

BENFIELD HOLDINGS LIMITED

Financial Statements

for the year ended 31 December 2003



BENFIELD HOLDINGS LIMITED

COMPANY INFORMATION

DIRECTORS

John Coldman	(Chairman)
Grahame Chilton	
Rod Fox	
Andrew MacDonald	
David Spiller	
John Whiter FCA	
Dr Keith Harris	(Non-Executive)
Rt Hon Francis Maude PC MP	(Non-Executive)

SECRETARY

George Stiff

REGISTERED OFFICE

55 Bishopsgate
London EC2N 3BD

REGISTERED NUMBER

2265140

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants & Registered Auditors
Southwark Towers
32 London Bridge Street
London
SE1 9SY

BENFIELD HOLDINGS LIMITED

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BENFIELD HOLDINGS LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2003.

Principal activities, business review and future developments

The primary business activities of the group are the provision of reinsurance intermediary, risk advisory and related services. The group operates from a number of offices worldwide and will continue to carry on these activities.

The group's profit for the financial year is £18,197,000 (2002 restated: £7,965,000). The directors do not recommend the payment of a dividend (2002 aggregate: £12,211,000) so the retained profit of £18,197,000 (2002 restated: loss £4,246,000) has been transferred to reserves.

Directors and their interests

The directors of the company are listed on page 1, and have been directors throughout the period from 1 January 2003 to the date of this report, unless stated otherwise. Details of directors' remuneration is shown in note 26 to the financial statements. During the period, no director had any material interest in a contract, to which the company or any of its subsidiary undertakings was a party, requiring disclosure pursuant to section 317 United Kingdom Companies Act 1985, other than as set out in note 31.

No director had any interest in the shares of the company during the year ended 31 December 2003. All of the directors holding office at 31 December 2003 were also directors of Benfield Group Limited, the ultimate holding company, and their interests in the shares of that company are disclosed in the financial statements of that company.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the company and of the group for that period. The directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employees

The board recognises that the continuing success of the group depends on its employees and continues to adopt policies designed to attract, train, develop and retain talented individuals and teams.

Consultation with employees has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of the group. Communication with employees is effected through a variety of media, including regular briefing events.

The group is an equal opportunities employer and bases decisions on individual ability regardless of race, religion, gender, age or disability. The group's equal opportunities policy is designed to ensure that disabled persons are given the same consideration as others and enjoy the same training, career development and prospects as other employees.

Going Concern

The directors consider that the group and the company have adequate resources to continue in operational existence in the foreseeable future. Consequently the financial statements have been prepared on a going concern basis.

Donations

The group made charitable donations of £149,000 during the year (2001: £156,000). The company made no political donations during the year and intends to maintain its policy of not making such payments.

BENFIELD HOLDINGS LIMITED

DIRECTORS' REPORT

Policy and practice on payment of creditors

The group's policy is to pay each supplier in accordance with the settlement terms agreed with that supplier at the time of contracting for their goods or services. At the year-end, the balance owed to suppliers, excluding insurance creditors, represented 22 days of the total invoiced supplies for the year (2002: 25 days).

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution proposing their reappointment will be put to the Annual General Meeting.

By order of the board



G R G Stiff
Secretary

55 Bishopsgate
London EC2N 3BD

30 April 2004

BENFIELD HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BENFIELD HOLDINGS LIMITED

We have audited the financial statements, which comprise the profit and loss account, the consolidated statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds, the consolidated balance sheet, the company balance sheet, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

30 April 2004

BENFIELD HOLDINGS LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2003**

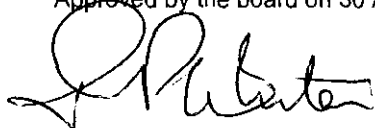
	Notes	Year ended 31 December 2003 £'000	Year ended 31 December 2002 (Restated) £'000
Turnover	1	300,468	283,918
Interest income	2	7,194	6,950
Operating revenue		<u>307,662</u>	<u>290,868</u>
Net operating expenses before exceptional items		(246,719)	(244,801)
Exceptional items	3	(15,243)	(12,480)
Total net operating expenses		<u>(261,962)</u>	<u>(257,281)</u>
Operating profit before exceptional items		60,943	46,067
Exceptional items	3	(15,243)	(12,480)
Group operating profit		<u>45,700</u>	<u>33,587</u>
Share of operating profit/(losses) of associated undertakings	4	(3,137)	(5,273)
Gain on the sale of fixed assets	3	4,452	1,405
Provision for impairment on operations to be discontinued	3	(1,486)	-
Other investment income	5	937	245
Interest payable and similar charges before exceptional items		(6,218)	(13,637)
Exceptional items	3	(6,050)	-
Total interest payable and similar charges	6	<u>(12,268)</u>	<u>(13,637)</u>
Profit on ordinary activities before taxation	7	34,198	16,327
Taxation on profit on ordinary activities	8	(16,025)	(8,305)
Profit on ordinary activities after taxation		18,173	8,022
Equity minority interests		24	(57)
Profit for the financial year		18,197	7,965
Dividends – including non-equity	9	-	(12,211)
Retained profit/(loss) for the financial year		<u>18,197</u>	<u>(4,246)</u>

The group's turnover and expenses all relate to continuing operations.

BENFIELD HOLDINGS LIMITED
BALANCE SHEETS
As at 31 December 2003

		Group		Company	
		31 December 2003	31 December 2002 (Restated)	31 December 2003	31 December 2002
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	10	158,511	173,987	-	-
Tangible assets	11	17,715	21,087	-	-
Investments in subsidiary undertakings	12	-	-	173,488	198,414
Investments in associated undertakings	13	215	5,506	50	1,171
Investment in own shares	14	10,904	7,449	10,467	7,012
Other long-term investments	15	3,648	5,572	-	850
		<u>190,993</u>	<u>213,601</u>	<u>184,005</u>	<u>207,447</u>
Current assets					
Debtors – due within one year	17	3,829,319	3,912,677	216,331	206,063
Debtors – due after one year	17	3,794	7,981	-	-
Investments	18	46,744	80,294	9,390	19,397
Cash at bank and in hand – including fiduciary funds		<u>280,584</u>	<u>203,474</u>	<u>1,530</u>	<u>1,070</u>
		4,160,441	4,204,426	227,251	226,530
Current liabilities					
Creditors – amounts falling due within one year	19	<u>(4,213,962)</u>	<u>(4,155,504)</u>	<u>(212,137)</u>	<u>(118,621)</u>
Net current assets/(liabilities)		<u>(53,521)</u>	<u>48,922</u>	<u>15,114</u>	<u>107,909</u>
Total assets less current liabilities					
Creditors – amounts falling due after more than one year	20	(38,746)	(162,562)	(37,595)	(161,204)
Provisions for liabilities and charges	22	<u>(11,499)</u>	<u>(27,951)</u>	<u>(3,786)</u>	<u>(5,526)</u>
Net assets		<u>87,227</u>	<u>72,010</u>	<u>157,738</u>	<u>148,626</u>
Capital and reserves					
Called up share capital	23	1,105	1,105	1,105	1,105
Share premium	24	120,739	120,739	120,739	120,739
Capital redemption reserve	24	10,263	10,263	10,263	10,263
Consolidation reserve	24	4,500	4,500	-	-
Profit and loss account	24	<u>(49,602)</u>	<u>(64,903)</u>	<u>25,631</u>	<u>16,519</u>
Total shareholders' funds (equity)		87,005	71,704	157,738	148,626
Equity minority interest		<u>222</u>	<u>306</u>	<u>-</u>	<u>-</u>
Capital employed		<u>87,227</u>	<u>72,010</u>	<u>157,738</u>	<u>148,626</u>

Approved by the board on 30 April 2004 and signed on its behalf by:



JLP Whiter Director

BENFIELD HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2003

		Year ended 31 December 2003	Year ended 31 December 2002 (Restated)
	Notes	£'000	£'000
Profit for the financial year		18,197	7,965
Exchange adjustments offset in reserves	24	(3,317)	(2,658)
Total recognised gains/(losses) relating to the year		14,880	5,307
Prior year adjustment (see Accounting Policies)		4,960	
Total gains/(losses) recognised since last annual report		19,840	

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS
For the year ended 31 December 2003

		Year ended 31 December 2003	Year ended 31 December 2002 (Restated)
	Notes	£'000	£'000
Profit for the financial year		18,197	7,965
Dividends	9	-	(12,211)
		18,197	(4,246)
Other recognised gains and losses relating to the year		(3,317)	(2,658)
Provision for deferred share units and share options		-	5,637
Common shares issued to employees		-	1,068
Payment of partly paid common shares		-	807
Net proceeds of cumulative redeemable convertible preference shares issued for cash		-	19,139
Increase of interest from associate to subsidiary undertaking	25	421	-
Net change in shareholders' funds		15,301	19,747
Shareholders' funds at 1 January		66,744	46,414
Prior year adjustment (see Accounting Policies)		4,960	5,543
Shareholders' funds at 31 December		87,005	71,704

BENFIELD HOLDINGS LIMITED
ACCOUNTING POLICIES
For the year ended 31 December 2003

Accounting convention

The financial statements have been prepared on a going concern basis under the historic cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards.

Basis of consolidation

The consolidated financial statements includes the financial information of the company, its subsidiary undertakings and the group's interests in associated undertakings. The profits and losses of subsidiary undertakings and the group's interests in the results of associated undertakings are included from the effective date of acquisition until the effective date of disposal.

An undertaking is regarded as a subsidiary undertaking if the group has control over its operating and financial policies, generally determined by the ownership of more than 50% of the voting stock of the investee. Undertakings over which the group has the ability to exercise significant influence, generally determined by ownership of between 20% and 50% of the voting stock of the investee, are accounted for under the equity method of accounting as associated undertakings.

Business combinations have been accounted for by the acquisition method of accounting.

A separate profit and loss account for Benfield Holdings Limited has not been presented as permitted by section 230 of the United Kingdom Companies Act 1985.

Change in accounting policy

During the year the group has adopted Amendment to Financial Reporting Standard 5, 'Reporting the substance of Transactions' ("FRS 5 Application Note G"). The effect of the adoption has been to accelerate revenue on fixed or minimum premium instalments to the point when placement services are completed. Previously such revenues were recognised as the instalment premiums were billed. To the extent that future revenues from existing policies are not expected to meet the cost of fulfilling future contractual obligations arising in respect of such placements, a proportion of placement revenue is deferred. Previously no such deferral was made.

The effect on continuing operations of implementing FRS 5 Application Note G was to reduce revenue and operating profits for the year by £1,028,000 (2002: £584,000) and to reduce the tax charge by £410,000 (2002: £1,000), to increase net assets at 31 December 2003 by £4,343,000 (2002: £4,960,000) and to increase the value of group reserves at 1 January 2003 by £4,960,000 (2002: £5,543,000).

Cashflow statement and related party disclosures

At 31 December 2003 the company was a wholly owned subsidiary of Benfield Group Limited and is included in the consolidated financial statements of that company, which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1 (Revised 1996). The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Benfield Group.

Turnover

The group generates revenue principally from commissions and fees associated with placing reinsurance contracts and programmes, which includes commissions and fees arising from the provision of risk advisory and related services.

Revenues from commissions and fees relating to fixed or minimum premiums on reinsurance contracts and programmes placed are recognised at the point at which placement services are substantially complete. Revenues from commissions and fees on adjustments to minimum premiums, binding authorities and treaties are recognised on a periodic basis when the consideration due is confirmed by third parties. Commission rebates payable to ceding companies are accrued, where necessary, on an estimated basis, as the related brokerage revenue is recognised. Fees for claims, risk advisory services and other services that are billed separately are recognised as these services are rendered.

Where contractual obligations exist for the performance of post placement activities, and the cost of these activities is not expected to be covered by future revenues, a relevant proportion of revenue received on placement is deferred and recognised over the period during which these activities are performed.

BENFIELD HOLDINGS LIMITED
ACCOUNTING POLICIES
For the year ended 31 December 2003

Interest income

Interest income is recognised as earned and includes interest earned on cash flows arising from insurance broking debtors and creditors. As interest income forms an integral part of the group's operating activities it is included in operating revenue.

Investment income

Investment income consists of dividends receivable for the year together with any realised investment gains and losses.

Lease commitments

The rentals payable under operating leases are charged on a straight-line basis to the profit and loss account over the period of the leases.

Where a leasehold property becomes surplus to the group's foreseeable business requirements, or is sublet at a loss, provision is made for the expected future net cost of the property taking account of the duration of the lease and any recovery of cost achievable from subletting.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares is charged to the profit and loss account on a straight-line basis over the period to which the employee's performance relates. The charge is based on the intrinsic value, being the fair value of the shares at the date of grant, reduced by any consideration payable by the employee, and a reasonable expectation of the extent to which performance criteria will be met. Subsequent adjustments are made, if appropriate, to deal with changes in the probability of performance criteria being met and leavers forfeiting unvested shares. Provisions for share options are added to the profit and loss reserve.

Pension scheme contributions

Pension scheme contributions to the group's money purchase schemes are charged to the profit and loss account in the period to which they relate.

Defined benefit plans operated by certain subsidiary undertakings at the date of their acquisition have been wound up or are in the process of termination. Until closure the expected costs of providing pensions under these schemes has been calculated periodically by professionally qualified actuaries using valuations based on the projected unit method and is charged to the profit and loss account so as to spread the costs over the remaining service lives of the employees in the scheme. Valuation surpluses and deficits are similarly spread over the service lives of employees in the scheme. Certain disclosures have been made in note 27 in accordance with the transitional arrangements of Financial Reporting Standard 17, 'Retirement Benefits' ("FRS 17").

Taxation

The charge for taxation is based on the result for the period at current rates of tax and takes into account deferred tax.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in a future obligation to pay more tax or a future right to pay less tax have occurred. Timing differences are differences between the group's taxable profits and its results as stated in the consolidated financial information. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associated undertakings only to the extent that, at the balance sheet date, dividends have been formally agreed by the subsidiary or associated undertaking. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

BENFIELD HOLDINGS LIMITED
ACCOUNTING POLICIES
For the year ended 31 December 2003

Foreign currency translation

Transactions in currencies other than the functional currency, namely pounds sterling, are recorded at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are translated at the rates of exchange prevailing at the balance sheet date and the related translation gains and losses are reported in the consolidated profit and loss account.

On consolidation, the results of overseas businesses are translated into pounds sterling at the average rates of exchange applicable to the relevant period. The assets and liabilities of the overseas businesses are translated into pounds sterling at the exchange rates ruling at the balance sheet date. Exchange differences arising on translating the net assets or liabilities of overseas businesses and on the translation of their results are taken directly to reserves.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight-line basis over their estimated useful lives at the following rates:

Freehold property	Up to 2%
Leasehold property	2% or over the life of the lease, if lower
Fixtures, fittings, furniture and equipment	20% to 25%
Information technology systems	20% to 50%
Motor vehicles	20%

Information technology systems comprises assets purchased and built at cost, where the assets relate to the group's long-term information technology infrastructure on a continuing use basis.

Intangible assets

Intangible assets comprise goodwill. When a business is acquired, fair values are attributed to its separable assets and liabilities at the date of acquisition. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the separable net assets acquired. For acquisitions prior to 1 January 1998, goodwill arising on acquisition has been written off to reserves on consolidation. Following the introduction of Financial Reporting Standard 10, "Goodwill and Intangible Assets", goodwill arising on acquisitions after 1 January 1998 is capitalised and amortised over its useful economic life, which is 20 years. Goodwill is treated as a currency asset and revalued at the end of each reporting period.

Investments

Fixed asset investments, including own shares, are stated individually at cost less provisions for impairment.

Listed investments held as current assets are stated at the lower of cost and market value. Unlisted investments held as current assets are stated at the lower of cost and directors' estimated valuation.

Impairment of fixed assets and goodwill

The group undertakes a review for impairment of fixed assets and goodwill if events or changes in circumstances indicate that the carrying amount of a fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, which is the higher of net realisable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. Net realisable value is the estimated amount at which an asset can be disposed of, less any direct selling costs. Value in use is the estimate of the discounted future cash flows generated from the asset's continued use, including those resulting from its ultimate disposal.

Employee share ownership trusts

The Benfield Employee Benefit Trust, the Benfield 1998 Employee Benefit Trust, the Greig Fester Group Employee (Guernsey) Trust (1990) and the Greig Fester Group 1993 Employee (Guernsey) Trust own shares in Benfield Group Limited and these are shown as own shares within fixed assets in the consolidated balance sheet. The income and expenses as well as assets and liabilities of these trusts are included in those of the underlying companies and consequently consolidated.

BENFIELD HOLDINGS LIMITED
ACCOUNTING POLICIES
For the year ended 31 December 2003

Where a relevant group company holds de facto control over the shares held by an employee share ownership trust, the assets and liabilities of the trust are recognised in the balance sheet of that company. The assets and liabilities of the trusts are included in the group's consolidation balance sheet.

Insurance broking assets and liabilities

Reinsurance brokers normally act as agents in placing the risks of insurance companies with reinsurers and as such, generally are not liable as principals for amounts arising from such transactions. Notwithstanding such legal relationships, assets and liabilities arising from insurance broking transactions are included within insurance broking assets and liabilities recognising the fact that reinsurance intermediaries are entitled to retain investment income on any cash flows arising from such transactions. Similarly, fiduciary cash arising from insurance broking transactions is included within cash and deposits.

Insurance broking debtors and creditors are reported in accordance with the requirements of Financial Reporting Standard 5, "Reporting the Substance of Transactions". The standard precludes assets and liabilities being offset unless net settlement is legally enforceable, and as a result the insurance broking debtors and creditors have been shown as the gross amounts due in respect of each contract, instead of the net amount due to or from customers and underwriters.

Allowances are recorded, where necessary, for amounts considered by the directors to be sufficient to meet probable future losses related to uncollectible accounts.

Provisions

A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

BENFIELD HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003

1. SEGMENTAL REPORTING

In the opinion of the directors, the group had only one business segment during the year ended 31 December 2003, being the provision of reinsurance intermediary, risk advisory and related services.

Turnover and Profit on ordinary activities before taxation

Analysis by originating office location:

	Turnover	Operating profit before exceptionals	Operating exceptionals	Share of associates	Non- operating exceptionals	Profit before tax
	2003	2003	2003	2003	2003	2003
	£'000	£'000	£'000	£'000	£'000	£'000
Continental Europe						
United Kingdom	166,695	14,985	(6,220)	(2,174)	2,433	9,024
North America	112,581	38,424	(8,540)	(963)	530	29,451
Continental Europe	7,379	1,360	(483)	-	3	880
Other	13,813	6,174	-	-	-	6,174
	<u>300,468</u>	<u>60,943</u>	<u>(15,243)</u>	<u>(3,137)</u>	<u>2,966</u>	<u>45,529</u>
Investment income						937
Interest payable and similar items						(12,268)
						<u>34,198</u>

	Turnover	Operating profit before exceptionals	Operating exceptionals	Share of associates	Non- operating exceptionals	Profit before tax
	2002 (Restated)	2002 (Restated)	2002	2002	2002	2002 (Restated)
	£'000	£'000	£'000	£'000	£'000	£'000
Continental Europe						
United Kingdom	158,385	15,142	(3,457)	(5,711)	1,233	7,207
North America	109,301	26,294	(9,023)	438	157	17,866
Continental Europe	5,296	1,134	-	-	-	1,134
Other	10,936	3,497	-	-	15	3,512
	<u>283,918</u>	<u>46,067</u>	<u>(12,480)</u>	<u>(5,273)</u>	<u>1,405</u>	<u>29,719</u>
Investment income						245
Interest payable and similar items						(13,637)
						<u>16,327</u>

Analysis by customer location:

	2003	2002 (Restated)
	£'000	£'000
Turnover		
Geographical analysis		
United Kingdom	69,616	74,380
North America	140,727	136,076
Continental Europe	47,575	38,970
Other	42,550	34,492
	<u>300,468</u>	<u>283,918</u>

BENFIELD HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003

	2003	2002
	£'000	(Restated) £'000
Net assets		
Geographical analysis		
United Kingdom	13,522	111,324
North America	115,723	144,906
Continental Europe	3,710	1,589
Other	10,508	4,129
	<u>143,463</u>	<u>261,948</u>
Bank and other borrowings (note 21)	<u>(56,236)</u>	<u>(189,938)</u>
	<u>87,227</u>	<u>72,010</u>

2. INTEREST INCOME

	2003	2002
	£'000	£'000
Interest receivable	<u>7,194</u>	<u>6,950</u>

The group earns interest income predominantly on fiduciary funds held on behalf of customers.

3. EXCEPTIONAL ITEMS

	2003	2002
	£'000	£'000
Operating		
Granting of awards under the 2002 Incentive Plan	17,464	-
Awards granted as part of acquisitions	3,108	5,451
Professional fees	621	275
Gain on sale of current asset investments	(5,950)	-
Costs in respect of the integration of E.W. Blanch	-	6,754
	<u>15,243</u>	<u>12,480</u>
Non-operating		
Gain on disposal of fixed assets	(4,452)	(1,405)
Provision for impairment of operations to be discontinued	1,486	-
Exceptional finance charges	<u>6,050</u>	<u>-</u>

Granting of awards under the 2002 Incentive Plan

Share based awards were made under the 2002 Incentive Plan to certain key employees of the group in respect of services provided prior to Benfield Group Limited's Initial Public Offering. No previous awards had been made under the 2002 Incentive Plan, and it is not intended that any further awards will be made under this plan. The cost of awards granted at less than the fair value of the underlying common shares has been recognised in full in the profit and loss account at the date of grant as they relate to prior services and no performance criteria (other than continued employment with the group) are attached to those awards.

Awards granted as part of acquisitions

On the acquisition of E.W. Blanch Holdings, Inc. ("EW Blanch") in May 2001 the group provided share based awards to certain key employees for which the cost is being spread over a 17 to 29 month vesting period from the date of acquisition, resulting in a charge of £3,108,000 and £5,451,000 for the years ended 31 December 2003 and 2002 respectively.

BENFIELD HOLDINGS LIMITED
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Professional fees

Professional fees of £621,000 related to the Initial Public Offering were charged to the profit and loss account in the year to 31 December 2003. Professional fees of £275,000 in respect of the redomiciliation from the United Kingdom to Bermuda in October 2002 and the initial intention to register the securities in the United States were charged in the year to 31 December 2002.

Gain on sale of current asset investment

In 2003 the group sold 947,479 shares in Montpelier Re Holdings Limited, resulting in an operating exceptional gain of £5,950,000.

Costs in respect of the integration of EW Blanch

During the year ended 31 December 2002, the group incurred costs in connection with the EW Blanch acquisition which took place in May 2001, comprising £4,470,000 of property rationalisation costs, £921,000 of redundancy payments and £1,363,000 in relation to the termination of a defined benefit pension scheme.

Provision for impairment of operations to be discontinued

It is the intention of the group to dispose of its interest in Wildnet Group Limited, a wholly owned subsidiary, in the first quarter of 2004. As a result the carrying value of the group's interest in Wildnet Group Limited has been written down to the expected recoverable amount.

Exceptional finance charges

On completion and delivery of proceeds of Benfield Group Limited's Initial Public Offering, the group entered into a new credit facilities agreement. At the same date, the group's previous credit facilities were cancelled and repaid. Proceeds from the Initial Public Offering, and funds available from the new credit facilities, were used to repay the outstanding borrowings under the cancelled facilities. On cancellation, charges were incurred in the write off of prepaid facility arrangement fees and termination of swap and collar interest rate derivative contracts which related to the cancelled facilities.

4. SHARE OF OPERATING LOSSES OF ASSOCIATED UNDERTAKINGS

	2003 £'000	2002 £'000
Share of operating losses of associated undertakings	(2,973)	(2,035)
Goodwill amortisation	(62)	(62)
Loss on disposal of associated undertaking	(450)	-
Release of provision for impairment	348	-
Write off of loans	-	(3,176)
	<u>(3,137)</u>	<u>(5,273)</u>

5. OTHER INVESTMENT INCOME

	2003 £'000	2002 £'000
Dividends from investments and other income	<u>937</u>	<u>245</u>

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6. INTEREST PAYABLE AND SIMILAR ITEMS

	2003 £'000	2002 £'000
Bank loans	6,607	9,216
Other interest payable	5,661	4,421
	<u>12,268</u>	<u>13,637</u>

The group incurred interest expenses arising under the credit facilities set out in note 21. Interest expense arising prior to the Initial Public Offering under the interest rate has been recorded within other interest payable.

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £'000	2002 £'000
Profit before taxation is stated after charging/(crediting):		
Staff costs (note 26)	136,745	140,045
Depreciation of tangible fixed assets (note 11)	9,890	12,158
Amortisation of goodwill (note 10)	9,428	9,968
Operating lease rentals	11,455	10,085
Exchange differences – borrowings	(1,603)	(4,671)
Exchange differences – other	(1,793)	1,519
Group audit fees and expenses (Company £140,000; 2002: £130,000)	<u>845</u>	<u>745</u>

Fees paid to PricewaterhouseCoopers LLP for non-audit services during the year were £3,152,000 (2002: £3,788,000). The fees paid related to further assurance services, predominately relating to the Initial Public Offering, of £2,490,000 (2002: £2,871,000), tax advisory services of £453,000 (2002: £314,000) and other non-audit services of £209,000 (2002: £603,000).

BENFIELD HOLDINGS LIMITED
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8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in year

	2003	2002
	£'000	(Restated)
	£'000	£'000
Based on profit for the year		
Current tax		
UK corporation tax at 30%	5,542	9,801
Double tax relief	(1,590)	(1,680)
	<u>3,952</u>	<u>8,121</u>
Foreign tax	13,248	3,396
Adjustment in respect of previous periods	(1,429)	(971)
Share of taxation in associated companies	(545)	222
Total current tax	<u>15,226</u>	<u>10,768</u>
Deferred tax		
Origination and reversal of timing differences		
United Kingdom	(741)	(3,521)
Overseas	1,540	1,058
Total deferred tax	<u>799</u>	<u>(2,463)</u>
Taxation on profit on ordinary activities	<u>16,025</u>	<u>8,305</u>

The current tax charge for the years presented varied from the standard rate of corporation tax in the United Kingdom of 30% in 2003 and 2002 as explained below:

	2003	2002
	£'000	(Restated)
	£'000	£'000
Profit on ordinary activities before tax	<u>34,198</u>	<u>16,327</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30%	10,259	4,898
Effect of:		
Goodwill amortisation	1,994	2,690
Impairment of investments	446	-
Share of losses of associated undertakings	395	1,804
Other expenses not deductible for tax	1,233	2,060
Adjustments in respect of prior years	(1,429)	(971)
Adjustments in respect of foreign tax rates	2,765	269
Unrecognised tax losses	-	335
Utilisation of losses	(1,785)	-
Change in accounting policy	1,830	(175)
Other timing differences	(482)	(142)
Current tax charge	<u>15,226</u>	<u>10,768</u>

The tax effect of the operating exceptional items and goodwill amortisation was to reduce the tax charge by £7,581,000 (2002: £3,256,000).

The tax effect of the non-operating exceptional items was to reduce the tax charge by £1,815,000 (2002: £nil).

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9. DIVIDENDS

	2003 £'000	2002 £'000
Equity		
Final proposed – ordinary shares of 1p	-	10,088
Non-equity		
Payable – cumulative redeemable convertible preference shares of 1p	-	2,123
	-	12,211
	2003 pence	2002 pence
Equity		
Final proposed – per ordinary share of 1p	-	20.0

10. INTANGIBLE FIXED ASSETS

	Goodwill £'000
Group	
Cost	
At 1 January 2003	193,663
Exchange adjustments	(10,126)
Additions (note 25)	4,887
At 31 December 2003	188,424
Amortisation	
At 1 January 2003	19,676
Charge for the year	9,428
Provision for impairment	809
At 31 December 2003	29,913
Net book amount	
At 31 December 2003	158,511
At 31 December 2002	173,987

Goodwill balances relate to acquisitions made after 1 January 1998. Any goodwill balances arising on acquisitions prior to 1 January 1998 have been written off to reserves (see note 24).

BENFIELD HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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11. TANGIBLE FIXED ASSETS

Group	Freehold property £'000	Long leasehold property £'000	Short leasehold property £'000	Furniture, fittings and equipment £'000	Information technology systems £'000	Motor vehicles £'000	Total £'000
Cost							
At 1 January 2003	1,076	2,310	1,704	16,795	19,760	935	42,580
Exchange adjustments	(65)	(68)	(256)	(643)	(1,792)	36	(2,788)
Additions at cost	-	-	762	918	7,772	237	9,689
Acquisitions	-	-	-	44	-	-	44
Impairment of assets in the year	-	-	-	(77)	(1,617)	-	(1,694)
Disposals	(660)	(1,107)	(399)	(133)	(4,660)	(354)	(7,313)
At 31 December 2003	351	1,135	1,811	16,904	19,463	854	40,518
Accumulated depreciation							
At 1 January 2003	50	159	53	10,570	10,125	536	21,493
Exchange adjustments	(23)	(51)	(135)	(497)	(1,689)	12	(2,383)
Charge for the year	6	33	480	3,004	6,209	158	9,890
Impairment of assets in the year	-	-	-	(46)	(971)	-	(1,017)
Disposals	(19)	(109)	(47)	(130)	(4,605)	(270)	(5,180)
At 31 December 2003	14	32	351	12,901	9,069	436	22,803
Net book amount							
At 31 December 2003	337	1,103	1,460	4,003	10,394	418	17,715
At 31 December 2002	1,026	2,151	1,651	6,225	9,635	399	21,087

12. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Company	Subsidiary undertakings £000
Cost	
At 1 January 2003	211,298
Additions	155
Disposals	(25,081)
At 31 December 2003	186,372
Provisions for impairment	
At 1 January 2003	12,884
Provided during the year	-
At 31 December 2003	12,884
Net book amount	
At 31 December 2003	173,488
At 31 December 2002	198,414

A list of principal subsidiary undertakings of Benfield Holdings Limited is given in note 33.

BENFIELD HOLDINGS LIMITED
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13. INVESTMENTS IN ASSOCIATED UNDERTAKINGS

Group	Group				Company
	Equity £'000	Goodwill £'000	Loan £'000	Total £'000	Total £'000
Cost					
At 1 January 2003	7,032	1,224	9,678	17,934	7,671
Exchange adjustments	40	-	-	40	-
Capitalisation of loans	7,522	-	(7,522)	-	7,514
Disposals	(1,083)	-	-	(1,083)	-
Transfer to consolidated subsidiary (see note 25)	(1,527)	(1,224)	-	(2,751)	-
Share of results	(2,428)	-	-	(2,428)	-
At 31 December 2003	9,556	-	2,156	11,712	15,185
Provision for impairment					
At 1 January 2003	5,388	98	6,942	12,428	6,500
Provided/(released) during the year	(348)	62	-	(286)	8,635
Reclassified in year	5,625	-	(5,625)	-	-
Transfer to consolidated subsidiary	-	(160)	-	(160)	-
Transfer to provisions for liabilities and charges (note 23)	(1,324)	-	839	(485)	-
At 31 December 2003	9,341	-	2,156	11,497	15,135
Net book amount					
At 31 December 2003	215	-	-	215	50
At 31 December 2002	1,644	1,126	2,736	5,506	1,171

The associated undertakings held by the group during the period of the consolidated financial information are set out below:

Company	Nature of business	Country of incorporation	2003	2002
Benfield Sports International Limited	Sports consultant	United Kingdom	50%	50%
Commission Freedom Holdings Limited	Investment holding company	United Kingdom	15%	15%
Bluesure Limited	Personal lines insurance broker	United Kingdom	48%	95%
International Space Brokers, Inc	Insurance intermediary	United States	-	46%
Catastrophe Risk Exchange, Inc	Internet based risk exchange	United States	50%	50%

On 31 December 2003 the group acquired an additional 43% holding in International Space Brokers, Inc. following which the company has been consolidated as a subsidiary undertaking (see note 25).

BENFIELD HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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14. INVESTMENT IN OWN SHARES

	Group £'000	Company £'000
Common shares of 1p (2002: US\$0.01)		
At 1 January 2003	7,449	7,012
Write back of shares under option (see below)	4,014	4,014
Shares transferred to employees	(559)	(559)
At 31 December 2003	10,904	10,467

The number of own shares held was as follows:

	Group Number	Company Number
Common shares of 1p (2002: US\$0.01)		
At 1 January 2003	12,333,645	12,060,930
Shares transferred to employees	(226,550)	(226,550)
At 31 December 2003	12,107,095	11,834,380

The market values of the group and company's holdings in own shares at 31 December 2003 were £31,478,000 and £30,769,000 respectively based on the market price at 31 December 2003.

The shares are held by the trusts and employee share ownership plans set out below. On 23 October 2002, as part of the Scheme of Arrangement (note 23) the shares held were converted with two 1p ordinary shares in Benfield Holdings Limited being converted to one US\$0.01 common share in Benfield Group Limited. On 27 May 2003 the share capital of Benfield Group Limited was restructured such that the issued common shares of US \$0.01 each were sub-divided into five common shares of 1p each. The number of shares shown above has been restated accordingly at 1 January 2003.

Benfield Employee Benefit Trust (1988)

The Benfield Employee Benefit Trust was established in September 1988. The trust was allotted shares in Benfield Holdings Limited in 1988 and since that time has purchased shares in certain specified transfer periods. The trustees of the trust make the shares that they hold available when employees exercise share options that have been granted, and have also gifted shares to employees at certain times. The trust receives any dividends that are paid in respect of its shareholding.

Benfield 1998 Employee Benefit Trust

The 1998 Employee Benefit Trust was established in December 1998. The shares held in the trust may be used to meet the obligations of Benfield Group Limited to the holders of share options granted. The trustee has also gifted shares to employees at certain times.

In June 2003, Benfield Group Limited satisfied the exercise of certain options by issuing new shares directly rather than by transferring shares from the trust as had previously been anticipated. Consequently the write down of the shares in the trust to the exercise price of the options is no longer applicable and has been reversed.

Under the provisions of the trust deed, the trustee waives any dividends in respect of shares held by the trust as trust assets.

Greig Fester Group Employee (Guernsey) Trust (1990) and the Greig Fester Group 1993 Employee (Guernsey) Trust

Greig Fester Group Limited ("Greig Fester") operated incentive arrangements through the Greig Fester Group Employee (Guernsey) Trust (1990) and the Greig Fester 1993 Employee (Guernsey) Trust. These trusts acquired shares in the Benfield Holdings Limited as a result of the acquisition of Greig Fester in November 1997. The trusts receive any dividends that are paid in respect of their shareholdings.

The costs of funding and administering the trusts and income earned by the trusts are included in the profit and loss account of the group in the year to which they relate and are set out below:

	Group 2003 £'000	2002 £'000	Company 2003 £'000	2002 £'000
(Decrease)/increase in profit before tax	(288)	76	(229)	74

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15. OTHER LONG-TERM INVESTMENTS

	Group £'000	Company £'000
Cost		
At 1 January 2003	5,572	850
Exchange adjustments	(373)	-
Additions at cost	208	-
Disposals	(909)	-
Transfer to current asset investments	(850)	(850)
At 31 December 2003	3,648	-

All long term investments are unlisted.

16. NET FIDUCIARY ASSETS

The following fiduciary assets and liabilities held by the group have been included in net current assets:

Group	2003 £'000	2002 (Restated) £'000
Insurance broking debtors (note 17)	3,756,026	3,853,234
Fiduciary investments (note 18)	37,346	60,891
Fiduciary cash and deposits	212,099	167,694
Insurance broking creditors (note 19)	(3,953,127)	(4,062,026)
Net fiduciary assets	52,344	19,793

Included within fiduciary cash and deposits are amounts which are available to the group for general corporate purposes of £48,553,000 (2002: £8,541,000).

17. DEBTORS

	Group		Company	
	2003 £'000	2002 (Restated) £'000	2003 £'000	2002 £'000
Amounts falling due within one year				
Insurance broking debtors	3,756,026	3,853,234	-	-
Amounts owed by group undertakings	39,875	2,813	206,435	198,917
Amounts owed by associated undertakings	1,295	134	-	-
Taxation recoverable	3,450	11,051	3,064	-
Deferred taxation	5,223	1,759	4,025	3,000
Other debtors	11,056	29,996	1,960	3,771
Prepayments and accrued income	12,394	13,690	847	375
	3,829,319	3,912,677	216,331	206,063
Amounts falling due after more than one year				
Deferred taxation	3,778	7,981	-	-
Other debtors	16	-	-	-
	3,794	7,981	-	-
	3,833,113	3,920,658	216,331	206,063

As at 31 December 2002, other debtors included a US\$20,000,000 (£12,500,000) receivable in respect of an insurance claim made in relation to a class action lawsuit against EW Blanch which was settled in 2003 (note 22).

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Deferred taxation

	Group		Company	
	2003	2002	2003	2002
	£'000	(Restated) £'000	£'000	£'000
Group				
Asset/(provision) for deferred tax comprises:				
Accelerated capital allowances	1,986	1,969	-	-
Provisions	4,527	3,922	-	-
Losses carried forward	-	96	-	-
Other timing differences	2,488	3,753	4,025	3,000
	<u>9,001</u>	<u>9,740</u>	<u>4,025</u>	<u>3,000</u>
 At 1 January	9,740	6,638	3,000	-
Amount charged to profit and loss	(799)	2,463	1,025	3,000
Movement arising on acquisitions	819	-	-	-
Exchange adjustments	(759)	639	-	-
At 31 December	<u>9,001</u>	<u>9,740</u>	<u>4,025</u>	<u>3,000</u>

At 31 December 2003 there is an unrecognised deferred tax asset of £7,926,000 (2002: £6,920,000). This comprises of trading and capital losses within the group which are unlikely to be utilised in the foreseeable future and other potential timing differences arising on share options which may reverse upon exercise at future dates.

No deferred tax has been recognised in respect of unremitted earnings held in foreign subsidiary undertakings on the basis that these have either been permanently reinvested or, when remitted as dividends, any taxes due will substantially be offset by foreign tax credits.

18. CURRENT ASSET INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Fiduciary investments - unlisted	37,346	60,891	-	-
 Non-fiduciary investments				
Listed investments	8,538	19,395	9,388	19,395
Unlisted investments	860	8	2	2
	<u>46,744</u>	<u>80,294</u>	<u>9,390</u>	<u>19,397</u>

Listed investments principally represents an equity investment in shares and warrants of Montpelier Re Holdings Limited with a carrying value of £6,331,000 (2002: £17,188,000). At 31 December 2003 the market value of listed investments was £79,208,000 (2002: £90,208,000). The unlisted investments are shown at the lower of cost and director's valuation.

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19. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2003	2002	2003	2002
	£'000	(Restated) £'000	£'000	£'000
Bank and other borrowings (note 21)	18,507	19,379	17,846	19,353
Loan notes (note 21)	134	9,037	-	2,442
Insurance broking creditors	3,953,127	4,062,026	-	-
Amounts due to group undertakings	178,059	-	190,847	86,536
Corporation tax	18,069	15,613	-	4,159
Social security payable	2,441	3,146	-	22
Other creditors and accruals	43,625	46,303	3,444	6,109
	<u>4,213,962</u>	<u>4,155,504</u>	<u>212,137</u>	<u>118,621</u>

20. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank and other borrowings (note 21)	37,595	161,322	37,595	161,004
Loan notes (note 21)	-	200	-	200
Other creditors and accruals	1,151	1,040	-	-
	<u>38,746</u>	<u>162,562</u>	<u>37,595</u>	<u>161,204</u>

21. BANK AND OTHER BORROWINGS

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Group				
Due within one year				
Secured bank loans due within one year or on demand (note a)	-	19,379	-	19,353
Bank Loans due within one year (note b)	17,846	-	17,846	-
BG Funding No 1 Plc secured facility (note c)	661	-	-	-
Loan notes	134	9,037	-	2,442
	<u>18,641</u>	<u>28,416</u>	<u>17,846</u>	<u>21,795</u>
Due after more than one year				
Secured bank loans (note a)	-	161,322	-	161,004
Bank loans	37,595	-	37,595	-
Loan notes to previous employee (note d)	-	200	-	200
	<u>37,595</u>	<u>161,522</u>	<u>37,595</u>	<u>161,204</u>

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- (a) The group repaid and cancelled its secured debt facilities on 18 June 2003, following the Initial Public Offering.
- (b) The group entered into a New Credit Facility on 18 June 2003 following the Initial Public Offering. These facilities comprise a £75m multicurrency term loan facility, which is repayable in instalments between 18 December 2003 and 18 June 2006, and a £50m multicurrency revolving loan facility, which is also available until 18 June 2006. The rate of interest payable on the term loan and the revolving loan fluctuates in line with the current LIBOR rate, plus a margin.
- (c) A group subsidiary undertaking, Benfield Premium Finance Limited ("Premium Finance"), has established a special purpose vehicle company, BG Funding No 1 Plc ("BG Funding"), in connection with the funding of its business of providing instalment finance for the payment of insurance premiums for customers. Part of these arrangements is a £1,250,000 facility from Premium Finance to BG Funding which has not yet been drawn down. The business of BG Funding is the purchase of finance receivables from Premium Finance which commenced in August 2003, being funded by a £200m sterling revolving facility which is secured on the trade receivables of BG Funding. This facility bears interest at rates linked to LIBOR and is repayable by 15 May 2004.
- (d) A number of loan notes issued by the group and its subsidiaries were repaid during the year.

22. PROVISIONS FOR LIABILITIES AND CHARGES

	Vacant properties £'000	Litigation and disputes £'000	Other £'000	Group Total £'000	Company Total £'000
At 1 January 2003	4,527	22,424	1,000	27,951	5,526
Exchange adjustments	(235)	(767)	-	(1,002)	(387)
Transfer (to)/from the profit and loss account	438	(152)	-	286	(776)
Transfer from investments in associated undertakings	-	-	485	485	-
Utilised in year	(1,418)	(14,803)	-	(16,221)	(577)
At 31 December 2003	3,312	6,702	1,485	11,499	3,786

Provisions for liabilities and charges includes £7,276,000 (2002: £24,652,000) in respect of fair value provisions made on the acquisition of EW Blanch, with £15,528,000 utilised in the year largely relating to a settlement of the class action (see below). In addition, £1,848,000 was released in respect of provisions previously held for alleged errors and omissions claims or circumstances against group companies, which were released due to the fact that during the year the group has successfully eliminated or mitigated its liabilities in relation to these matters.

Vacant properties

On the acquisition of EW Blanch, the group inherited certain vacant and partly sub-let leasehold properties, primarily arising from restructuring undertaken by EW Blanch prior to the acquisition. These properties are principally located in the United Kingdom and the United States. In addition, subsequent to its acquisition of EW Blanch, the group rationalised and consolidated its property space. Provision has been made for the residual lease commitments, together with any related outgoings, after taking into account any existing and anticipated sub-tenancy arrangements.

Litigation and disputes

In the ordinary course of the group's business it can be subject to claims for alleged errors and omissions made in connection with its broking activities. The group has recognised provisions in respect of claims for errors and omissions and other legal disputes, together with anticipated legal costs to the extent that any liabilities that arise from such exposures are deemed probable. Where appropriate, provisions are recorded gross and a separate asset is established to reflect anticipated recoveries under group insurance policies.

Due to the differing nature and circumstances of these liabilities it is not possible to make an overall assessment of when such liabilities are likely to result in a payment being made, if at all.

As at 31 December 2002, the group made a provision of US\$20,000,000 (£12,500,000) in respect of a class action lawsuit brought against EW Blanch and certain of its directors and officers by public shareholders in EW Blanch prior to its acquisition by the group. The lawsuit alleged that the defendants made false and misleading statements to the investing public, certain of the individual defendants profited from those statements and that EW Blanch's stock traded at artificially inflated prices. EW Blanch carried directors' and officers' insurance for the relevant period and the class action was settled in 2003 directly by the insurance company. An equivalent amount of US\$20,000,000 was accounted for within other debtors due within one year (note 17) and there was no net impact on the profit and loss account.

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Other

Other provisions comprise an amount of £1,000,000 (2002: £1,000,000) in respect of options granted over 20% of the share capital of the group's benefit consulting business and an amount of £485,000 (2002: £nil) representing the group's share of a deficiency in net assets within an associated undertaking (note 13).

23. CALLED UP SHARE CAPITAL

	2003 £'000	2002 £'000
Authorised		
141,173,300 Ordinary shares of 1p	<u>1,412</u>	<u>1,412</u>
Allotted, called up and fully paid		
110,517,000 ordinary shares of 1p	<u>1,105</u>	<u>1,105</u>

Changes to share capital during 2002

On 30 April 2002 19,999,998 cumulative redeemable convertible preference shares of 1 penny were allotted to a group of new shareholders for £1.00 per share resulting in a share premium of £19,799,998, the proceeds of which were used for working capital purposes.

In May 2002 the company allotted 194,137 ordinary shares of 1 penny to employees of the group at an issue price of £5.50 per share resulting in a share premium of £1,065,812.

In accordance with the provisions of the Articles of Association on 30 September 2002 the 10 convertible shares of £1.00, being the entire class of these shares, were re-purchased and cancelled by the company at par, being a total of £10.00. An amount of £10.00 has been added to that company's Capital Redemption Reserve.

On 30 September 2002 the company's shareholders approved a Scheme of Arrangement (the "Scheme of Arrangement") in order to establish a new holding company in Bermuda. The Court sanctioned the Scheme of Arrangement on 22 October 2002 and the Court Order became effective on 23 October 2002.

Following the Scheme of Arrangement:

- The share capital of the company was reduced by cancelling all of the company's authorised and issued shares;
- The authorised share capital of the company was then increased to its former amount by the creation of new ordinary shares equal in nominal value to the issued and unissued shares that had been cancelled;
- The reserve created by the cancellation of the company's existing shares was used to pay up 375,000 partly paid ordinary shares, issued on terms whereby Benfield Group Limited is liable to pay £2.05 per partly paid share when called to do so by the company, and 11,142,000 fully paid ordinary shares in the company which were allotted and fully paid to Benfield Group Limited;
- The company was re-registered as a private limited company.

Share options

Following the Scheme of Arrangement, share options granted by Benfield Holdings Limited under its 1998 Share Option Scheme were rolled over to options over the shares of Benfield Group Limited.

Deferred Share Units

Following the scheme of arrangement, the 2001 Deferred Share unit Retention Plan and the 2001 California Employees Deferred Share Unit Retention Plan ("the Plans") for employees of the group based in the United States of America apply to shares in Benfield Group Limited on a one-for-two basis.

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24. RESERVES

Group	Share premium £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2003 as previously reported	120,739	10,263	4,500	(69,863)	65,639
Prior year adjustment	-	-	-	4,960	4,960
At 1 January 2003 restated	120,739	10,263	4,500	(64,903)	70,599
Net exchange adjustments	-	-	-	(3,317)	(3,317)
Retained profit for the year	-	-	-	18,197	18,197
Increase of interest from associate to subsidiary undertaking	-	-	-	421	421
At 31 December 2003	120,739	10,263	4,500	(49,602)	85,900

Group consolidation reserves represent a transfer of retained earnings to non-distributable reserves in Benfield Ellinger Limited in 1997.

Cumulative goodwill relating to acquisitions made prior to 1 January 1998, which has been eliminated against reserves, amounted to £110,725,000 as at 31 December 2003 and 2002.

The prior year adjustment relates to the implementation of FRS 5 Application Note G

Company	Share premium £'000	Capital redemption reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2003	120,739	10,263	16,519	147,521
Retained profit/(loss) for the year	-	-	9,112	9,112
At 31 December 2003	120,739	10,263	25,631	156,633

25. ACQUISITIONS

On 31 December 2003 the group increased its interest in International Space Brokers, Inc. to 86% through the acquisition of a further 43% of the issued share capital for a cash consideration of US\$ 3,750,000. This, together with the original consideration for the investment in International Space Brokers, Inc., resulted in total goodwill of £4,731,000 as follows:

	International Space Brokers, Inc. £'000	Provisional fair value adjustments-revaluations £'000	Total £'000
Intangible assets	260	(260)	-
Tangible assets	44	-	44
Debtors	727	-	727
Cash	1,130	-	1,130
Creditors	(1,192)	(203)	(1,395)
Minority interest	(120)	57	(63)
Net assets	849	(406)	443
Goodwill			4,731
Total consideration			5,174

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The group's investment in International Space Brokers, Inc. was previously accounted for as an associated undertaking and as a consequence of the additional investment is now accounted for as a consolidated subsidiary.

During the year ended 31 December 2002, the group acquired an additional 27% interest in Wildnet Group Limited for a cash consideration of £154,000 resulting in goodwill of £154,000. In 2003, the group acquired the remaining minority interests in Wildnet Group Limited that it did not already own for a total consideration of £156,000 resulting in additional goodwill of £156,000.

26. EMPLOYEES AND DIRECTORS

	2003 £'000	2002 £'000
Staff costs for the group during the year		
Wages and salaries	113,198	117,844
Social security costs	11,997	10,964
Other pension costs (note 27)	9,809	9,053
Contractors	1,741	2,184
	<u>136,745</u>	<u>140,045</u>

	2003 Number	2002 Number
Average monthly number of people (including executive directors) employed		
International	798	762
US	633	637
Corporate	205	214
Contractors	47	41
	<u>1,683</u>	<u>1,654</u>

Included within the above aggregate remuneration are the following costs in respect of the directors remuneration:

	2003 £'000	2002 £'000
Total emoluments	4,571	6,140
Contributions to money purchase pension schemes	<u>1,347</u>	<u>477</u>

The remuneration of directors disclosed above includes the following amounts payable to the highest paid director:

	2003 £'000	2002 £'000
Total emoluments	1,331	1,680
Contributions to money purchase pension schemes	<u>405</u>	<u>60</u>

Retirement benefits are accruing to 6 (2002: 6) directors under money purchase pension schemes

27. PENSION COMMITMENTS

The group operates a number of pension schemes around the world. The assets of the money purchase schemes are held separately from those of the group in independently administered funds. The pension charge for the year ended 31 December 2003 was £9,809,000 (2002: £9,053,000). There are no unpaid contributions outstanding as at 31 December 2003 (2002: £nil).

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EW Blanch operated a defined benefit arrangement (the "Scheme") which was closed to the further accrual of benefits in December 1999. The Scheme is in the final stages of being wound-up and it is expected that this will be completed during 2004.

Liabilities in respect of virtually all pensioner members of the Scheme were settled by the end of 2003, with liabilities in respect of the remainder settled on 21 January 2004. The remaining assets of the Scheme (market value of £2,383,000 as at 31 December 2003, invested in cash) are to be used to meet the remaining costs of winding-up the Scheme. Once all expenses associated with the winding up of the Scheme have been settled any remaining assets are to be distributed to members who had benefits in the Scheme at 4 June 2003 by way of an additional transfer. In view of the above, the value of the liabilities of the Scheme as at 31 December 2003 are considered to be equal to the market value of assets of the Scheme as at that date and consequently the Scheme, which had a deficit of £3,253,000 at 31 December 2002, is not included within the 2003 figures below.

Benfield Greig Ellinger, Inc. operated a defined benefit arrangement in the United States which was closed to the further accrual of benefits in December 2001. As a result of the group's restructuring, scheme members are being transferred to the existing Benfield Inc. profit sharing pension scheme. It is the group's intention to terminate the defined benefit arrangement in 2004.

The above schemes were the only defined benefit schemes operated by the group during the year ended 31 December 2003. The group has an obligation to comply with the transitional rules of FRS 17 which include a requirement to make detailed note disclosures on actuarial scheme valuations and the impact that accounting for these valuations would have on the consolidated profit and loss account and consolidated balance sheet.

However, on winding up the schemes the basis used will be as required by legislation and not the basis required under FRS 17. The group believes that assets and provisions currently held cover the costs that will arise on winding up the schemes and, consequently, the deficits reflected in the following FRS 17 disclosures will not result in any additional liabilities to the group.

The most recent actuarial valuation of the Benfield Greig Ellinger, Inc. defined benefit pension scheme was at 31 December 2002. The valuations of the scheme used the projected unit method and were carried out by Norwich Union, professionally qualified actuaries. The principal assumptions made by the actuaries for the Benfield Ellinger, Inc. scheme for the 3 years ended 31 December 2003 and for the Scheme for the 3 years ended 31 December 2002 were:

	2003 %	2002 %	2001 %
Rate of increase in pensions in payment (benefits accrued after 5 April 1997)	2.5%	2.5%	2.25%
Discount rate	6.25%	5.75% to 7.25%	5.50 to 6.50%
Inflation assumption	2.5%	2.5%	2.25%

The assets of the scheme and the expected rate of return were:

	2003 Long-term rate of return expected %	Value at 2003 £'000	2002 Long-term rate of return expected %	Value at 2002 £'000	2001 Long-term rate of return expected %	Value at 2001 £'000
Equities	9.5%	545	7.75% to 8.50%	2,180	7.75% to 8.50%	2,957
Gilts	N/A	-	4.50%	12,817	4.50%	13,106
Bonds	6.0%	274	5.50%	11	5.50%	11
Cash	N/A	-	3.00%	349	3.00%	267
Total market value of assets		819		15,357		16,341
Present value of scheme liabilities		(1,248)		(19,165)		(18,080)
Deficit in the scheme		(429)		(3,808)		(1,739)
Related deferred tax asset		167		1,273		554
Net pension liability		(262)		(2,535)		(1,185)

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These amounts above were measured in accordance with the requirements of FRS 17. The FRS 17 requirements do not reflect the actual basis to be applied in the winding-up of these schemes and these FRS 17 disclosures will not result in additional liabilities to the group.

FRS 17 requires disclosure of these notional deficits in the financial statements of the group. If the above amounts had been recognised in the financial statements at 31 December 2003, 2002 and 2001 the group's net assets would have been £208,203,000, £62,688,000 and £50,902,000 respectively, and the profit and loss reserves would have been £(61,911,000), £(74,225,000) and £(64,821,000), respectively. In addition for the year ended 31 December 2003 £37,000 would be recognised as expected return on pension scheme assets, the group would record a net interest cost of £80,000 and the consolidated statement of total recognised gains and losses would have a further gain of £32,000.

28. OPERATING LEASE COMMITMENTS

The group had annual commitments under non-cancellable operating lease agreements in respect of properties, plant and equipment, for which the payments extend over a number of years, as follows:

	2003		2002	
	Property £'000	Plant and equipment £'000	Property £'000	Plant and equipment £'000
Lease expiry:				
Within one year	887	49	894	41
Within two to five years	5,618	75	5,863	45
After five years	5,066	0	6,039	-
	<u>11,571</u>	<u>124</u>	<u>12,796</u>	<u>86</u>

The group has assigned a number of leasehold properties to third parties. Should the assignees fail to fulfil any obligation in respect of these leases, the group may be liable for these defaults. These leases expire between 1 and 5 years. The potential annual operating lease liability in respect of these leases should the assignees default at 31 December 2003 is £892,000 (2002: £892,000)

29. POST BALANCE SHEET EVENTS

The group committed to sell its holding of warrants in Montpelier Re Holdings Limited on 15 March 2004. This resulted in the group receiving gross proceeds of US\$54,100,000.

30. CONTINGENT LIABILITIES

Syndicated facilities agreement guarantee

Benfield Holdings Limited is a Guarantor to a £125m syndicated facilities agreement, ("the Facilities Agreement") entered into by Benfield Group Limited on 18 June 2003. The facility provides for a £75m multicurrency amortising term loan and £50m multicurrency revolving loan and bank guarantee facility. The Facilities Agreement expires on 18 June 2006. The amount outstanding at 31 December 2003 on the amortising term loan is £56m and the revolving loan £nil.

Proceedings relating to Superior National Insurance Group

Superior National Insurance Group ("Superior National"), a former customer of EW Blanch, is a defendant in arbitration proceedings with its reinsurers relating to workers' compensation reinsurance coverage that EW Blanch placed on its behalf. It is alleged by Superior National's reinsurers, among other things, that this reinsurance programme should be rescinded for alleged non-disclosure of material information. In March 2000, Superior National was put into conservatorship by the California Department of Insurance, which continues to defend the arbitration proceedings. In addition, other arbitrations and lawsuits are pending against Superior National arising out of business it ceded, in relation to which EW Blanch also acted as reinsurance intermediary. EW Blanch is not party to any of these lawsuits or arbitrations, nor, to date, has any claim or threat of a claim been made against it relating to its involvement in the placement of these reinsurance protections. However, it is possible if Superior National loses its arbitration proceedings, and as a result makes no reinsurance recoveries, EW Blanch could be pursued for damages in connection with an error and omission against it, or return of the reinsurance brokerage it previously received and recognised for the placement of this coverage. On the basis of professional advice received, the Directors do not currently believe that a material liability will flow to the company from an error and omission claim or return of brokerage.

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Funded Unapproved Retirement Benefit Scheme ("FURBS")

In November 1997, the merger of the group with Greig Fester Group Limited ("Greig Fester") triggered awards under various employee incentive schemes. Awards to most employees were satisfied by the way of cash and shares out of employee benefit trusts. However, in the case of some senior employees the awards were made directly by and at the discretion of the trustees of the employee benefit trust into FURBS set up by Greig Fester for each individual. Based on professional advice received at the time, no income tax or national insurance contributions were made by the company on behalf of the employees in respect of these awards by the trustees into their FURBS. The Inland Revenue continue to review documentation and implementation of the FURBS award arrangement. On the basis of professional advice received, the directors are not currently of the view that a material liability will fall on the company and accordingly have made no provision.

In addition, in the ordinary course of the company's business it can be subject to claims for alleged errors and omissions made in connection with its broking activities. Such liabilities are provided for when it is probable that the liability has been incurred and the amount of the liability can be reasonably estimated.

Although the outcome of current claims and litigation cannot be known with any certainty, on the basis of current information, management consider that the ultimate determination of such claims and litigation will not have a material adverse effect on the financial position of the company. However, it is possible that future results and cashflows could be materially affected by an adverse outcome arising from claims and litigation.

31. RELATED PARTY TRANSACTIONS

Transactions relating to Bluesure Limited

Under a restructuring plan during the year ended 31 December 2002, the group's holding in Bluesure Limited ("Blasures") was increased, initially to 82% and subsequently to 95% from the 13% held at the start of the year. Bluesure has been excluded from the consolidation and accounted for under the equity method of accounting as, under this restructuring, its majority stake was held for resale. The final stage of the restructuring was completed in March 2003 and as a result the group's equity holding was reduced to 48%.

In the year ended 31 December 2002 the group advanced funding to Bluesure of £6.4m. In the year ended 31 December 2003, as part of the restructuring referred to above, £7.5m of the loans advanced to Bluesure were converted into ordinary shares. Investments and loans, after provision for impairment, outstanding as at 31 December 2003 and 2002 were £0.8m and £2.7m, respectively. In each of the last two years the group provided Bluesure with office space and general administrative services at no cost.

Transactions relating to International Space Brokers, Inc

The group owns 86% (2002: 43%) of the ordinary shares in International Space Brokers, Inc ("ISB"). Grahame Chilton, a director of the company, was also a director of ISB until 20 January 2004. The group previously had a revenue sharing agreement with ISB, which generated £0.7m of revenue in 2003 (2002: £1.4million). ISB shares certain office space with the group.

Transaction relating to International Catastrophe Managers, LLC

The group owns 19.9% of the membership interests in International Catastrophe Managers, LLC ("ICM"), a managing general agency. Rodman Fox, a director of the company, is also a director of ICM. ICM owes the group approximately £0.9m at 31 December 2003 (2002: £1.2m), including accrued and unpaid interest, under a subordinated secured promissory note, dated 12 May 1999, which matures on 30 June 2006.

Transactions relating to Equity Partnership Limited

The group owns 20% of the ordinary shares in Equity Partnership Limited ("Equity"). It also owns 850,000 preference shares in Equity and has agreed to subscribe for a further 150,000 preference shares at the option of Equity's board of directors.

Equity owns 70% of EPIC Asset Management Limited ("EPIC"), which, for a market-rate fee, provides the group with discretionary investment management services in connection with approximately \$50m of fiduciary assets that the group has placed under EPIC's management pursuant to an investment management agreement dated 3 May 2002. The group agreed to enter into a discretionary fund management agreement with EPIC pursuant to a shareholders' agreement, dated 9 August 2001, with respect to the investment in Equity.

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Transactions relating to Benfield Premium Finance Limited

The group owns 77% (2002: 80%) of the ordinary shares in Benfield Premium Finance Limited ("BPF"), a subsidiary undertaking. Grahame Chilton and John Whiter, directors of the company, are also directors of BPF. The group has committed, pursuant to a subscription and shareholding agreement dated 4 May 2001, [to provide a maximum of £1.0m to BPF by way of debt or equity] and to consider, in good faith, any reasonable requests for the provision of working capital loans or the guarantee of third party bank loans. The group had advanced at 31 December 2003 a total of £7.0m (2002: £3.6m) in funding to BPF. The group intends to apply a portion of this amount to satisfy the funding commitment under the subscription and shareholders agreement. The group has provided a letter to the auditors of BPF confirming it will provide financial support to the company.

Transactions relating to Benfield Sports International Limited

The group owns 50% of the ordinary shares in Benfield Sports International Limited ("BSI"), an associated undertaking. Grahame Chilton and John Whiter, directors of the company, are also directors of BSI. The group currently provides BSI with general administrative services at no cost. The group pays certain expenses on behalf of BSI and as of 31 December 2003 BSI owed the group £0.1m (2002: £0.1m).

Transactions relating to Commission Freedom Holdings Limited

The group owns 15% of the ordinary shares in Commission Freedom Holdings Limited ("CFHL"), an associated undertaking. Grahame Chilton, a director of the company, was also a director of CFHL, resigning on 24 October 2003. During the year the group provided an additional £0.2m (2002: £0.3m) to CFHL. The group provided CFHL with office space and general administrative services at no cost. CFHL ceased to operate from the group's offices during the year. At 31 December 2003 CFHL owed £0.5m to the group, with a provision having been made for the full amount outstanding by CFHL.

Transactions involving Rodman Fox

At 31 December 2002, Rodman Fox, a director of the company, held a loan note of £4.2m payable by the group and was also a beneficiary of a £4.2m loan made by the group, both of which bore interest at 4.25% per annum. All amounts, both due to and due from Mr Fox, were settled on 8 May 2003.

32. ULTIMATE PARENT COMPANY

During 2002, Benfield Group Limited was incorporated as a Bermudan exempted company with limited liability to replace Benfield Holdings Limited as ultimate holding company of the Benfield group and to redomicile the holding company from the United Kingdom to Bermuda. The redomiciliation, which became effective on 23 October 2002, was accomplished by way of a Court approved scheme of arrangement under section 425 of the United Kingdom companies Act 1985.

Therefore, from 23 October 2002, the ultimate parent company is Benfield Group Limited, a company incorporated in Bermuda. Copies of the consolidated financial statements of Benfield Group Limited, the largest and smallest group to consolidate these financial statements, can be obtained from the company Secretary at 55 Bishopsgate, London EC2N 3BD.

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33. COMPANIES IN THE CONSOLIDATED FINANCIAL INFORMATION

This consolidated financial information presents the financial record of the group for the year ended 31 December 2003. The following are the principal subsidiary undertakings that have been included in the consolidated financial information.

Company	Nature of business	Country of incorporation	Effective interest at 31 December	
			2003	2002
Benfield Limited	Reinsurance intermediary	United Kingdom	100%	100%
Benfield, Inc.	Reinsurance intermediary	USA	100%	100%
Benfield Argentina SA	Reinsurance intermediary	Argentina	100%	100%
Benfield Asia Pte. Limited	Reinsurance intermediary	Singapore	100%	100%
Benfield Australia (Pty) Ltd	Reinsurance intermediary	Australia	100%	100%
Benfield Bratislava s.r.o	Reinsurance intermediary	Slovak Republic	100%	100%
Benfield do Brasil Ltda	Reinsurance intermediary	Brazil	100%	100%
Benfield Canada Limited	Reinsurance intermediary	Canada	100%	100%
Benfield Iberica SA	Reinsurance intermediary	Spain	100%	100%
Benfield (Mexico) SA de CV	Reinsurance intermediary	Mexico	100%	100%
Benfield Munchen GmbH	Reinsurance intermediary	Germany	100%	100%
Benfield (New Zealand) Limited	Reinsurance intermediary	New Zealand	100%	100%
Benfield Paris SA	Reinsurance intermediary	France	100%	100%
Benfield Praha a.s.	Reinsurance intermediary	Czech Republic	100%	100%
Benfield (South Africa) (Pty) Limited	Reinsurance intermediary	South Africa	100%	100%
Benfield Bermuda Ltd	Reinsurance intermediary	Bermuda	100%	100%
Benfield Corredores de Seguros Ltda	Reinsurance intermediary	Chile	90%	90%
Benfield Corredores de Reaseguros Ltda.	Insurance intermediary	Chile	90%	90%
International Space Brokers, Inc.	Insurance intermediary	USA	86%	46%
Benfield Advisory Limited	Corporate finance and investment advisers	United Kingdom	100%	100%
Orbit Benefits Limited	Provision of financial services	United Kingdom	100%	100%
Orbit Protection Limited	Benefits consultancy	United Kingdom	100%	100%
Paragon Strategic Solutions, Inc	Provision of run-off services	USA	100%	100%
Wildnet Group Limited	Website designers and managers	United Kingdom	100%	78%
Benfield Premium Finance Ltd	Securitised insurance premium financing	United Kingdom	77%	80%