2000 to reflect latest information. Consequently, the goodwill at this stage is classed as provisional.

# Notes to the Financial Statements

## Continued

Consideration:		£'000
Cash consideration		108
Consideration in the form of 25p ordinary shares in BRIT Insurance Holdings PLC at 94p each		57,276
		<b>57,384</b>

The net assets of Wren Limited and its subsidiaries at acquisition were as follows:

	Book value at acquisition	Fair value adjustments (1)	Fair value adjustments (2)	Fair value at acquisition
	£'000	£'000	£'000	£'000
Cost of syndicate participations	3,010	–	–	3,010
Investments	90,295	–	–	90,295
Debtors	8,407	–	607	9,014
Tangible fixed assets	1,643	–	–	1,643
Cash at bank and in hand	8,682	–	–	8,682
Prepayments and accrued income	3,208	–	–	3,208
Provisions	(2,524)	–	–	(2,524)
Creditors	(24,733)	(593)	(19,061)	(44,387)
Accruals and deferred income	(1,838)	–	–	(1,838)
	<b>86,150</b>	<b>(593)</b>	<b>(18,454)</b>	<b>67,103</b>

(1) Fair value adjustments to bring accounting policies into line with rest of BRIT Insurance Holdings PLC group.

(2) Fair value adjustments to assets and liabilities including provisions for underwriting losses on pre-acquisition years of account.

The profit after tax for the Wren group from 1 January 1999 (the beginning of its accounting period) to 26 July 1999 (the date of acquisition) and for the nine months ended 31 December 1998 (being its previous accounting period) was as follows:

	1 January 1999 to 26 July 1999	Nine months ended 31 December 1998
	£'000	£'000
Balance on technical account	211	1,514
Investment return	4,576	587
Other income	4,438	10,541
Expenses	(5,570)	(7,862)
Profit before tax	3,655	4,780
Tax	(1,100)	(2,336)
Profit after tax	<b>2,555</b>	<b>2,444</b>

### (ii) BRIT Insurance Limited

On 16 November 1999, the company acquired the remaining issued share capital of BRIT Insurance Limited which it did not previously own. The transaction has been accounted for as an acquisition.

Goodwill:		£'000
Total consideration		30,437
Investment already held in books		25,125
Expenses capitalised in respect of the acquisition		1,129
Net assets acquired		(55,509)
Goodwill capitalised		<b>1,182</b>
Amortisation in the period		(14)
Goodwill carried forward		<b>1,168</b>

Consideration was in the form of 30,479,798 25p ordinary shares in BRIT Insurance Holdings PLC at 82.5p each. In addition, the terms of the acquisition agreement provide for contingent consideration payable to Lennoxhurst Limited. This is calculated as 50 per cent of the cumulative technical profits of BRIT Insurance Limited from December 1998 (the date of the original 29.99 per cent. purchase) to 31 December 2004, less any dividends received by the vendor via their holding of BRIT Insurance Holdings PLC shares. This is estimated to be £5,291,000 but will be revised each year, until settled, in line with latest information. The contingent consideration is to be satisfied at BRIT Insurance Holdings PLC's option by the issue of ordinary shares or loan notes.

The net assets of BRIT Insurance Limited at acquisition were as follows:

		£'000
Investments		75,471
Reinsurers' share of technical provisions		52,639
Debtors arising out of reinsurance operations		3,732
Tangible assets		44
Cash at bank and in hand		2,623
Prepayments and accrued income		1,167
Technical provisions		(77,884)
Other provisions		1,471
Creditors		(3,637)
Accruals and deferred income		(117)
		<b>55,509</b>

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

# Notes to the Financial Statements

## Continued

The (loss)/profit after tax for BRIT Insurance Limited from 1 January 1999 (the beginning of its accounting period) to 16 November 1999 (the date of acquisition) and for the year ended 31 December 1998 (being its previous accounting period) was as follows:

	1 January 1999 to 16 November 1999	Year ended 31 December 1998
	£'000	£'000
Balance on technical account	(6,860)	107
Investment return	2,259	4,347
Other income	124	4
(Loss)/profit before tax	(4,477)	4,458
Tax	1,388	(1,383)
(Loss)/profit after tax	(3,089)	3,075

### 27 Capital commitments

	31 December 1999	31 March 1999
	£'000	£'000
Authorised future capital expenditure amounted to:		
Contracted	1,592	–
Non-contracted	230	–
	1,822	–

### 28 Operating leases

	Land & buildings		Other	
	31 December 1999	31 March 1999	31 December 1999	31 March 1999
	£'000	£'000	£'000	£'000
Annual commitments under operating leases which expire:				
within one year	363	–	11	–
between two and five years	32	–	99	–
over five years	346	–	–	–
	741	–	110	–

### 29 Reconciliation of operating profit to net cash inflow from operating activities

	31 December 1999	31 March 1999
	£'000	£'000
(Loss) before tax on ordinary activities	(27,440)	(9,480)
(Profit) on sale of fixed assets	(57)	–
Depreciation of fixed assets	311	–
Amortisation of goodwill	744	–
Amortisation of syndicate capacity	281	–
Underwriting profit held in premium trust funds	–	(2,221)
(Profit) on sale of capacity	(3,411)	(1,773)
(Increase) in debtors	(1,197)	(1,678)
Increase in creditors	20,090	12,092
Increase in provisions	15,576	–
Realised and unrealised investment losses	10,256	20,920
Interest payable	2,226	1,874
Net tax suffered on investment income	(748)	(2,165)
Net cash inflow from operating activities	16,631	17,569

Following the loss of investment trust status, the comparative cashflow statement and notes have been restated in order to be consistent with that of an insurance group.

### 30 Movement in opening and closing portfolio investments, net of financing

	31 December 1999	31 March 1999
	£'000	£'000
Net cash inflow for the year	2,716	6,875
Cash flow – portfolio investments	1,848	18,091
Movement arising from cashflows	4,564	24,966
Investments acquired with subsidiaries	165,564	–
Changes in market value	(10,256)	(20,920)
Other changes	(51,203)	–
Total movement in portfolio investments net of financing	108,669	4,046
Portfolio at 1 April	245,822	241,776
Portfolio at 31 December 1999 / 31 March 1999	354,491	245,822

Other changes relate to the reclassification of investments to Investment in Subsidiaries following the acquisition of Wren Ltd and BRIT Insurance Ltd.

# Notes to the Financial Statements

## Continued

### 31 Movement in cash and portfolio investments

	At 1 April 1999 (Restated)	Cash flow	Net cash acquired with subsidiaries	Changes to market value	Other changes	31 December 1999
	£'000	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand	16,778	(3,033)	5,749	–	–	19,494
Deposits with credit institutions	609	4,667	769	–	–	6,045
Total cash	17,387	1,634	6,518	–	–	25,539
Fixed income investments	8,421	3,084	113,225	(1,056)	–	123,674
Shares	220,014	(6,672)	52,339	(9,200)	(51,203)	205,278
Total portfolio investments	228,435	(3,588)	165,564	(10,256)	(51,203)	328,952
Total cash and portfolio investments	245,822	(1,954)	172,082	(10,256)	(51,203)	354,491
Borrowings	(35,000)	(2,000)	(7,500)	–	–	(44,500)
Total cash and portfolio investments, net of debt	210,822	(3,954)	164,582	(10,256)	(51,203)	309,991

### 32 Net cash outflow on portfolio investments

	Nine months ended 31 December 1999			Year ended 31 March 1999		
	Purchases	Sales	Net cash flow	Purchases	Sales	Net cash flow
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits with credit institutions	–	–	5,436	–	–	303
Fixed income investments	15,254	12,170	3,084	26,372	44,659	(18,287)
Shares	38,830	45,502	(6,672)	80,592	44,517	36,075
	54,084	57,672	1,848	106,964	89,176	18,091

### 33 Pensions

The Group has two pension schemes in operation:

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 st July 1997 using the projected unit method. The actuarial assumptions made for the investigation were that the investment returns would be 8 per cent. per annum, salary increases would average 6 per cent. per annum and that present and future pensions for members retiring from the Scheme would increase at the rate of 4 per cent. per annum. For Minimum Funding Requirement, the Scheme's assets at 31 st July 1997 taken at a value of £47.1 million, exceed 120 per cent. of the amount of liabilities of the scheme as at that date. The current employer's contribution rate of 21 per cent, if the actuarial assumptions are borne out, is sustainable for 15 years.

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. At 31 December 1999, contributions amounting to £15,000 were payable to the fund and are included in creditors.

### 34 Related party transactions

#### (i) Interests in contracts

The interests of the directors in BRIT Insurance Holdings PLC are shown in the Report of the Directors on page 24.

#### (ii) Interests in transactions

Certain directors were interested in the transactions between:

- BRIT Insurance Holdings PLC and Wren Limited which was completed on 26 July 1999.
- BRIT Insurance Holding PLC and BRIT Insurance Limited which was completed on 16 November 1999.

The nature of their interests are set out in the Report of the Directors on pages 22 and 23.

### 35 Contingent liabilities

#### (i) Fixed and floating charges

##### (a) Company

Lloyd's has a floating guarantee over the assets of the 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 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 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').

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.

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.

## Notes to the Financial Statements

### Continued

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 21, BRIT Insurance Holdings PLC had borrowed funds from BankBoston N.A. and Scotia Bank Europe Limited at 31 December 1999. Under the terms of the finance agreement, BankBoston N.A. and Scotia Bank Europe Limited had a fixed charge over certain investments owned by the company.

After the year end, BRIT Insurance Holdings PLC repaid its loan to BankBoston N.A. and Scotia Bank Europe Limited and entered into a Term Facility Agreement with NatWest Bank plc and Barclays Bank plc. Under the terms of this facility, the lenders have a fixed charge over certain investments owned by the company.

The lenders, both BankBoston N.A. and Scotia Bank Europe Limited at 31 December 1999 and NatWest Bank plc and Barclays Bank plc currently, have priority over the charges held by Lloyd's within BRIT Insurance Holdings PLC

## Auditors' Report to the Shareholders of BRIT Insurance Holdings PLC

We have audited the financial statements on pages 38 to 80 which have been prepared following the accounting policies set out on pages 44 to 52.

#### Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including, as described on page 29, the financial statements. Our responsibilities, as independent auditors, are established in the United Kingdom, by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance statement on page 32 reflects the company's compliance with those provisions of the combined code specified for our review by the Stock Exchange 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 as to the effectiveness of the company's corporate governance procedures or its risk and control procedures. We read the other information contained in the Annual Report, including the corporate governance statement and considered whether it is consistent with the audited financial statements. We considered the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

#### Basis of Audit Opinion

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

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 1999 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

MAZARS NEVILLE RUSSELL

Chartered Accountants and Registered Auditors

24 Bevis Marks, London EC3A 7NR

23 May 2000

# Annual General Meeting

Notice is hereby given that the Annual General Meeting of BRIT Insurance Holdings PLC will be held at the company's offices, Lower Ground Floor, 55 Bishopsgate, London EC2N 3AS on Tuesday 11 July 2000 at 12 noon for the following purposes:

## Ordinary Business

1. To receive and consider the audited accounts for the financial period ended 31 December 1999 and the Reports of the Directors and the Auditors thereon.
2. To declare a dividend.
3. To re-elect Jo Mark Pole Welman as a director of the company.
4. To re-elect George Franklin MacAulay as a director of the company.
5. To elect Dane Jonathan Douetil as a director of the company.
6. To elect Matthew Scales as a director of the company.
7. To re-appoint the Auditors and authorise the directors to determine the remuneration of the Auditors.

## Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 8 will be proposed as an ordinary resolution and resolutions 9 and 10 will be proposed as special resolutions:

### 8. That:

- 8.1 the directors be generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (as defined in section 80(2) of the Act) of the company up to a maximum aggregate nominal amount of £19,282,425 provided that:
  - 8.1.1 this authority shall expire on the conclusion of the next Annual General Meeting of the company unless previously varied, revoked or renewed by the company in General Meeting;
  - 8.1.2 the company shall be entitled to make, prior to the expiry of such authority, any offer or agreement which would or might require relevant securities to be allotted after the expiry of this authority and the directors may allot any relevant securities pursuant to such offer or agreement as if such authority had not expired; and
  - 8.1.3 all prior authorities to allot relevant securities be revoked but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.

### 9. That:

- 9.1 subject to and conditional upon the passing of resolution 8 above the directors be granted powers pursuant to section 95 of the Companies Act 1985 ("the Act"), to allot equity securities (as defined in section 94(2) of the Act) pursuant to the authority conferred by the said resolution as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:
  - 9.1.1 the allotment of equity securities in connection with any invitation made to holders of ordinary shares from time to time to subscribe by way of rights, open offer or otherwise where the equity securities respectively attributable to the interests of all the holders of such ordinary shares are proportionate (as nearly as may be) to the respective number of ordinary shares held by them

# Annual General Meeting

## Continued

subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange or otherwise in any territory; and

9.1.2 the allotment (otherwise than pursuant to paragraph 9.1.1 above) of equity securities up to an aggregate nominal amount of £2,973,250;

and shall expire at the conclusion of the next Annual General Meeting of the company or, if earlier, the date fifteen months from the passing of this resolution unless previously varied, revoked or renewed by the company in General Meeting provided that the company may, before such expiry, make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement as if the power hereby conferred had not expired; and

9.2 all prior powers granted under section 95 of the Act be revoked provided that such revocation shall not have retrospective effect.

10. That

10.1 the company is unconditionally and generally authorised, pursuant to section 166 of the Act, to make market purchases (as defined in section 163 of the Act) of any of its ordinary shares of 25p each ("Ordinary Shares") in such manner and on such terms as the directors may from time to time determine provided that:

10.1.1 the maximum number of Ordinary Shares authorised to be purchased is 20,000,000 Ordinary Shares;

10.1.2 the maximum price (exclusive of expenses payable by the company) which may be paid for each Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations for the Ordinary Shares derived from the London Stock Exchange Daily Official List for each of the five business days immediately preceding the day on which the shares are contracted to be purchased and the minimum price (exclusive of expenses) for each Ordinary Share is 25 pence; and

10.1.3 the authority hereby conferred shall, unless previously varied, revoked or renewed, expire at the conclusion of the next Annual General Meeting of the company or, if earlier, the date 15 months from the passing of this resolution and the company shall be entitled under such authority to make at any time before its expiry or termination any contract to purchase its own shares which will or might be concluded wholly or partly after the expiry or termination of such authority and may purchase its own shares pursuant to such contract.

By order of the Board

John A Lynch, Company Secretary

Registered office:

55 Bishopsgate, London EC2N 3AS

2 June 2000

### Notes

1. Only the holders of ordinary shares are entitled to attend the meeting and vote. A member entitled to attend and vote may appoint a proxy or proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the company.
2. A form of proxy is provided. To be effective, a form of proxy must be completed, signed and (together with the original or a notarially certified copy of any power of attorney or other authority under which it is executed) lodged with IRG plc at Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ not later than 48 hours before the time of the meeting. Deposit of a completed form of proxy will not preclude a member from attending the meeting and voting in person.
3. A copy of the register of directors' interests in shares of the company kept in accordance with Section 325 of the Companies Act 1985 will be available for inspection at the company's registered office between 9.30am and 4.30pm on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting.
4. No director has a service contract with the company although four of the directors (Simon Clapham, Neil Eckert, Andrew Holland and Jo Welman) have service contracts with BRIT Group Services Limited and two of the directors (Dane Douetil and Matthew Scales) have service contracts with BRIT Insurance Limited, each of these companies being subsidiary companies of the company. Copies of these contracts will be available for inspection during normal business hours on each business day at the company's registered office for at least 15 minutes prior to and during the meeting.
5. Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the company has specified that to be entitled to attend and vote at the meeting (and for the purposes of the determination by the company of the number of votes they may cast), members must be entered on the company's register of members by 5.30pm on 9 July 2000. Changes to entries on the register of members after 5.30pm on 9 July 2000 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

# Annual General Meeting

## Continued

### Explanatory Notes:

#### 1. Authority to Allot Shares

If ordinary resolution number 8 is passed, paragraph 8.1.2 will give the directors authority under section 80 of the Companies Act 1985 to allot up to 77,129,700 BRIT Ordinary Shares (which equates to approximately 32 per cent. of the company's issued share capital). If this resolution is passed then the authority will expire on the conclusion of the next Annual General Meeting of the company. The directors currently have no plans to allot any shares but the directors believe it to be in the best interests of the company for the Board to be granted this authority to enable the Board to take advantage of appropriate opportunities.

#### 2. Disapplication of Statutory Pre-emption Rights

If the special resolution number 9 of the notice of the Annual General Meeting is passed the directors will have authority under section 95 of the Companies Act 1985 to allot shares for cash other than in accordance with statutory pre-emption rights. This authority will expire at the conclusion of the next Annual General Meeting of the company or, if earlier, the date fifteen months from the passing of the resolution. The authority will allow the directors to allot up to 11,893,000 BRIT Ordinary Shares (having an aggregate nominal value of £2,973,250), representing just under 5 per cent of the issued share capital of the company. The directors recommend this resolution as they consider it desirable due to the flexibility afforded by this power, although they have no present intention of issuing any shares pursuant to this disapplication.

#### 3. Purchase of Own Shares

If the special resolution number 10 of the notice of the Annual General Meeting is passed it will renew the directors' authority under section 166 of the Companies Act 1985 to make market purchases (as defined in section 163(3) of the Companies Act 1985) of BRIT Ordinary Shares, subject to certain stipulations up to a maximum of 20,000,000 Ordinary Shares representing just over 8 per cent. of the current issued share capital. This authority will, unless renewed, expire at the conclusion of the next Annual General Meeting of the company or, if earlier, the date fifteen months from the passing of the resolution. It is envisaged that renewal of this authority would be sought at subsequent Annual General Meetings. The minimum price payable on any exercise of such authority will be 25p per share, being the nominal value of BRIT Ordinary Shares, and the maximum price will be 5 per cent. above the average of the middle market quotations of BRIT Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding any purchase, in both cases exclusive of expenses payable by the company. The Board has no present intention to exercise this power, and it would not be the Board's intention to exercise this power except at a price level that would be likely to increase earnings per share of the remaining outstanding BRIT Ordinary Shares and unless to do so would be in the best interests of shareholders generally. The company cannot by law exercise the power other than out of distributable profits or a fresh issue of shares made for the purposes of the purchase.

There are outstanding options over 5,187,361 BRIT Ordinary Shares as at 30 May 2000 (being the latest practicable date prior to publication of this notice) representing approximately 2.2 per cent. of the company's current issued share capital and approximately 2.4 per cent. the company's issued share capital as it would be if the authority granted by this resolution were used in full.

