Company Number
3121594

[We have built a strong general UK insurance company which operates alongside a wholly owned major syndicate in the Lloyd's market, giving us a flexible trading platform.]

7.10.04
598
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[The Stronger Option]

Fig I – Financial highlights	**31 December 2003**	31 December 2002	Change
Gross premiums written	**£1,015.7m**	£662.7m	+53%
Net premiums written	***£850.8m***	£552.2m	+54%
Gross premiums earned	**£834.3m**	£444.3m	+88%
Net premiums earned	**£671.4m**	£325.3m	+106%
Technical profit	**£100.3m**	£52.0m	+93%
Operating profit based on long term rate of investment return	**£91.1m**	£25.0m	+264%
Basic earnings per share	**6.58p**	1.11p	+493%
Net assets	**£701.5m**	£476.3m	+47%
Net assets per share	**72.0p**	63.7p	+13%
Combined ratios – Brit share	**88.5%**	88.6%	-0.3%

- Record pre tax profits £77.6m (2002: £10.0m)
- Operating profits up 561.4% to £75.4m (2002: £11.4m)
- Gross written premiums for 2003 increased 53.3% to £1,015.7m (2002: £662.7m)
- *2004 gross written premium target £1.3bn*
- Early interim dividend payment of 2p, subject to court, shareholder and stockholder approval
- Appointment of two new Non-Executive Directors
- Favourable market conditions continue to exist in key business areas with rates continuing to harden in casualty and stabilising elsewhere
- Further progress in key UK commercial insurance markets with premiums up by 138% to £309.4m
- *Combined ratio: 88.5% for Brit's share*
- Investment management team at associated undertaking The Equity Partnership Limited in which Brit has an economic interest of 47.6% continued to make significant progress. Funds under management increased to £1.4bn

2002 began the turn around in your Company's fortunes after the disappointing results of 2001. 2003 has seen it develop into a very substantial and profitable player in the UK general insurance sector. The strategies which were put in place and the determination with which they were seen through, together with a favourable market, have combined to produce the best results your Company has ever achieved and to place it in an excellent position for the future.

Pre-tax profits increased by £67.6m to £77.6m. Based on our forecast gross premium for 2004 of £1.3bn, we are projecting to write insurance business at a ratio of just over 2:1 of premium to net tangible assets. We believe this gives us a secure position from which the business can prosper in future years as the market has to respond to the higher levels of solvency expected by the regulators.

In October we announced a clarification of our dividend policy and reinforced our commitment to return cash to shareholders as soon as possible. On that note, I am pleased to tell you that it is our intention to apply to the High Court and to seek shareholders' and stockholders' permission to execute a capital restructuring programme to create a distributable surplus. This will enable us to resume dividend payment which we intend to do as early as is practical in 2004. Barring unforeseen circumstances and assuming successful completion of the capital restructuring, we expect this first payment to be 2p per share payable as an early interim dividend.

We are happy to announce the appointment of two new Non-Executive Directors following an extensive selection process. They are Peter Hazell and Michael Smith.

Peter is currently Chairman of Argent Group plc and a Non-Executive Director of UK Coal plc. He was formerly UK Managing Partner at PriceWaterhouseCoopers. His appointment is effective 1 April 2004.

Michael was senior partner at the law firm of Titmuss Sainer Dechert where he headed their insurance practice. He currently works as a consultant for Randall & Quilter Investment Holdings Limited. His appointment is to take effect on 8 March 2004.

We are also delighted to announce the promotion of Dane Douetil to the role of Deputy CEO of the Group. His portfolio responsibilities are expanded to include HR, business process and IT.

Overall 2003 saw further improvement in rates over 2002 levels. Towards the end of 2003 and into 2004 some softening has started to occur, but not to the extent that we had anticipated.

It is gratifying to see market discipline having an effect on maintaining a satisfactory trading environment and there are numerous contributing factors which continue to help promote this discipline. Investment returns no longer provide the opportunity or the encouragement to underwrite for growth at the expense of underwriting profitability.

Chairman's Statement

[2002 began the turn around in your Company's fortunes. 2003 has seen it develop into a very substantial and profitable player in the UK general insurance sector.]

2003 has shown that the prospect of reserve deterioration for the insurance market remains real, particularly where there is significant historic exposure to underrated casualty business. We do not believe we have any significant exposure relative to this market problem. Global insurance capital levels remain significantly below the peaks reached prior to the US terror attacks of 2001. We expect these factors, which encourage discipline, to continue through 2004.

We have made significant progress in our strategic aims for our business in the UK. Brit Insurance Limited (BIL), our UK insurance company, wrote £384.5m of gross premium during the period. This was an increase of 181.9% over the previous year. This growth was achieved as a result of the successful integration during the year of the Employers Liability/Public Liability team, the portfolios of business acquired from Gerling, Markel and Creechurch and the acquisition of PRI.

In line with our strategy of focussing on areas of our business which have the potential of providing the best returns, we sold our direct sales operation, Peoples Choice which, following a review, did not fit the criteria required of a core element of our business.

2004 will see us continuing to grow in the UK marketplace as we further roll out our nationwide commercial initiative at a time which still offers excellent opportunities for Brit to add value by expanding its UK client base. Please be assured that this growth is not at the expense of quality and that I have full confidence in the underwriting discipline applied by management.

As Chairman I have been extremely fortunate to have had the support from employees at all levels who have carried out their tasks with diligence and vigour. The development of our business depends on everyone doing their best and I am determined to create an environment in which people are encouraged to succeed. I am pleased that all eligible staff are having the opportunity to share in our success through benefiting from the profit sharing scheme.

Also I appreciate the support and understanding shown by our shareholders with whom I am committed to continue a dialogue of frank and open views through our investor meetings and by any other means as opportunities arise.

I want to record my thanks to Jo Welman who is resigning from the main board of Brit at the AGM. Jo founded Brit with Neil Eckert in 1995. He has been a magnificent servant to the Group and when I took over from him in 2002, Brit was already emerging as a major player, a great achievement for Jo. He doesn't leave the Group; far from it, he continues to drive forward the investment management arm, Equity Investment Partners and Brit continues to get closer to this group.

Last but not least, I would like to thank my fellow Non-Executive Directors who give me immense support at all times. I appreciate the time they devote and the wealth of experience they bring to the Group. Let us look forward to a successful 2004.

Clive Coates Chairman

C.H. Coates

Chairman's Statement

[I appreciate the support and understanding shown by our shareholders with whom I am committed to continue a dialogue of frank and open views.]

Brit has continued to make good progress in 2003. We have experienced excellent underwriting conditions and a benign claims climate that, coupled with our accomplishment of several key objectives, helped to produce this record result. We significantly strengthened both our UK business and the capital of the Group. We consolidated our position within the FTSE 250 and are currently ranked within the UK's top 200 quoted companies by market capitalisation, bringing the Company to the attention of a wider base of institutional investors.

Our underwriting operations have been refocused so that all decisions are made with a view to capital allocation between our FSA regulated insurance subsidiary or our Lloyd's syndicate which is capitalised exclusively by Brit. We continued to instil underwriting discipline across all classes of business to ensure that group targets are met while underwriters justify every pound of capital allocated. Systems are now in place to ensure that we are able to allocate and utilise capital efficiently to maximise returns. We have one of the strongest balance sheets of UK general insurers and continue to experience favourable market conditions in which we can grow our business.

The investment management company, The Equity Partnership Limited ("EPL"), in which we have an economic interest of 47.6% is treated as an associated undertaking. It has had another successful year with a profit before tax of £0.5m and funds under management have increased from £1.1bn to £1.5bn. During the period, we disposed of Peoples Choice (Europe) Limited ("Peoples Choice"), our personal lines distribution business.

Financial Performance

Brit has seen a strong financial performance in 2003. Operating profits rose to £75.4m from £11.4m in 2002, helped by the combination of improved underwriting conditions and a satisfactory investment management performance. Our underwriting performance is highlighted by record levels of earned premium income and an excellent combined ratio of 88.5%. Investment funds increased by 49.0% while our post tax return on equity for the year was 9.5%, up from 1.7% for 2002, an improvement but still with significant room for further growth.

Capital Reorganisation and Dividends

Whilst we remain one of the more strongly capitalised UK general insurance businesses, we are conscious that our investors require a return on their investment. We are delighted to announce, subject to the approval of the High Court, shareholders and stockholders, a proposed capital reorganisation that will enable us to declare a dividend much earlier than previously anticipated. We stated in October 2003 that it was our policy to pay a minimum dividend of 70% of annual post tax profit, subject to available distributable reserves. On completion of the proposed capital reorganisation, we will be in a position to commence these dividend payments.

The key features of the proposals are as follows:

- A reduction of £170m in the share premium account;
- This results in a corresponding increase in distributable reserves, turning the current negative balance of £66m on parent company distributable reserves into a positive balance of £104m;
- The positive balance will be utilised to manage dividends over time in accordance with the Group's published dividend policy and to overcome technical timing impediments in the distribution of profits from underwriting subsidiaries to the parent company;
- A technical adjustment to conversion price of the Company's 8.5% Convertible Unsecured Subordinated Loan Stock 2008 from 88p per ordinary share to 81p, to compensate stockholders for the effect of these proposals on their conversion rights;
- Suitable arrangements for sundry creditors of the parent company have been put in place; and
- High Court approval to be sought during April 2004.

Operating and Financial Review

[We consolidated our position within the FTSE 250 and are currently ranked within the UK's top 200 quoted companies by market capitalisation.]

Business Activity

During 2003 we have continued to build our FSA regulated insurance company, Brit Insurance Ltd ("BIL") faster than the Lloyd's Syndicate. Our aim is to achieve over half of the Group's underwriting in BIL by the end of 2004. All classes of business originally intended to be moved into BIL from the Syndicate have now made the transition.

Deciding which entity writes which class of business depends upon a combination of availability of licences, security and the rating that we can offer, clients' and brokers' preferences, efficiency of capital usage and levies imposed. Other considerations are maintaining an even spread of risk and volatility between the two entities and ensuring that the Group's catastrophe peak exposures are evenly spread. In summary, although there are some exceptions to the rule, BIL is used for our UK/European Direct business whilst our Lloyd's Syndicate is used for our US and International business where we benefit from Lloyd's licences and global brand.

UK Initiative

During 2003 Brit made good progress towards its goal of building a strong franchise in the UK commercial sector. Premium income in the collective area of UK property, casualty and motor grew by 138% to £309.4m. Groundwork was laid in establishing our regional office network which we expect to complete by the end of this year. The network will be there to provide instant access for regional brokers through an automated business process, with point of sale policy delivery.

The aim is to have around seven regional centres servicing the local broking community providing a full spectrum of coverage on a stand-alone or combined basis for commercial clients. Commoditised personal lines insurance remains a competitive market segment dominated by affinity brands, banks and supermarkets. Brit will limit its personal lines activities to niche, non-commoditised areas where competitive pressures remain lower.

The UK initiative was aided by the successful completion of the acquisition of renewal rights of the Markel motor book, complementing the similar deal done with Gerling in October 2002, alongside the acquisition of renewal rights of the Creechurch UK property business and its underwriting team.

We also acquired PRI Group Plc ("PRI"), a recently listed UK company, who specialised in underwriting UK casualty business. This considerably helped build momentum for our UK initiative, but also enabled us to increase the paid up capital of BIL to £278.0m. We were disappointed not to retain more of PRI's underwriting team but with our expanded casualty team of over 30 people we have more than met our business targets.

In 2004 Brit will focus on developing its business process combined with strict underwriting controls for products that will be exclusively marketed through the broking community. We believe that the franchise vacated by companies such as Independent and The Underwriter, and the fallout from the amalgamation of the large general insurers in the UK has created a need for a new major force in this market. This has been confirmed again and again by the broking community. Our sponsorship of Surrey County Cricket Club and the Brit Insurance Oval will substantially raise our brand awareness, and supports our determination to meet this challenge.

Lloyd's Operation

Brit completed its strategic goal of not only owning 100% of its Lloyd's capacity but successfully closing and merging the four syndicates into one, Syndicate 2987. We exited from the Term Life business. This business required stand-alone capital, was sold through non-complementary distribution channels and was not meeting critical mass and size requirements. We also pulled out of the administration of the remaining syndicate supported exclusively by third party capital. This streamlining will greatly cut down on the administrative and regulatory burden that was created by running nine different syndicates. We also exited from direct aviation business, as announced in August 2003, as a result of dissatisfaction with market terms and conditions.

[BIL is used for our UK/European direct business whilst our Lloyd's syndicate is used for our US and International business.]

Investment activities

We have continued our 34.1% holding in The Equity Partnership Limited ("EPL") which controls two FSA regulated investment managers, EPIC Asset Management Limited ("EPAM") and Epic Specialist Investments Limited ("ESI"). The Group treats the Epic Investment Partners group as an associated undertaking.

The group had another successful year with a profit before tax of £0.5m. The returns from the fixed income portfolios were in line with their benchmarks in what was a very difficult year for bond markets. This growing performance track record is being translated into both significant third party mandates and a greater concentration of Brit's portfolios under the stewardship of EPL.

During the Autumn, ESI successfully raised £45.0m for two close-ended investment companies listed on AIM. One provides asset-backed finance for companies emerging from distressed situations and the other is an environmental fund. Additionally, ESI raised a further £55.3m for an open-ended investment company to invest in the UK equity market.

During 2003 the Epic Investment Partners group's two investment management companies have increased funds under management from £1.1bn to £1.5bn.

Ri3K

The period also saw considerable progress for Ri3K, our electronic reinsurance platform. Its membership of cedants, brokers and reinsurers now exceeds 100, including some of the most highly regarded names in the industry. Adoption is at times frustratingly slow, but the management team have worked very hard and we remain supportive.

Underwriting Rating Levels

Market conditions remained good during 2003 as can be seen from Fig II, the table of rate movements. This was particularly true in the casualty arena which continued to harden at a pace. Ongoing uncertainty over prior liabilities, future awards and investment performance will, we believe, result in casualty rates continuing to harden through 2004.

We were pleasantly surprised by the robustness of the reinsurance market during the 2004 renewal season and although we expect this to come under some pressure during the remainder of 2004, we believe that market discipline will stay. Whilst there is some overcapacity in this area, rates are high by historic comparison and we are optimistic for 2004.

Reinsurance

The reinsurance spend, as a percentage of gross premium income, decreased from 21.2% in 2002 to 16.2% in 2003. This principally reflects our continued strategy of reducing reliance on reinsurance though some rate reductions have also been achieved.

Realistic Disaster Scenario

The RDS (Realistic Disaster Scenario) exercise is undertaken every quarter to enable the Group to monitor potential exposure to catastrophic events and to ensure that the Group's risk appetite is not breached.

The events illustrated in Fig III are based on windstorms with a return period of 1 in 100 and earthquakes with a return period of 1 in 200. Where it is possible, losses are estimated on a probabilistic basis using Risklink, a proprietary catastrophe risk modelling software product produced by Risk Management Solutions (RMS).

Capital Allocation

Brit is proud of its dynamic capital allocation process for underwriting. The head of each line of business is required to submit a detailed business plan which includes:

- Targeted rates of return based on individual Risk Based Capital ratios;
- Their own contribution to group Realistic Disaster Scenarios; and
- Pricing assumptions that are independently verified by group actuaries and then monitored on an ongoing basis to assess projections versus outcome.

II – Rating index

	2000	2001	2002	**2003**
Accident and Financial	N/A	100	131	**142**
Airlines	100	250	225	**209**
General Aviation	100	174	261	**312**
Space	100	125	173	**207**
Casualty	100	122	207	**288**
Marine	100	112	144	**156**
International Property	100	112	150	**155**
UK Property	100	104	123	**132**
Reinsurance	100	111	153	**161**
Motor	100	108	115	**120**
EL/PL	N/A	100	200	**285**

Year 2000 as base year. Airlines/Aviation movements shown up to July 2003. The rate movements above are based on internal assessment of business written by the Group and are therefore subjective.

Fig III – Brit Group realistic disaster scenario exposure as a percentage of premium income

Gross Loss	Gross Loss £m	Net Loss %	Net Loss £m	%
US Windstorm	196.97	23.17	78.86	9.28
California Quake	237.75	27.97	84.46	9.94
European Windstorm	203.75	23.97	85.75	10.09
Japanese Quake	194.65	22.90	71.74	8.44

As at 1 October 2003. Based on Gross Net Premium income of £850m.

Fig IV – Business mix

	Gross written premium 2003		Gross written premium 2004 Forecast	
	£m	%	£m	%
Accident and Financial	**114**	**11**	162	12
Aerospace	**61**	**6**	56	4
Casualty	**114**	**11**	138	10
Marine	**80**	**8**	126	9
Property	**97**	**10**	162	12
Reinsurance	**225**	**22**	283	21
UK/commercial lines	**309**	**30**	438	32
Other	**16**	**2**	0	0
	1,016	**100**	1,365	100

Fig V – Premium income by geographical area as a percentage of premium income

UK	2004 underwriting year (forecast)	41%
	2003 underwriting year	36%
Europe	2004 underwriting year (forecast)	8%
	2003 underwriting year	8%
USA	2004 underwriting year (forecast)	30%
	2003 underwriting year	30%
Rest of the World	2004 underwriting year (forecast)	21%
	2003 underwriting year	25%

This creates a process where, on a weekly basis, capital is awarded to, or surrendered by, various classes depending upon their return potential. There is also a constant and active peer review process.

This process has been tested during 2003 at a significant level. As a result of our concerns over airline risk, not only regarding rates but more importantly the structure of the risk, we withdrew from that class during the year and were able to re-allocate the capital in areas where we believe the rewards are greater.

US Terror Attacks

The net loss reserved by the Group as at 31 December 2003 in respect of the US Terror Attacks was US$130.0m (2002: US$132.0m), which has not materially changed during the year.

The overall loss to Brit Insurance Limited and the combined Brit Syndicates (inclusive of third party participators) was US$377.7m gross and US$176.1m net. The 2001 Syndicate years have closed into Syndicate 2987 with effect from 31 December 2003. This closure will not increase the net loss in respect of Brit's retained share at that date. Future reporting will be based upon the total position as grossed up by the 2001 closure.

At 31 December 2003, gross paid claims accounted for 55.3% of the gross ultimate and the incurred position was 85.9% of the gross ultimate. The Group's gross IBNR (incurred but not reported) was therefore 14.1% of the gross ultimate.

Employees

We maintain our belief in the importance of the people we employ and have increased our investment in our people strategy both financially and culturally. The training programme is well supported and our graduate development programme commenced in the third quarter 2003. The feedback both from the graduates and the business is positive.

We are in the process of forging links with Birmingham University through its business school where we are sponsoring a Lecturer to develop an Insurance and Risk Management module for their MBA courses. By this means we will help to raise the profile of insurance as a career of choice for quality graduates. We will also take the opportunity to utilise the research skills of the University to assist in product development.

Building the Brit Brand

During 2002 we consolidated the many diverse Group companies under the single identity of 'Brit Insurance' by embracing one common design, typography and culture. This has since been rolled out across signage, literature, websites and other communications. The next step was to build the new Brit brand in two stages. Firstly, raising the Group's profile, followed by brand awareness with the rate of progress and budget applied to accord with Brit's commercial development, growth and distribution evolution.

In two further planned steps, Brit has chosen to reinforce and develop brand image through its association with a duo of sport sponsorship properties, each chosen to match Brit values, stature, success, dynamism and responsibility. A strong presence is being created leveraging established press and television channels. Sporting excellence offers many promotional platforms to reinforce Brit's values and to communicate brand and product messages. Sport offers pro-am opportunities to engage our distributors and customers to build goodwill and partnership.

In 2003, Brit entered into a successful association with the "Brit Super Series Squash Finals". This globally televised event is an ideal fit, as it is the only professional sporting event held within the Square Mile of the City of London. In February 2004, as part of Brit's expanding distribution ambitions, we have extended our sponsorship activities to embrace the now re-named "Brit Insurance Oval", one of the world's oldest and most famous cricket venues. The sponsorship includes Surrey County Cricket Club. This association will extend brand awareness from our London centre both nationally and internationally.

[We have extended our sponsorship activities to embrace the now re-named "Brit Insurance Oval", one of the world's oldest and most famous cricket venues.]

Investor Relations and Governance

The Company's investor relations team organises regular meetings with major investors and stakeholders and disseminates information through various media. A programme of meetings is initiated after the release of final and interim results, or any other significant announcement. The investor relations section on the Company's website, www.britinsurance.com displays press releases, shareholder presentations and the terms of reference for the Audit, Nomination and Remuneration Committees as soon as permitted. Shareholders are encouraged to contact the Company directly with questions or concerns and, subject to price sensitivity, the investor relations team seeks to provide an efficient and timely response.

In addition, as recommended by the Higgs Report, the Chairman and Senior Independent Non-Executive Director held a series of meetings with significant shareholders during 2003.

Current and Future Strategy

Brit has changed from its beginnings as a portfolio of insurance investments into a focused insurance group. The early strategy of acquisition and consolidation has developed into one of organic growth and quality improvement. Any future acquisitions will have to fulfil key criteria, including the avoidance, where possible, of reserve risk, which we have always held to be a fundamental requirement. Our underwriting strategy continues to evolve and we have focussed our account in those areas where we believe that we can generate the most attractive long term return on capital. Our key growth area is commercial insurance business in UK and international markets.

We will maintain a presence in certain niche classes of personal lines in order to service the broker community but we will not chase rates down at the expense of an underwriting return and we expect this business area to be a diminishing part of the account in the short to medium term.

At the other end of the underwriting spectrum, we believe certain "big ticket" classes of business are attractive to new capital, increasing competition, as there are low barriers to entry. Brit withdrew from Direct Aviation, a good example of a missed opportunity for insurers to reassess the scope of coverage and not just raise premiums on a short term basis.

We will maintain our significant reinsurance presence at about 21% of the overall group premium. We have critical mass, expertise and a quality of security that gives confidence that we will generate good returns.

The balance of the account is therefore the UK and International commercial insurance market. In our view, this market is underpopulated. There is broker demand for a new strong participant in this sector.

After a difficult five years, there is enormous pressure on insurers in this class to produce profitable underwriting results without reliance on investment income. As a result, in our view, there will be less downward pressure on rates and widening of terms than we expect to see in other classes and we believe this backdrop will give us the opportunity to continue to expand on a profitable basis.

Our target Gross Written Premium Income for 2004 is £1.3bn. With our increasing market and brand presence, we would expect continued, but more modest growth. This leads us to an upbeat assessment of future prospects.

Neil Eckert Group Chief Executive Officer

Operating and Financial Review

[With our increasing market and brand presence, we would expect continued but more modest growth. This leads us to an upbeat assessment of future prospects.]

Financial Review Highlights

- Profit before tax of £77.6m (2002: £10.0m)
- 88.5% combined ratio
- 53.3% increase in gross written premium
- 67.6% increase in net unearned premium reserve to £466.7m
- 41.7% increase in net tangible assets
- Acquisition of Professional Risks Insurance Limited ("PRI") now renamed Brit Insurance (UK) Limited ("BIL(UK)")
- 100% ownership of Syndicate 2987
- Dividend policy
- Brit Insurance Limited "A" rating from Fitch and A M Best

Summary of Results

Total operating profit was £75.4m (2002: £11.4m). Operating profit at the long-term rate of investment return was £91.2m (2002: £25.0m). The long term rates of return have been adopted as; 7% for equities; 5% for cash and bonds; and 5% for syndicate funds. Total operating profit, by business division, is illustrated in Fig VI.

Underwriting operations

The Group writes insurance business through Brit Insurance Ltd ("BIL") and at Lloyd's. The net assets of BIL totalled £178.8m at 1 January 2003 and increased to £334.2m by 31 December 2003, following the Group reorganisation and integration of PRI. Capacity at Lloyd's for the 2003 underwriting year was £513.8m (2002: £454.2m). All Lloyd's business written by the Group for 2004 will be in Syndicate 2987. The Life Syndicate 389 was put into run off with effect from 31 December 2003.

Underwriting at Lloyd's is supported by Funds at Lloyd's ("FAL") which totalled £308.0m at 31 December 2003 (2002: £271.9m). For 2004, the FAL supports £500.0m (2003: £500.0m) of capacity on Syndicate 2987 and the run-off requirements of Syndicate 389 and remaining non-managed syndicates. In addition, the Qualifying Quota Shares ("QQSs") have been utilised to increase Syndicate 2987's capacity. Overall Lloyd's capacity, by underwriting year, is illustrated in Fig VII.

Net written premium income for the year has grown to £850.8m (2002: £522.2m). Net earned premium income for the year has grown to £671.4m (2002: £325.3m). The difference between net written premium and net earned premium of £179.4m is counterbalanced by the increase in the net unearned premium reserve (which totalled £466.7m at 31 December (2002: £278.5m), an increase of £188.2m).

The 31 December 2003 net unearned premium reserve represents premium that has been written predominantly at 2003 rates but has yet to be earned in the technical account. 48.8% of income written in 2003 was earned during the calendar year. The remaining 51.2% will be earned in future years and is carried forward as an unearned premium reserve on the balance sheet.

The technical account for the year is analysed in Fig VIII to demonstrate the recognition of earned premium income from the 2003 and 2002 underwriting years, which represents most of the business in force during the 2003 calendar year. The analysis also shows the effect of movements in the calendar year 2003 arising from business incepting in 2001 and prior years.

The 2000 underwriting year was the final year that Brit participated on externally managed syndicates. In the ordinary course of events these participations should have closed at 31 December 2002. There are twelve syndicates with Brit involvement in run off at 31 December 2003. Total Brit capacity on these syndicates is £39.3m and they have been reserved at the mid-point of managing agent's forecasts. The total net reserve on these run off syndicates is £2.4m.

Investments

Group assets under management totalled £1,434.9m at 31 December 2003 (2002: £1,036.4m). £871.9m was managed by EPIC Asset Management Ltd ("EPAM"), a 70% subsidiary of The Equity Partnership Ltd ("EPL"), an associated company of the Group.

As of 1 March 2004, the boards of BIL and Brit Syndicates Limited ("BSL") transferred the management of fixed interest portfolios totalling around £300.0m to EPAM.

In addition at 31 December 2003 £42.3m (2002: nil) of the Group's equity portfolio was also managed by Epic Specialist Investments Limited.

The Group has a direct holding of 34.1% in EPL, the holding company of EPAM and £14.6m invested in shares of EPIC PLC, a company listed on the London Stock Exchange. EPL is treated as an associated company and the Group equity accounted a profit arising from this activity of £0.2m (2002: £0.1m) for the year. EPAM had funds under management of £1,134.6m at 31 December 2003 (2002: £809.5m).

Fig VI – Total operating profit by business division

	Underwriting Lloyd's 2003 £m	Underwriting Companies 2003 £m	Underwriting Total 2003 £m	Other 2003 £m	**Total 2003 £m**	Total 2002 £m
Technical result	63.5	36.8	100.3	–	**100.3**	52.0
Investment return *	31.4	22.7	54.1	9.0	**63.1**	26.3
Investment income transferred to technical account	(32.1)	(11.9)	(44.0)	–	**(44.0)**	(27.4)
Interest payable	(0.1)	–	(0.1)	(4.5)	**(4.6)**	(5.1)
Fees and commissions	2.3	–	2.3	6.3	**8.6**	16.0
Other income	–	0.1	0.1	1.4	**1.5**	1.0
Other expenses	–	–	–	(25.4)	**(25.4)**	(31.5)
Amortisation	(1.9)	–	(1.9)	(6.5)	**(8.4)**	(6.3)
Operating profit at long-term rate of return	63.1	47.7	110.8	(19.7)	**91.1**	25.0
Short-term fluctuations in investment return	(7.6)	(8.1)	(15.7)	–	**(15.7)**	(13.6)
Operating profit	55.5	39.6	95.1	(19.7)	**75.4**	11.4

* At the long term rate of return where applicable

Fig VII – Overall Lloyd's capacity by underwriting year

	2004		**2003**		2002		2001	
Syndicate	100% share £m	Brit share £m	**100% share £m**	**Brit share £m**	100% share £m	Brit share £m	100% share £m	Brit share £m
250	–	–	–	–	–	–	99.9	46.0
389	–	–	**15.0**	**13.8**	14.0	12.7	7.6	7.6
735	–	–	–	–	–	–	75.0	70.0
800	–	–	–	–	–	–	62.6	34.3
1202	–	–	–	–	–	–	69.9	53.7
2040	–	–	**14.0**	–	14.0	–	14.0	–
2400	–	–	–	–	30.0	1.5	30.0	1.5
2987	500.0	500.0	**500.0**	**500.0**	450.0	440.0	–	–
Total	500.0	500.0	**529.0**	**513.8**	508.0	454.2	359.0	213.1
Group QQSs	50.0	50.0	**100.0**	**100.0**	75.0	73.3	–	–
3rd party QQSs	–	–	**22.0**	**22.0**	53.3	52.1	–	–
Total after QQSs	550.0	550.0	**651.0**	**635.8**	636.3	579.6	359.0	213.1

Fig VIII – Technical Account

				2003	2002
	Business incepting 2003 £m	Business incepting 2002 £m	Business incepting 2001 and prior £m	**Total £m**	Total £m
Earned premium net of reinsurance	414.2	248.5	8.7	**671.4**	325.3
Claims incurred net of reinsurance	(257.6)	(132.5)	(10.4)	**(400.5)**	(205.1)
Change in equalisation provision	(3.9)	0.7	–	**(3.2)**	(2.5)
Change in other technical provisions	(0.7)	–	–	**(0.7)**	0.5
Net operating expenses	(139.1)	(72.1)	0.4	**(210.8)**	(93.7)
Technical result before investment return	12.9	44.6	(1.3)	**56.2**	24.5
Claims ratio				**59.7%**	62.9%
Expense ratio				**28.8%**	25.7%
Combined ratio				**88.5%**	88.6%

Investment Return

2003 investment returns were in excess of benchmarks for the equity portfolios and in line with benchmarks for the cash and bond portfolios. Current benchmarks for the cash and bond portfolios range from seven day LIBID to a one to five year gilt index.

Total assets under Group management at 31 December 2003 (including 100% of syndicate assets) were invested as illustrated in Fig IX. The currency mix of the investment portfolio is illustrated in Fig X.

Equity investments include managed equity portfolios, which form part of the Group's Funds at Lloyd's, investments in Lloyd's entities and a number of strategic investments. A breakdown of these investments is given in Fig XI.

The duration of the total bond portfolio was 1.27 years at 31 December 2003 (2002: 1.60 years). The bond portfolios were invested as illustrated in Fig XII.

Non-underwriting operations

Peoples Choice, the Group's telesales broking operation was sold for £7.2m (before expenses) on 31 July 2003. This has produced a profit on disposal of £2.1m. The result for the period to 31 July 2003 was a loss of £3.7m (2002: £4.6m).

The Group has a 77.2% investment in Ri3K Ltd ("Ri3K"), a web based business to business infrastructure for the reinsurance industry. Ri3K became a subsidiary on 31 December 2002. The Group results for the year include a net loss of £3.9m arising from Ri3K (2002: equity accounted loss of £0.9m).

Administrative expenses and other acquisition costs incurred by the group during the year are illustrated in Fig XIV.

Result after tax

The result after tax and minority interests was a profit of £57.5m (2002:£5.4m). The effective tax rate was 26.3% (2002: 23.7%).

Earnings per Share

Basic earnings per share were 6.58p (2002: 1.11p). Details of the calculation are given in Note 12 to the financial statements.

Dividend per Share

The Directors are not in a position to recommend the payment of a dividend due to losses in previous years which have resulted in a lack of distributable reserves. The negative balance on the Company's profit and loss account at 31 December 2003 was £25.7m (2002: negative balance of £27.1m), but this included a profit of £39.8m arising on the intra-group sale of BIL. This profit is non-distributable. The Company's negative distributable reserves at 31 December 2003 were £65.6m (2002: £27.1m). The Company intends to recommence payment of dividends as soon as it is possible to do so, via the proposed capital reorganisation.

Brit Underwriting Group Limited (formerly PRI Group Plc)

On 22 May 2003, the Group completed the acquisition of Brit Underwriting Group Limited. This acquisition created goodwill of £51.2m. Further details of this transaction can be seen in Note 18 to the financial statements.

Reinsurance Recoverable

Total recoveries from reinsurers at 31 December were as illustrated in Fig XV.

Gearing and Liquidity

Total Group debt at 31 December 2003 was £58.9m (2002: £64.6m). This comprised £15.0m (2002: £21.0m) of bank borrowings and £43.9m (2002: £43.6m) of 8.5% Convertible Unsecured Subordinated Loan Stock 2008. The final date for conversion of the loan stock is 31 October 2005. The bank borrowings are the remaining part of an £80m variable rate facility taken out in February 2000. The facility has been repaid from the proceeds of sale of listed Lloyd's investments. The final repayment under the facility is due on 3 February 2005.

Total gearing is 8.4% (2002: 13.6%) of Shareholders' funds. The Group has previously commented that it will investigate additional facilities in order to have these available should the need arise.

Interest payments during the year totalled £4.6m (2002: £5.1m). Interest cover was 18.0 times (2002: 2.5 times).

Liquidity throughout the Group is strong and at 31 December 2003, £41.1m (2002: £67.9m) of cash and liquid securities was held at holding company level. This gives the Group flexibility to expand both the insurance company and the Lloyd's operation during 2004 in addition to providing working capital. It is anticipated that some of these funds will be required to meet increasing Funds at Lloyd's requirements as the regulatory demands for capital increase.

Fig IX – Totals assest under management

	31 December 2003		31 December 2002	
	Assets £m	**Return £m**	Assets £m	Return £m
Equities	**154.0**	**17.4**	91.1	(16.5)
Bonds	**793.7**	**23.3**	500.3	24.5
Cash and deposits	**487.2**	**10.9**	445.0	12.5
Total	**1,434.9**	**51.6**	1,036.4	20.5

Fig X – Currency mix of investment portfolio

	31 December 2003 %	31 December 2002 %
Sterling	**61.8**	83.6
US$	**30.9**	14.5
Euros	**5.7**	1.4
Other	**1.6**	0.5
Total	**100.0**	100.0

Fig XI – Equity Investments

	31 December 2003		31 December 2002	
	Investment £m	**Return for year £m**	Investment £m	Return for year £m
Lloyd's listed investments	**13.7**	**2.8**	15.2	(1.6)
Listed investments	**0.9**	**0.7**	1.9	0.2
Non-listed investments	**1.1**	**(0.2)**	2.4	(1.7)
Managed portfolios	**116.0**	**13.5**	41.0	(9.9)
Protected funds	**1.4**	**–**	9.7	0.1
Ebix Inc	**6.3**	**4.9**	1.5	(3.8)
EPIC PLC – Capital shares	**9.9**	**(5.1)**	15.0	(0.3)
EPIC PLC – Income shares	**4.7**	**0.8**	4.4	0.5
Total	**154.0**	**17.4**	91.1	(16.5)

Fig XII – Investment of bond portfolio

Rating	**2003 £m**	2002 £m
Government	**425.5**	280.1
AAA	**164.2**	117.2
AA	**133.9**	30.0
A	**64.4**	66.5
BBB	**4.4**	4.1
Other	**1.3**	2.4
Total	**793.7**	500.3

Governments include UK, US, Italian, Canadian, German, Spanish and Swiss Government Bonds (2002: UK, US, Canadian, Swiss and German).

Fig XIII – Expenses

	2003 £m	2002 £m
Commissions charged to technical account	**132.1**	63.2
Other acquisition costs	**33.5**	9.4
Administrative expenses	**45.2**	21.1
Total technical account expenses	**210.8**	93.7
Non-technical account net operating expenses	**33.8**	37.7
Total technical account expenses	**244.6**	131.4

Fig XIV – Administrative expenses and other acquisition costs

	2003 £m	2002 £m
Payroll costs before profit related pay	**28.9**	16.7
Profit related pay	**6.7**	1.9
Accommodation costs	**4.3**	2.2
Legal and professional charges	**4.1**	2.7
IT costs	**5.6**	2.8
Marketing and communications	**1.0**	0.4
Amortisation	**8.5**	6.3
Exchange movements	**7.9**	5.2
VAT irrecoverable	**1.8**	1.0
Lloyd's charges	**16.9**	7.2
Other syndicate expenses	**6.1**	5.2
Other	**6.1**	0.9
	97.9	52.5
Peoples Choice	**10.6**	15.7
Ri3K	**4.0**	–
Total	**112.5**	68.2

Fig XV – Reinsurance recoverable

	2003 £m	2002 £m
Amounts due at 31 December	**37.8**	25.4
Recoveries in respect of outstanding claims	**222.9**	233.3
Total	**260.7**	258.7

Credit Quality	**2003 %**	2002 %
AAA	**1.5**	9.5
AA	**19.9**	20.4
A	**66.5**	61.6
BBB	**5.1**	4.1
Unrated	**7.0**	4.4
Total	**100.0**	100.0

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

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

Lloyd's has announced its intention to permit wholly owned aligned syndicates to distribute profits after only one year. This change is due to come into effect in 2005. The amount and terms relating to such distributions are still under review by Lloyd's.

Treasury Policy

The Investment Committee has responsibility for the overall financing policy of the Group and for cash and liquidity management. Investment policy at the date of this report is to continue holding the majority of funds in short dated, liquid investments with high credit quality.

Investment Managers are chosen and appointed by the Directors of the individual operating companies. Monitoring the performance of investment managers is delegated by the regulated companies to the Investment Committee.

Investments are managed according to specific guidelines and benchmarks for different types of fund. There are four main sets of such guidelines which apply respectively to:

- Corporate funds
- Syndicate funds
- Insurance company funds
- Funds at Lloyd's

The differences in the guidelines reflect the various regulatory obligations pertinent to each fund.

Overall asset mix varies from time to time but it is not anticipated that more than 30% of total Group net tangible assets would be invested in equities (excluding assets supporting pension scheme liabilities).

The Group writes a substantial amount of its business in foreign currencies, especially US dollars and Euros. The Investment Committee reviews exposures arising from retained profits and losses arising in foreign currencies and enters into currency transactions as appropriate. The Group's gross written premium is shown, by currency, in Fig XVII.

Overall foreign exchange policy is reviewed monthly. Current policy is to make regular monthly sales of US$10m. On 24 December 2003 a US$100m option transaction involving both the purchase and sale of options was entered into to hedge US dollar profits. Liabilities in the principal trading currencies of sterling, US dollars and Euros are substantially matched with assets held in those currencies. Other currencies are converted into sterling.

Capital Adequacy and Financial Strength

The Group retains high solvency margins in its overall insurance operations. Projected gross premium for 2004 is £1.3bn which is 205.7% of net tangible assets. The Group is therefore projecting to write insurance business at a ratio to overall net tangible assets of just over 2:1.

BIL has a financial strength rating of A (Excellent) with a stable outlook from A M Best and A (Strong) with positive outlook from Fitch.

Solvency requirements are becoming progressively more stringent and the calculations more risk based. In July 2003 the FSA released CP 190, which sets out the proposals for the new Enhanced Capital Requirement ("ECR"). The ECR will be greater than the current Minimum Capital Requirement

("MCR") as set out in CP 181. Additionally, insurers will have to do their own capital modelling based on stress and scenario testing in order to derive an Individual Capital Adequacy Standard ("ICAS"). Finally the FSA will conduct its own assessment of the insurer's capital adequacy to produce Individual Capital Guidance ("ICG").

The capital requirement for UK insurers is likely to be the highest of the MCR, ECR, ICAS or ICG. There could also be an expectation of an adequate buffer above this level.

Groups that include a regulated UK insurer have to file a Parent Undertaking Solvency Calculation with the FSA. Under current procedures the filing is for information purposes only and a negative result is accepted. This situation is expected to change for the 2005 financial year and Groups will have to demonstrate an overall surplus. In determining the Group solvency requirement, it is necessary to add up the solo requirements of the individual underwriting entities. The Group must maintain sufficient capital to exceed the sum of the solo requirements. For the purposes of defining total Group capital, goodwill and short term debt are excluded from the calculation.

Current projections indicate that the Group has adequate capital to support planned future growth at both Group and solo level based upon the new solvency regime.

Group Pension Schemes

The Group operates three main pension schemes:

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

Total scheme assets at 31 December 2003 were £56.7m. Asset allocation was 86.4% equities and the remaining 13.6% in cash and bonds. The Group has not adopted FRS 17 in respect of the final salary scheme.

Details of the effect of accounting under FRS 17 have been included in Note 35 to the financial statements. The scheme at 31 December 2003 would have had a liability net of deferred tax under FRS 17 rules of £10.9m (2002: £7.3m).

Asset Value per Share

At 31 December 2003 net assets totalled £701.5m (2002: £476.3m) equivalent to 72.0p per share (2002: 63.7p). Net tangible assets totalled £631.5m (2002: £445.6m) equivalent to 64.8p per share (2002: 59.6p).

International Financial Reporting Standards

The Group is aware of the requirement for EU listed companies to adopt International Financial Reporting Standards ("IFRS") for accounting periods beginning on or after 1 January 2005. The Group is taking steps to meet this timetable.

The Group has initiated a project to facilitate a smooth and successful conversion to IFRS. Its scope includes monitoring the ongoing developments in IFRS, assessing the financial and non-financial impact and implications for the Group, and determining courses of action and implementing strategies.

Outlook for 2004

- Target 2004 gross premium written of £1.3bn
- Continuing strong rating environment
- Expansion of UK regional presence
- Internalisation of investment management
- Capital reorganisation
- Continuing systems investment

Matthew Scales Group Finance Director

Fig XVI – Key ratios

	2003 %	2002 %
Net written premiums/Gross written premiums	**83.8**	78.8
Net written premium growth	**62.9**	113.0
Net written premiums/Weighted average shareholders' funds	**139.9**	163.9
Technical result/Net earned premiums	**14.9**	16.0
Claims ratio	**59.7**	62.9
Expense ratio	**28.8**	25.7
Combined ratio	**88.5**	88.6
Gross technical provisions/Gross written premiums	**140.0**	156.0
Net technical provisions/Net written premiums	**128.9**	136.9
Shareholders' funds/Net technical provisions	**64.0**	66.7
Insurance debtors/Shareholders' funds	**57.5**	76.4
Insurance debtors/Total assets	**17.3**	20.3

Fig XVII – Gross written premium

	£m	%
£ Sterling*	477.8	47.0
US Dollars	450.9	44.4
Can Dollars	19.1	1.9
Euros	67.9	6.7
	1,015.7	100.0

* Sterling includes other miscellaneous currencies.

Clive Frederick Coates

Chairman

Born 1944. He is a Fellow of the Chartered Association of Certified Accountants and has over 30 years' experience in the insurance industry. He was formerly Chief Executive of Eagle Star Insurance Company Limited, Group Deputy Chairman of Eagle Star Holdings PLC and Finance Director of British American Financial Services Limited until his retirement in December 1997. He joined the Board of Brit Insurance Limited in December 1998 and is a Director of Eagle Star Executives' Pension Trustees Limited. He was appointed as a Director and Deputy Chairman of Brit on 29 April 2002 and became the Chairman of the Company on 24 September 2002.

Neil Eckert

Group Chief Executive Officer

Born 1962. In 1995 Neil co-founded the Company as an Investment Trust, listed on the London Stock Exchange. Following a sustained period of corporate activity, the company re-listed as a publicly quoted insurance company in 1999. Neil has been a director of the Company since its flotation and was appointed as Chief Executive Officer in 1999. Neil became a Lloyd's reinsurance broker in 1980, joining the Benfield Group in 1986. He joined the main Board of the Benfield Group in 1991 and subsequently the Boards of several of its subsidiary companies. He resigned from all Benfield Boards in January 2000 to concentrate on his role at Brit. Neil is Non-Executive Chairman of Design Technology & Innovation Limited, a patenting and intellectual property company and Non-Executive Chairman of Ri3K, an internet hub for reinsurance. Neil is also a founder Director of the Chicago Environmental Fund.

Matthew Scales

Group Finance Director

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

Dane Jonathan Douetil

Deputy Group Chief Executive Officer

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

Board of Directors

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

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

John Anthony Victor Townsend
Non-Executive Director
Born 1948. He graduated from Cambridge University with a degree in engineering. Following 10 years as a merchant banker he worked in his family's Lloyd's broking business from 1979 to 1987 and then moved to investment banking with Rea Brothers Group from 1988 to 1998. He was Chairman of the Association of Investment Trust Companies from 2001 to 2003. He has been a name at Lloyd's since 1974 and was a member of the Executive Committee of the Lloyd's Regulatory Board from 1996 until it relinquished its functions to the new Lloyd's Franchise Board at the end of 2002. He has been a Director of Brit since 2 August 1999.

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

In March 2004 we appointed two new Non-Executive Directors. They are Peter Hazell and Michael Smith.

Peter is currently Chairman of Argent Group plc and a Non-Executive Director of UK Coal plc. He was formerly UK Managing Partner at PriceWaterhouseCoopers. His appointment is effective 1 April 2004.

Michael was senior partner at the law firm of Titmuss Sainer Dechert where he headed their insurance practice. He currently works as a consultant for Randall & Quilter Investment Holdings Limited. His appointment is to take effect on 8 March 2004.

Details of the Directors' Committee membership can be found in Company Information on page 84.

[The Group has initiated a project to facilitate a smooth and successful conversion to International Financial Reporting Standards.]

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

Results and Dividends

The results are considered in detail in the Operating and Financial Review on pages 6 to 21.

As at 31 December 2003, the Company did not have distributable reserves and therefore the Directors are unable to recommend the payment of a dividend for the year ended 31 December 2003 (2002: nil).

Principal Activity and Review of the Year

The Company is a holding company and through its subsidiaries, is engaged in risk-taking, as an insurer or reinsurer, and investment. A detailed review of the activities and operations of the Group during 2003, together with the events since the end of the financial year and likely future developments, is included in the Operating and Financial Review on pages 6 to 21.

Acquisitions and Disposals

PRI Group Plc was acquired by the Company on 22 May 2003 and became a wholly-owned subsidiary on 4 August 2003.

The sale of Peoples Choice was completed on 31 July 2003 for a cash consideration of £7.2m

Share Capital

On 27 May 2003, 212,754,419 ordinary 25p shares were admitted to the UK Listing Authority Official List.

Details of the share capital in issue are set out in Note 27 on page 70.

Directors

The names of the Directors as at the date of this report are shown on page 84, all of whom were in office throughout the year ended 31 December 2003. Michael Wade and Andrew Holland were also Directors from 1 January 2003 until 25 February 2003 and 31 October 2003 respectively.

In accordance with the Articles of Association, Don McCrickard and Anthony Townsend retire this year by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting ("AGM"). Jo Welman also retires at the AGM and will not be offering himself for re-election.

The interests of the Directors and their families in the Company's ordinary shares of 25p each and convertible unsecured subordinated loan stock units of 100p each, together with details of the Directors' interests in share incentive schemes are set out in Notes 36 and 37 on pages 77 and 79 respectively.

The interests of the Directors in transactions with the Group are set out in Note 37 on page 79.

Substantial Share Holdings

On 27 February 2004 the Directors have been advised of the following shareholdings of 3% or more in the Company's issued share capital:

	Number of Shares	Percentage of Issued Share Capital
Invesco	182,963,625	18.78
Jupiter Asset Management	63,969,403	6.57
Fidelity Investments	54,790,110	5.62
Insight Investment	42,017,092	4.31
Schroder Investment Management	37,796,753	3.88
Artemis Investment Management	36,257,575	3.72
Legal & General Investment Management	33,540,714	3.44
Rostrum Investors	30,306,964	3.11

Employment Policy

Details of employees and their remuneration are included in Note 8 on page 57.

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

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

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

Corporate Social Responsibility ("CSR")

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

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

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

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

Following a successful pilot scheme during 2003, the Company has implemented fully the Brit 'Get a Life' package to encourage staff to pursue activities not directly linked to the work environment. A charitable donations policy has been adopted and details of the Group's donations to charitable organisations are disclosed below.

During 2003, the Group agreed to sponsor the employment of a new position of Senior Lecturer of Insurance and Risk Management at the Birmingham Business School (part of Birmingham University).

Neil Eckert is associated with the Chicago Climate Exchange, a self-regulatory exchange that administers a multi-national and multi-sector marketplace for reducing and trading greenhouse gas emissions.

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 2003, other creditors of the Company had an average zero days outstanding (2002: 2 days). It is the Group's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them.

Donations

During the period, the Group made charitable donations amounting to £22,566 (2002: £8,019).

No donations were made to any political organisations (2002: nil).

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing the reappointment of Mazars will be put to the AGM.

Annual General Meeting

The AGM will be held at 10 o'clock on 27 May 2004 at the Company's offices at 55 Bishopsgate, London EC2N 3AS. A booklet containing the Notice of the Meeting, Explanatory Notes and a Proxy form is enclosed.

Going Concern

After making due enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing financial statements.

Statement of Directors' Responsibilities

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

In addition, the Directors are required to:

(a) select suitable accounting policies and apply them consistently;

(b) make judgements and estimates that are reasonable and prudent;

(c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

(d) prepare financial statements on a going concern basis unless it is inappropriate to assume the Group will continue in business.

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

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

The Directors are responsible for ensuring that the Directors' Report and other information included in the annual report is prepared in accordance with Company Law in the United Kingdom. They are also responsible for ensuring the annual report includes information required by the Listing Rules of the Financial Services Authority.

By Order of the Board

Peter J Goddard Secretary
1 March 2004

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

Composition and Terms of Reference

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

Don McCrickard Chairman of the Committee*
Clive Coates Chairman of the Board**
Glyn MacAulay*
Jo Welman

* considered independent by the Board.
** considered independent by the Board for the purposes of the Committee's activities.

Jo Welman's presence on the Committee has been deemed appropriate based on his experience of the sector and knowledge of the Group and its legacy remuneration practices. He abstains from any discussion where he may have an interest. It is the intention that he step down from the Committee during 2004.

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

- ensuring the broad policy for the remuneration of the Group's senior executives provides senior executives with appropriate incentives to encourage enhanced performance, attracts and rewards senior executives in a fair and responsible manner for their individual contributions to the success of the Group, reflects a strong link between performance and reward and aligns the interests of senior executives and shareholders;
- analysis of current trends in remuneration, benefits and rewards for senior executives, and in particular as applied in competitors;
- approval of the design of, and determine targets for, any performance related pay schemes operated by the Group;
- determining the policy for, and scope of, pension arrangements for senior executives; and
- ensuring that contractual terms on termination, and any payments made, are fair and recognise the duty to mitigate loss.

The Committee's full terms of reference are available on the Company's website, www.britinsurance.com and from the Company Secretary at the registered office.

Advisers

The Committee consults regularly with the Group Company Secretary, one of the Company's financial advisers, Numis Securities Limited, and the Company's auditors, Mazars. It also sought independent legal advice from the Company's legal advisers, Dechert and Speechly Bircham. In addition, as described below, the Chief Executive advises the Committee in connection with the annual salary review, bonus payments and grant of awards under the Group's share incentive schemes (save in respect of his own remuneration).

Remuneration Consultants

The Committee has appointed New Bridge Street Consultants LLP ("NBSC") as its remuneration consultants. NBSC has no other connection with the Company other than in the provision of advice on executive and employee remuneration. NBSC advises the Committee directly on matters within the Committee's Terms of Reference on which the Committee chooses to consult NBSC. NBSC also advises the Company generally on aspects of executive and employee remuneration, typically on the implementation and ongoing operation of executive remuneration schemes. Such advice is usually provided through the Company Secretary. NBSC advises the Board of Directors of Brit Insurance Holdings PLC (or those Directors charged by the Board to make recommendations) from time to time on the remuneration of Non-Executive Directors, including the Chairman.

Remuneration Policy

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

The Committee assesses whether the reward strategies are achieving their objectives. It reviews regularly independent market data and assesses, with advisers, whether any adjustments to policy and practices are necessary. In this regard, the Committee strongly believes that the increases to the Executive Directors' basic salaries made last year were appropriate, given their performance, the competitive nature of the employment market and the Company's increased size.

Annual Bonuses

Participation in the Group's annual bonus scheme is open to all Group employees (save for Ri3K employees in respect of whom separate arrangements are operated), including Executive Directors. The scheme aims to reinforce the relationship between individual and Group performance and reward and is dependent on profit. Under this scheme, a bonus pool equalling no more than 7% of Group profit before tax can be distributed to participants, save that no bonus payable to any Executive Director may be greater than 80% of basic salary. If the Committee determines that it is not appropriate for the entire bonus pool to be allocated, any unallocated portion can be retained and paid out in subsequent years as the Committee deems appropriate.

Long-Term Incentives

The Group operates two active long-term share incentive schemes.

Under the Brit Executive Share Option Scheme 2003, options may be granted each year over shares with an exercise price normally no greater than 100% of basic salary. These options will only become exercisable if a performance condition is satisfied. For the first grant of options made in November 2003, the performance condition was based on the Company's Total Shareholder Return ("TSR") performance over a period of at least three years from grant compared with the TSR of the constituents of the FTSE Mid 250 Index. No portion of an option will vest for median performance. If the Company's TSR is immediately above that of the median company, 50% of the options will vest, with full vesting for upper quartile performance (with straight-line vesting between these two points). If the performance condition is not met in full over years 0-3, performance can be re-tested once over years 0-4. The Committee, having regard of the views and best interests of the Company's stakeholders, has resolved that re-testing will not be applied to future grants of options made under this scheme.

Under the Brit Performance Share Plan 2003, awards may be granted each year over shares with a value of normally up to 100% of basic salary. The extent to which awards vest will be determined by the extent to which certain predetermined performance conditions are satisfied over the three-year period following grant. For the first grant of awards in November 2003, the performance condition was based on the TSR performance of the Company compared with the constituents of the FTSE All Share Insurance Index as follows:

Brit's ranking	Percentage of award that vests
Below median	0
Median to upper quartile	20-100 (with straight-line vesting)
Upper quartile	100

The Committee intends to apply the same performance conditions to any future awards granted under the Brit Performance Share Plan 2003 and the Brit Executive Share Option Scheme 2003, save that re-testing will not be applied to future grants of options.

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

Non-Executive Directors

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

Further details of the fees payable to Non-Executive Directors are set out on page 30.

Service Contracts

Dane Douetil, Neil Eckert and Matthew Scales have annual rolling service contracts with Brit Group Services Limited ("BGS") dated 30 July 1998, 8 May 2000 and 10 December 1998 respectively with no fixed terms. The Committee's policy on the length of notice periods is that they should be set so as to reflect appropriately the interests of the Company and the senior executives, while also reflecting best practice. Consequently, all the Executive Directors have notice periods of twelve months, which can be given by either party. Neil Eckert's service agreement provides that if BGS terminates his employment because he becomes a patient as defined under the Mental Health Act 1983, is prevented by illness or otherwise from performing his duties for a consecutive period of 203 days or an aggregate of 203 days in any period of 365 days, or is, in the reasonable opinion of the Board, based on a medical report, unfit to perform his duties, BGS will pay to him by way of compensation for loss of employment, within fourteen days of such termination, a sum equal to twelve months' salary. Subject to this, in the event of early termination, when determining the amount of compensation that is paid, the Committee will take into account the departing Director's duty to mitigate his loss. Compensation payments will not exceed the total of 12 months' remuneration and accrued benefits.

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

Service Contracts of Former Directors

Andrew Holland's contract was dated 31 March 1998 and contained a notice period of 12 months. On a restructuring of the Company's senior management, Andrew Holland resigned from the Board on 31 October 2003. It was agreed that he would remain available for a period to 31 December 2003 to support the Chief Executive. His employment ended on 31 December 2003. Details of the emoluments and compensation, comprising statutory and contractual entitlements received by him, are disclosed in the table on page 30.

Michael Wade had a service letter from the Company dated 29 April 2002, under which there was no fixed term, a nil notice period on behalf of both the Company and the Non-Executive Director and no provision for compensation for loss of office.

1 Emoluments and Compensation

	Fees and salaries £'000	Benefits in kind £'000	Bonus £'000	Car Allowance £'000	Compensation for loss of office £'000	Pension £'000	2003 Total £'000	2002 Total (restated)[1] £'000
Current Directors								
Chairman								
Clive Coates	**95**	–	–	–	–	–	**95**	50
Executive Directors								
Dane Douetil	**269**	**1**	**220**	**8**	–	**38**	**536**	348
Neil Eckert	**374**	**21**	**300**	–	–	**44**	**739**	432
Matthew Scales	**271**	**12**	**193**	–	–	**39**	**515**	263
Non-Executive Directors								
Glyn MacAulay	**50**	–	–	–	–	–	**50**	31
Don McCrickard	**58**	–	–	–	–	–	**58**	31
Anthony Townsend	**54**	–	–	–	–	–	**54**	45
Jo Welman[2]	**40**	–	–	–	–	–	**40**	71
Former Directors								
Andrew Holland[3]	**170**	**11**	**93**	–	**187**	**30**	**491**	238
Michael Wade[4]	**3**	–	–	–	–	–	**3**	13
Total for the Year	**1,384**	**45**	**806**	**8**	**187**	**151**	**2,581**	1,522

1 Totals restated to reflect remuneration of the Directors who were in office on 1 January 2003 and not those who served for part of 2002.

2 Jo Welman's fees are paid directly to his ultimate employer group, The Equity Partnership Limited.

3 Until cessation of directorship, 31 October 2003.

4 The £187,000 relates to a payment in respect of Andrew Holland's nine months' notice, including salary, pension and other benefits (but does not include any sum for the loss of a bonus payment for the financial year ended 31 December 2004). The Remuneration Committee took the view that there was only limited scope for Andrew Holland to mitigate his loss over the nine month period in respect of which compensation was paid, particularly bearing in mind the restrictions in his contract as to his future conduct.

5 Until cessation of directorship, 25 February 2003.

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

The fees paid to the Chairman and the Non-Executive Directors were reviewed in 2003 to ensure they would adequately reflect their significantly increased time commitment to the Group due to the requirements of the New Combined Code. The Chairman receives a fee of £100,000 per annum which comprises a Chairman's fee of £75,000 and fees in respect of his membership of the Finance and Investment, Remuneration and Nomination Committees. All Non-Executive Directors received a basic fee of £30,000 per annum. Non-Executive Directors received additional fees in respect of membership of Board Committees as follows:

Audit Committee	£5,000 per annum
Remuneration Committee	£5,000 per annum
Nomination Committee	£5,000 per annum
Finance and Investment Committee	£15,000 per annum

The fee paid to the Chairmen of the Audit, Remuneration and Nomination Committees is £15,000 per Committee per annum. Anthony Townsend chairs the Board of Brit Syndicates Limited for which he receives an additional annual fee of £15,000.

2 Share-based Incentives

(a) Share Options

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

	Scheme	1 January 2003	No. options granted in year	**As at 31 December 2003**	Exercise price at date of grant/rollover	Date from which exercisable	Expiry date
Current Directors							
Dane Douetil	A	0	357,520	**357,520**	76.92p	03/11/06	02/11/13
	B	749,224	–	**749,224**	62.50p	23/10/05	22/10/12
	B	450,000	–	**450,000**	70.83p	31/05/05	30/05/12
	B	250,000	–	**250,000**	66.00p	24/05/03	23/05/10
Neil Eckert	A	0	487,520	**487,520**	76.92p	03/11/06	02/11/13
	B	589,473	–	**589,473**	142.50p	10/09/01	09/09/08
	B	525,000	–	**525,000**	80.25p	06/12/02	05/12/09
Matthew Scales	A	0	357,520	**357,520**	76.92p	03/11/06	02/11/13
	B	172,646	–	**172,646**	62.50p	23/10/05	22/10/12
	B	400,000	–	**400,000**	70.83p	31/05/05	30/05/12
	B	300,000	–	**300,000**	66.00p	24/05/03	23/05/10
Jo Welman	B	210,526	–	**210,526**	142.50p	10/09/01	09/09/08
	B	300,000	–	**300,000**	80.25p	06/12/02	05/12/09
Former Directors							
Andrew Holland [1]	B	400,000	–	**400,000**	70.83p	01/01/04	29/11/05
	B	300,000	–	**300,000**	80.25p	06/12/02	31/12/04
	B	223,555 [2]	–	**223,555** [2]	119.00p	22/12/00	31/12/04

A Options granted to Directors under the Brit Executive Share Option Scheme 2003.

B Options granted to Directors under the Brit 1998 Unapproved Executive Share Option Scheme under which no further options are to be granted.

1 As at cessation of directorship, 31 October 2003.

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

All of the above options were granted for nil consideration, save in respect of 749,224 options granted to Dane Douetil and 172,646 options granted to Matthew Scales on 23 October 2002, further details of which are disclosed below.

The Remuneration Committee has applied performance conditions to all of the above options, except in the special circumstances detailed above or below. The performance conditions for options granted in 2003 under the Brit Executive Share Option Scheme 2003 are explained on page 29.

The performance conditions applied to options granted under the Brit 1998 Unapproved Executive Share Option Scheme (the "1998 Scheme") were determined following discussions with the Company's advisers and consideration of market practice. The full performance conditions for options granted in 1998, 1999, 2000 and 2002 state that options are only exercisable if the Company's ranking in terms of TSR is higher than the average TSR growth of the FTSE Actuaries (Insurance) Index and the FTSE 100 Index over the relevant performance period of at least three years following grant. Additional phased vesting performance conditions based on TSR were applied to any options granted to senior executives and Directors in May 2002 in excess of 1 x salary whereby vesting of the options in excess of 1 x salary is contingent on the Company's TSR exceeding the FT Insurance Index over a performance period of three years. For the amount of options granted in excess of 1 x salary to vest in full, the TSR must have exceeded the FT Insurance Index by 25% or more.

In 2002, the Committee agreed to use the 1998 Scheme to satisfy in part a commercial settlement which had been agreed with the participants of the Brit Insurance Phantom Share Option Scheme. On 23 October 2002 a total of 1,353,913 options at a strike price of 62.5p were awarded to Group employees who were participants of the Phantom Scheme, of which 749,224 options were awarded to Dane Douetil and 172,646 options were awarded to Matthew Scales. Performance conditions were not applied to these options as they were awarded as part of a commercial settlement, but all other normal vesting criteria were applied. Full details of the settlement are disclosed in the Company's Report and Accounts 2002.

No further grants will be made under the 1998 Scheme.

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

(b) Share Awards

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

		Performance Period ended	Award date	Plan Interest (shares) as at 1 January 2003	No. of plan shares allocated in 2003	Plan Interest (shares) vested in 2003[1]	**Plan Interest (shares) as at 31 December 2003**	Value Vested 2003[2]	Vesting date[3]
Current Directors									
Dane Douetil	A	2006	03/11/03	–	360,113	–	**360,113**	–	03/11/06
	B	2003	24/05/00	102,500	–	102,500	–	74,569	31/12/03
Neil Eckert	A	2006	03/11/03	–	491,055	–	**491,055**	–	03/11/06
Matthew Scales	A	2006	03/11/03	–	360,113	–	**360,113**	–	03/11/06
	B	2003	24/05/00	136,667	–	136,667	–	99,425	31/12/03

A Awards made to Directors under the Brit Performance Share Plan 2003 "the PSP 2003".

B Awards made to Directors under the Brit Long Term Incentive Plan 1999 "the 1999 LTIP". No further awards are to be granted under this plan.

1 The performance conditions applicable to awards that vested on 31 December 2003 state that transfers of up to 50% of plan shares are based on a sliding scale and are contingent on the Company's TSR exceeding the FT Insurance Index over a performance period of three years. For the full 50% to transfer, the Company's TSR must have exceeded the FT Insurance Index by 25% or more. The transfer of the remaining 50% of plan shares is also based on a sliding scale of vesting. Shares can only be transferred if the annual compound growth in the earnings per share of the Company exceeds inflation over the performance period by at least 2.5%. For the full 50% to transfer the excess must be 15% or more.

2 The closing mid market prices of ordinary shares in Brit Insurance Holdings PLC were as follows: 24 May 2000: 68.0p, 3 November 2003: 74.25p and 31 December 2003: 72.75p.

3 Vesting of the 1999 LTIP awards with a performance period ended in 2003 was approved subsequent to year end.

The Remuneration Committee has applied performance conditions to all awards. The performance conditions for awards made in 2003 under the PSP 2003 are explained on page 29.

Brit Long Term Incentive Plan 1999 (the "1999 LTIP")

The performance conditions which apply to awards under the 1999 LTIP state that transfers of up to 50% of plan shares are based on a sliding scale and are contingent on the Company's TSR exceeding the FT Insurance Index over a performance period of three years. For the full 50% to transfer, the Company's TSR must have exceeded the FT Insurance Index by 25% or more.

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

Share price

The share price at 31 December 2003 was 72.75p (31 December 2002: 76.0p). The highest and lowest closing prices during the financial year were 85.50p and 66.75p respectively.

Brit All Employee Share Ownership Plan 2001

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

	As at 1 January 2003	Free shares granted in year	Partnership shares acquired in year	Matching shares granted in year	**As at 31 December 2003**
Current Directors					
Dane Douetil	4,866	500	2,020	1,006	**8,392**
Neil Eckert	4,866	500	2,020	1,006	**8,392**
Matthew Scales	4,866	500	2,020	1,006	**8,392**
Former Director					
Andrew Holland[1]	4,866	500	1,685	839	**7,890**

1 As at date of cessation of directorship, 31 October 2003.

3 Directors' Pension Benefits

	Increase/(decrease) in accrued pension during the year £ pa	**Accrued pension benefits at 31 December 2003 £pa**	**Transfer value of accrued benefits at 31 December 2003 £**	Transfer value of accrued benefits at 31 December 2002 £	Increase in transfer value in the year after contributions[1] £
Andrew Holland	**200**	**13,900**	**nil**	126,800	11,100

1 Andrew Holland left the Scheme on 1 February 2003 and transferred the cash equivalent transfer value of his rights on 12 May 2003, the cash equivalent being £137,900 and the increase in the cash equivalent since 1 January 2003 being £11,100.

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

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

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

Disclosures in relation to Directors' pensions continue to be required under the Listing Rules until those rules are revised to take account of the Directors' Remuneration Report Regulations. The Listing Rules disclosures are at Note 9 to the Financial Statements on page 58.

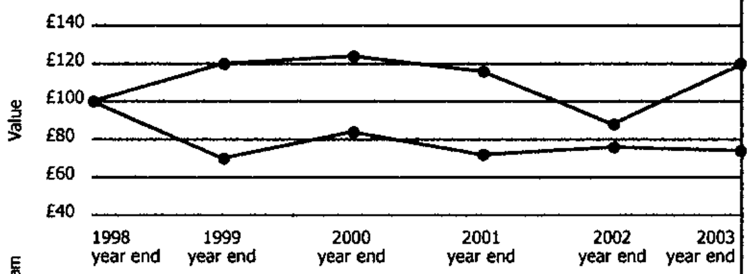
External Appointments
Executive Directors are permitted to accept appointments on external boards or committees so long as these are not deemed to interfere with the business of the Group. Any fees received in respect of these appointments are remitted to the Group and any such fees are reflected in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

Performance Graph
As required by legislation regarding disclosure in the Remuneration Report, Graph 1 (above right) illustrates the performance of Brit and a "broad equity market index" over the past five years. As Brit became a constituent of the FTSE Mid 250 Index in 2002, that index is considered the most appropriate form of "broad equity market index" against which the Group's performance should be graphed. Performance, as required by the legislation, is measured by Total Shareholder Return (share price growth plus dividends paid). Graph 2 (right) illustrates the Group's performance compared with the FTSE All Share Insurance Index, the index used for the purposes of performance conditions attaching to the Brit Performance Share Plan 2003.

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

Sections numbered 1, 2 and 3 of this report have been audited.

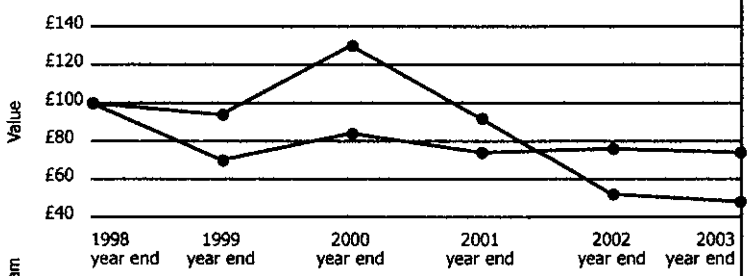
Graph 1 Total Shareholder Return – Brit vs FTSE Mid 250 Index



This chart shows the value, at the end of the 2003 financial year, of £100 invested in Brit Insurance Holdings over the last five years compared with the value of £100 invested in the FTSE Mid 250 Index. The other points plotted are the values at intervening financial year-ends.

Brit Insurance Holdings — FTSE Mid 250 Index

Graph 2 Total Shareholder Return – Brit vs FTSE All-Share Insurance Sector Index



This chart shows the value, at the end of the 2003 financial year, of £100 invested in Brit Insurance Holdings over the last five years compared with the value of £100 invested in the FTSE All-Share Insurance Sector Index. The other points plotted are the values at intervening financial year-ends.

Brit Insurance Holdings — FTSE All-Share Insurance Sector Index

On Behalf of the Board

Don McCrickard Chairman of the Remuneration Committee
1 March 2004

Combined Code Provisions

The Board of Brit Insurance Holdings PLC is committed to business integrity, high ethical values and professionalism across all its activities. As part of this commitment, the Board supports the highest standards of corporate governance best practice being set out in the Combined Code on Corporate Governance (the "Combined Code").

As required by the Listing Rules issued by the Financial Services Authority (the "FSA"), this report describes how the Company has applied the principles set out in Section 1 of the Combined Code. It also discloses, as required, the extent to which the Company has complied with the Code's provisions, and provides an explanation of those areas where the Company departs from them. The Board considers that the Company has complied fully throughout the period under review (and subsequently to the date of this report) with Section 1 of the Combined Code.

In July 2003 a new Combined Code was published (the "New Code"), following the Higgs and Smith Reports, and will formally apply to the Group's annual report and accounts for the year ending 31 December 2004. During 2003 the Company carried out a thorough review of its corporate governance practices. The Company already complies with many of the provisions of the New Code and it has identified certain further measures which are being actioned as appropriate.

Board

The Board comprises the Chairman, three Executive Directors and four Non-Executive Directors. The chairmen and members of the Audit, Nomination and Remuneration Committees are identified in the reports of those Committees. The Board is satisfied that the Executive and Non-Executive elements of the Board are well balanced, that no individual or group of individuals is or has been in a position to dominate the Board's decision making and that the Board, as currently constituted, has strongly independent and diverse characteristics. Directors' biographical details are set out on pages 22 and 23.

The Board is responsible for the overall management of the Company and is accountable to shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value.

The Chairman, Clive Coates, is responsible for leading and ensuring the effectiveness of the Board, setting the agenda for and conducting Board meetings, maintaining effective communications with shareholders and ensuring that all Directors receive, on a timely basis, sufficient, accurate and relevant information on financial, business and corporate issues.

The Chief Executive, Neil Eckert, is responsible for the executive management and performance of the Company's business, the development, recommendation and implementation of the Group's strategy and budget and setting the overall policy and direction of all business operations.

Don McCrickard is the Senior Independent Non-Executive Director. In this role he is available to shareholders if they have concerns which contact through the normal channels of Chairman, Group Chief Executive or Group Finance Director has failed to resolve. He is also available to meet with major shareholders from time to time to gain a balanced understanding of their issues and concerns. He chairs meetings of the Non-Executive Directors, without the Chairman of the Company and Executive Directors present, at which the performance of the Chairman of the Company is reviewed.

The Board considers Don McCrickard, Glyn MacAulay and Anthony Townsend to be independent Non-Executive Directors under the New Code. Each of them brings to the Board an objective viewpoint and there are no factors implying a lack of independence as set out in the New Code. In view of his former position as Executive Chairman of the Company, Jo Welman is not considered by the Board to be independent.

The Board is satisfied (having made due enquiry) that the Non-Executive Directors commit sufficient time to the fulfillment of their duties as Directors of the Company. The external commitments of the Chairman did not change during 2003.

The Company Secretary is responsible for advising the Chairman and the Board on all matters concerning corporate governance and he supports the Chairman in ensuring that Directors are provided with sufficient, accurate and relevant information. He also has responsibility for ensuring that Board procedures are complied with, facilitating the induction of new Directors and the provision of continuing professional development for Directors. All Directors have access to the Company Secretary and there is an established procedure for Directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

Directors are initially appointed by the Board and, in accordance with the Articles, retire and seek re-election at the next Annual General Meeting ("AGM"). Thereafter, in accordance with the Articles, one-third of the Directors retire by rotation and seek re-appointment at each AGM. The Nomination Committee has reviewed those individuals due for re-election at the 2004 AGM (their names are set out on page 26) and, in light of the breadth and relevance of their experience and skills and the contributions they each make to the Board and its Committees, the Committee made recommendations to the Board that they be put forward for re-election.

The Board has recently carried out an evaluation of its performance and the performance of its key Committees and individual Directors involving independent consultants. The findings are being discussed by the Board and actions arising from this exercise will be implemented during the course of 2004.

The Board has discussed and plans to introduce a programme of continuing professional development for all Directors of the Company during the course of 2004. Furthermore, induction programmes will be set up for newly appointed Directors, involving familiarisation programmes, presentations on the Company's businesses, meetings with senior management and staff and on compliance, risk management and other matters affecting their roles.

The Non-Executive Directors formally met on three occasions during 2003, two with and one without the Chairman of the Company present. The meeting without the Chairman was led by the Senior Independent Director and a review of the performance of the Chairman was carried out.

How the Board operates

Directors hold scheduled Board meetings on average every two months and hold other meetings on an ad hoc basis as and when required. The Board met on nine occasions in 2003. Papers are generally distributed at least five days in advance of a meeting.

The Board has a formal schedule of matters specifically reserved to it for its consideration which was last reviewed in December 2003. The specific issues reserved for the Board's decision include: approval of the annual and interim results, strategy and corporate objectives, strategic plans, significant transactions and matters affecting the Company's share capital. The Board has delegated certain of its powers to the following standing Committees within written terms of reference and these are contained in a corporate governance manual which governs delegations and authorities:

- ***Audit and Nomination Committees***
  Details concerning the Audit Committee and the Nomination Committee including membership, terms of reference, activities during 2003 and other matters are set out in the respective reports of these Committees on pages 38 and 39.
- ***Remuneration Committee***
  Similar information concerning the Remuneration Committee, including the details required by the Companies Act 1985, is set out in the Remuneration Report on page 28.
- ***Executive Management Committee ("EMC")***
  The EMC comprises the three Executive Directors, the Company Secretary and another senior executive. This Committee is the primary vehicle for implementing Board decisions and the day-to-day management of the Group and control of its affairs, normally meeting twice a week.
- ***Risk Management Group ("RMG")***
  Membership and details of the Committee's responsibilities are set out in the Internal Control statement below. Membership is confined to executive and senior management and it meets monthly.

The activities of each of the above Committees are regularly reported to the Board either by the inclusion of the minutes of meetings in the Board papers or by reports made by the Chairman of the Committees at the next Board meeting.

Attendance at Meetings

In accordance with the New Code, attendance at meetings of the Board and the Audit, Nomination and Remuneration Committees held in 2003 was as follows:

Directors	Board Meetings (9)	Audit Committee Meetings (3)	Nomination Committee Meetings (1)	Remuneration Committee Meetings (9)
Current Directors				
Chairman				
Clive Coates	9	n/a	1	9
Executive Directors				
Neil Eckert	7	n/a	n/a	n/a
Dane Douetil	8	n/a	n/a	n/a
Matthew Scales	9	n/a	n/a	n/a
Non-Executive Directors				
Glyn MacAulay	8	3	1	8
Don McCrickard	8	3	1	9
Anthony Townsend [1]	7	2	1	n/a
Jo Welman [2]	5	n/a	1	7
Former Directors				
Andrew Holland [3]	6	n/a	n/a	n/a
Michael Wade [4]	n/a	n/a	n/a	n/a

1 Prior to an Audit Committee meeting which Anthony Townsend was unable to attend, an informal Committee meeting, which included Anthony Townsend, was held to ensure his input was fully captured.

2 Jo Welman absents himself from Remuneration Committee meetings if he is interested in the subject matter under discussion.

3 Until cessation of directorship, 31 October 2003.

4 Until cessation of directorship, 25 February 2003.

Internal Control

The Board is ultimately responsible for the Group's systems of internal control and for reviewing their effectiveness. These systems are designed to manage the risks of the Group's business, to ensure that the financial information on which the business decisions are made and which is published is reliable, and to ensure that the assets of the Group are safeguarded. The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Company has complied during the year with the relevant code provisions in the Combined Code on internal control and has maintained procedures necessary to implement the guidance issued therewith.

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

The risk assessment and management function reports to the Risk Management Group (RMG), a formally constituted committee of the Board, on a regular basis. The RMG was established in 2000 and provides a formal structure for assessing the corporate risks affecting the Group and the effectiveness of the control environment. It submits reports to the EMC and the Board in accordance with the Turnbull Guidance. The RMG has developed analysis tools to identify and objectively assess a risk in terms of financial impact, likelihood and the effectiveness of the relevant internal control. The risk register is continually updated and the effectiveness of controls communicated to the relevant business unit; a follow up review programme is conducted in conjunction with the internal audit function. The process has been in place for the year under review and up to the date of the approval of the Annual Report and Accounts. The function is responsible for monitoring the major business risks and their associated controls relating to strategy, underwriting (including reinsurance and claims), investments, finance, operations and regulatory compliance.

Strategy

Strategic risks are considered by the Board, the EMC and the RMG in the context of an agreed strategic framework of core activities. One of the primary responsibilities of the EMC is to assess the risk appetite and asset split and asset/liability allocation policy of the Group for its operating divisions.

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

Underwriting, including reinsurance and claims

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

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

- oversee the Group's underwriting participations (i.e. the use of Group capital);
- co-ordinate the exposure (gross and net) of the Group and ensure that the exposure is within parameters agreed by the Board;
- continually review all classes of insurance and reinsurance and thereby determine the Group's ideal portfolio mix for any one underwriting year; and
- ensure consistent, prudent and appropriate reserving across the Group.

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

Investments

The overall benchmarks for return on capital for investments is set and monitored by the Investment Committee (IC). The IC is responsible for monitoring Group and syndicate investments and sets investment guidelines for investment managers and monitors performance and adherence to the guidelines.

Finance

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

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

Operations

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

Regulatory compliance

Due to the nature of the Group's activities, the Group operates in a highly regulated environment. The Group's Lloyd's operations are supervised by Lloyd's itself and regulated by the FSA. Brit Insurance Limited and Brit Insurance (UK) Limited are regulated directly by the FSA. Regulatory compliance is embedded within the Group activities and monitored by the respective Compliance Officers.

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

The Group continues to refine its risk management procedures and is implementing in 2004 a Group Risk Management Framework. Its purpose is to strengthen the link between the Group Strategic Plan, risk management and policies, governance, organisation and processes with Brit. This is to ensure a consistent and transparent risk management process across the Group and across risk categories as defined by the FSA.

The Group believes that all employees should take responsibility for their own actions to help the Group achieve its business objectives.

RMG reports are circulated to the Board and the appropriate Committees of the Board and to the external auditors.

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

Relations with Shareholders

The Company's investor relations team organises regular meetings with major investors and stakeholders and disseminates information through various media. A programme of meetings is initiated after the release of final and interim results and other significant announcements. The investor relations section on the Company's website (www.britinsurance.com) displays press releases, shareholders' presentations and the terms of reference for the Audit, Nomination and Remuneration Committees. Shareholders are encouraged to contact the Company directly with questions or concerns, and, subject to price sensitivity, the investor relations team seek to provide an efficient and timely response. During 2003 the team met major shareholders on two occasions and held a number of meetings with prospective shareholders.

In addition, the Chairman and Senior Independent Director held a series of meetings with significant shareholders during 2003.

The AGM provides shareholders with an opportunity to meet the Chairman and other Directors, receive an update on the development of the business and ask questions of the Board. The chairmen of the Audit, Nomination and Remuneration Committees attend the meeting and are available to answer relevant questions. The annual report and accounts and the notice of meeting are sent to shareholders at least 20 working days prior to the date of the AGM. The Company proposes a separate resolution for each item of business, giving shareholders the opportunity to vote on each substantially different issue. The results of the proxy votes received by the Company, including abstentions, are declared at the Meeting, following votes by shareholders on a show of hands.

Peter J Goddard Secretary
1 March 2004

Report of the Audit Committee

Composition and Terms of Reference
The Committee comprised entirely Non-Executive Directors all of whom served throughout the year and are considered independent by the Company.

Glyn MacAulay Chairman of the Committee*
Don McCrickard
Anthony Townsend

* Glyn MacAulay is considered by the Board to possess relevant and recent experience. He is a Chartered Accountant and until 1996 was a partner in an auditing firm. He is also a director of other insurance entities and is able to bring technical expertise and audit experience. The other members of the Committee sit on the audit committees of other public limited companies and bring to it a wide range of business experience.

The Committee's principal areas of responsibility concern the Group's financial statements, together with external and internal audit. Specifically it:

- reviews the annual and interim financial statements of the Company and principal operating subsidiaries prior to their approval by the Board;
- monitors compliance with statutory, London Stock Exchange and Financial Services Authority ("FSA") requirements for financial reporting;
- agrees the nature, scope and planning of the audit with the external auditors;
- reviews matters arising from the audit with the external auditors (including difficulties, reservations, cost effectiveness and fees);
- reviews the independence and objectivity of the external auditors, including a review of non-audit fees;
- recommends to the Board the appointment, re-appointment or removal of the external auditors;
- reviews the effectiveness of the internal audit function;
- liaises with the Risk Management Group as regards the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks; and
- monitors compliance with important regulations relevant to the activities of the Group and its subsidiaries, in particular regulated entities, including the FSA Listing Rules and local regulations for overseas subsidiaries.

The Committee's full terms of reference are on the Company's website at www.britinsurance.com and are also available from the Company Secretary at the registered office.

The Company's external auditors are generally prohibited from carrying out work falling outside these permitted services and other accounting firms are to be utilised to preserve the auditors' independence (see breakdown in Note 10). If there is uncertainty as to whether a matter falls within the permitted services, the matter is referred to the Finance Director who will consult with the Chairman of the Committee.

Activity
The Committee's role has focused on the following activities during the year:

- annual audit and interim review planning;
- the ramifications of International Accounting Standards ("IAS");
- the relationship with auditors and their independence;
- internal audit resourcing, strategy and planning; and
- the Committee's terms of reference and the impact of the New Combined Code on the Committee's work.

Audit and IAS
The Committee has worked closely with the Company's financial team and its external auditors to ensure that the audit processes adopted in connection with the Group's financial statements accord with best practice as currently stated, and that the Group is taking appropriate steps to prepare for the adoption of IAS. The Chairman of the Committee has regular meetings with the Company's Finance Director and external auditors.

Independence of external auditors
With the increasing emphasis on "independence", the Committee has examined with the external auditors how their independence from the Company can be assured and reviewed the connections, if any, with Directors of the Company. Glyn MacAulay has a prior relationship with Mazars' predecessor firm and this is disclosed at page 23. The Committee is satisfied that this historical relationship does not prejudice the independence of the external auditors or Glyn MacAulay.

The Committee has reviewed the policy on non-audit work and permitted services substantially follow ICAEW guidelines, and include:

- audit work: covering statutory and regulatory services;
- further assurance services;
- tax compliance services; and
- such other ancillary services that raise no questions as to the auditors' independence.

Mazars report regularly to the Committee on the actions taken to comply with professional and regulatory requirements in order to maintain auditor independence.

Internal audit
The Group has expanded its internal audit function which is directed by and reports to the Committee. The head of internal audit was appointed by the Committee and Committee members have met privately with him during the year to review work plans, reporting lines and findings.

Corporate Governance
With the growth of the Group in recent years, the Committee's general aim is to ensure that those matters falling within its terms of reference, which were updated after the introduction of the New Combined Code (including the Smith Report) are being addressed. Of its new areas of responsibility, the Committee has looked at the internal controls linking the Group's risk management, internal audit, underwriting review and compliance functions. The Committee has also reviewed whistle-blowing procedures within the Group.

The Committee met three times during the year and details of attendance are disclosed in the Corporate Governance Report. The Finance Director and other non-members attend by invitation of the Chairman.

On behalf of the Board

Glyn MacAulay Chairman of the Audit Committee
1 March 2004

Report of the Nomination Committee

Composition and Terms of Reference

During the year, the Committee comprised the Chairman of the Company and the Non-Executive Directors, the majority of whom are considered by the Board to be independent:

Don McCrickard Chairman of the Committee*
Clive Coates Chairman of the Board
Glyn MacAulay*
Anthony Townsend*
Jo Welman

*considered independent by the Board

The Committee leads the process for Board appointments and makes recommendations to the Board on its composition, new appointments and succession planning. Its principal areas of responsibility going forward are to:

- review regularly the structure, size and composition of the Board;
- assess the independence of all Non-Executive Directors;
- undertake an annual performance evaluation of the Board and its members, review the findings and make recommendations to the Board;
- evaluate the skills, knowledge and experience on the Board, identify any gaps and prepare a description of the role and capabilities required for new appointments (when appropriate);
- finalise the candidate specification for all Board appointments, identify and nominate candidates for the approval of the Board; and
- oversee the preparation of succession plans for all Directors and ensure that formal, rigorous and transparent procedures are in place for Board appointments.

The Committee's full terms of reference are displayed on the Company's website at www.britinsurance.com and are also available from the Company Secretary at the registered office. Copies of the Non-Executive Directors' appointment letters and Executive Directors' service agreements are available for inspection at the registered office.

Activity

The Committee focused on two principal activities during the year:

- the composition and balance of the Board; and
- the impact of the New Combined Code on the Committee's responsibilities.

During 2003, the Committee identified where the Board needed strengthening in view of the recent strong growth of the Group. It was tasked by the Board to identify further Non-Executive Directors for appointment to the Board. Egon Zehnder were retained by the Committee as external consultants in the third quarter of the year to find suitable candidates for these roles. The consultants assisted with the development of a more detailed profile for each vacancy and an initial list of potential candidates was presented by the consultants to the Committee. Interviews took place in December and January following which the Committee has made recommendations to the Board in the first quarter of 2004 on appointees.

The Committee has assessed the impact of the New Combined Code on the whole Board. In particular it is examining the roles and responsibilities of each Director, assessing Non-Executive Directors' independence and gaining a better understanding of the time commitment of each of the Non-Executive Directors. As part of the Committee's review, a succession plan is being prepared in order to facilitate a smooth transition when a Director reaches the end of his tenure of office.

The Committee formally met once during the year and its members have met frequently on an informal basis during the recent recruitment process and evaluation of the New Combined Code. Details of attendance are disclosed in the Corporate Governance Report.

On behalf of the Board

Don McCrickard Chairman of the Nomination Committee
1 March 2004

Consolidated Profit and Loss Account – Technical Account – General Business

for the year ended 31 December 2003

	Notes	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Earned premiums, net of reinsurance:			
Gross premiums written		**1,015,727**	662,715
Outward reinsurance premiums		**(164,962)**	(140,555)
Net premiums written		**850,765**	522,160
Change in the provision for unearned premiums		**(181,388)**	(218,445)
Change in the provision for unearned premiums, reinsurers' share		**2,059**	21,569
Net change in the provision for unearned premiums		**(179,329)**	(196,876)
Earned premiums, net of reinsurance		**671,436**	325,284
Allocated investment return transferred from the non-technical account		**43,985**	27,405
Total technical income		**715,421**	352,689
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount		**(228,667)**	(171,559)
Reinsurers' share		**89,490**	69,170
Net claims paid		**(139,177)**	(102,389)
Change in the provision for claims:			
Gross amount		**(224,234)**	(84,194)
Reinsurers' share		**(37,039)**	(18,496)
Net change in the provision for claims		**(261,273)**	(102,690)
Claims incurred, net of reinsurance	2	**(400,450)**	(205,079)
Change in other technical provisions		**(673)**	513
Net operating expenses	3	**(210,840)**	(93,684)
Change in the equalisation provision		**(3,186)**	(2,483)
Total technical charges		**(615,149)**	(300,733)
Balance transferred to the non-technical account		**100,272**	51,956

Consolidated Profit and Loss Account – Non-Technical Account

for the year ended 31 December 2003

	Notes	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Balance on technical account for general business		**100,272**	51,956
Net investment return	4	**42,699**	7,561
Allocated investment return transferred to the technical account for general business		**(43,985)**	(27,405)
Fees and commissions	5	**8,653**	15,981
Other income	6	**1,540**	992
Other expenses	7	**(33,761)**	(37,708)
Operating profit		**75,418**	11,377
Profit on disposal of subsidiary undertakings	19	**1,920**	–
Share of operating profit/(loss) in associated undertakings	16	**219**	(1,395)
Profit on ordinary activities before tax		**77,557**	9,982
Tax charge on profit on ordinary activities	11	**(20,385)**	(2,363)
Profit on ordinary activities after tax		**57,172**	7,619
Equity minority interests	30	**312**	(2,258)
Profit attributable to members of the parent company		**57,484**	5,361

Operating profit based on the long-term rate of investment return		**91,158**	25,022
Short-term fluctuations in investment return		**(15,740)**	(13,645)
Operating profit		**75,418**	11,377
Basic earnings per share (pence per share)	12	**6.58p**	1.11p
Diluted earnings per share (pence per share)	12	**6.50p**	1.11p

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

All results arise from continuing operations.

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2003

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Profit attributable to members of the parent company	**57,484**	5,361
Acquisition of Ri3K Limited	**–**	1,428
Total recognised gains and losses relating to the year	**57,484**	6,789

Consolidated Balance Sheet

as at 31 December 2003

Assets	Notes	As at 31 December 2003 £'000	As at 31 December 2002 £'000
Intangible assets:			
Syndicate participations		**2,236**	4,155
Goodwill		**67,732**	26,607
	13	**69,968**	30,762
Investments:			
Financial investments	14	**1,164,122**	781,172
Investments in associated undertakings	16	**253**	116
		1,164,375	781,288
Reinsurers' share of technical provisions:			
Provision for unearned premiums		**103,072**	85,794
Claims outstanding		**222,863**	233,334
		325,935	319,128
Debtors:			
Arising out of direct insurance operations		**147,917**	108,040
Arising out of reinsurance operations		**255,305**	255,701
Other debtors	20	**31,976**	47,155
		435,198	410,896
Other Assets:			
Tangible assets	21	**4,779**	4,867
Cash at bank and in hand		**183,993**	130,914
Own shares	22	**3,975**	1,211
Other assets		**15,069**	6,289
		207,816	143,281
Prepayments and accrued income:			
Deferred tax asset	23	**18,922**	38,395
Deferred acquisition costs		**100,481**	61,159
Other prepayments and accrued income	24	**11,409**	9,082
		130,812	108,636
Total assets		**2,334,104**	1,793,991

Liabilities	Notes	**As at 31 December 2003 £'000**	As at 31 December 2002 £'000
Capital and reserves:			
Called up share capital	27	**243,513**	186,867
Share premium account	28	**481,135**	370,107
Capital redemption reserve	28	**586**	586
Profit and loss account	28	**(23,735)**	(81,219)
Equity Shareholders' funds	29	**701,499**	476,341
Equity minority interests	30	**9,398**	(371)
Technical provisions:			
Provision for unearned premiums		**569,764**	364,287
Claims outstanding – gross		**852,340**	673,480
Equalisation provision		**5,670**	2,483
Other technical provisions		**(5,254)**	(6,462)
		1,422,520	1,033,788
Provisions for other risks and charges:	26	**801**	1,129
Creditors: Amounts falling due within one year			
Arising out of direct insurance operations		**23,969**	18,888
Arising out of reinsurance operations		**71,862**	162,401
Other creditors	25	**31,195**	32,999
		127,026	214,288
Creditors: Amounts falling due after more than one year			
Other creditors including convertible debt	25	**58,872**	64,625
Accruals and deferred income		**13,988**	4,191
Total liabilities		**2,334,104**	1,793,991

Balance Sheet of the Company

as at 31 December 2003

	Notes	**As at 31 December 2003 £'000**	As at 31 December 2002 £'000
Fixed asset investments:			
Investments in subsidiary undertakings	15	**506,854**	293,497
Investments in associated undertakings	16	**62**	62
Other investments	14	**63,005**	84,621
Own shares	22	**445**	920
		570,366	379,100
Current assets:			
Debtors	20	**187,539**	206,842
Deferred tax asset	23	**295**	295
Prepayments and accrued income	24	**19**	60
Cash at bank and in hand		**4,066**	10,129
		191,919	217,326
Creditors: Amounts falling due within one year			
Other creditors	25	**–**	(95)
Accruals and deferred income		**(3,923)**	(1,293)
		(3,923)	(1,388)
Net current assets		**187,996**	215,938
Total assets less current liabilities		**758,362**	595,038
Creditors: Amounts falling due after more than one year			
Other creditors including convertible debt	25	**(58,872)**	(64,625)
Net assets		**699,490**	530,413
Capital and reserves:			
Called up share capital	27	**243,513**	186,867
Share premium account	28	**481,135**	370,107
Capital redemption reserve	28	**586**	586
Profit and loss account	28	**(25,744)**	(27,147)
Equity Shareholders' funds		**699,490**	530,413

The financial statements were approved by the Board of Directors on 1 March 2004 and were signed on its behalf by

Clive Coates Chairman
Matthew Scales Finance Director

Consolidated Cash Flow Statement

for the year ended 31 December 2003

	Notes	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Net cash inflow/(outflow) from operating activities	33 (ii)	**226,416**	(460)
Returns on investment and servicing of finance:			
Interest paid		**(4,600)**	(5,072)
Taxation:			
Corporation tax (paid)/recovered		**(973)**	3,423
Capital expenditure:			
Purchase of syndicate capacity		**–**	(1,506)
Purchase of tangible fixed assets		**(1,931)**	(2,187)
Proceeds from disposal of tangible fixed assets		**6**	43
		(1,925)	(3,650)
Acquisitions and disposals:			
Acquistion of subsidiary undertakings		**50,037**	316
Disposal of subsidiary undertakings		**4,881**	–
Acquisition of own shares for the Performance Share Plan		**(3,559)**	–
Disposal of associated undertaking		**–**	400
Loan to associated undertaking		**–**	(2,750)
		51,359	(2,034)
Financing:			
Decrease in bank loans		**(7,037)**	(7,812)
Net proceeds from placing and open offer		**–**	194,150
		(7,037)	186,338
Increase in cash in the year		**263,240**	178,545
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	33 (iii)	**41,819**	(36,484)
Net portfolio investments:			
Deposits with credit institutions	33 (iv)	**26,589**	(90,284)
Fixed income investments	33 (iv)	**128,176**	313,966
Variable income investments	33 (iv)	**18,517**	(3,086)
Protected funds	33 (iv)	**(8,336)**	(2,055)
Equities	33 (iv)	**56,475**	(3,512)
Increase in cash in the year		**263,240**	178,545

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

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 2003 (the "ABI SORP") have been adopted.

The balance sheet of the Company has been prepared in accordance with Schedule 4 to the Companies Act 1985. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act. The profit dealt with in the accounts of the parent company was £1,403,000 (2002: loss of £17,119,000).

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, together with the Group's participation in the Lloyd's syndicates' assets, liabilities, revenues and expenses for the year ended 31 December 2003. In the Group accounts, associated undertakings are accounted for on the equity basis from the date the Directors deem that the Group exercises a significant influence over the Company. Subsidiaries are consolidated from the date control is gained.

1 Underwriting activities

(a) Managed syndicates and the insurance companies

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

(i) Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less an allowance for cancellations.

(ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date.

(iii) Acquisition costs represent commission and other expenses arising from the conclusion of insurance contracts. They are deferred over the period in which the related premiums are earned.

(iv) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from prior years. Where applicable deductions are made for salvage and other recoveries.

(v) Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.

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

For the insurance companies, claims based estimation techniques have been used to establish claims provisions for catastrophe reinsurance, financial risks and mortgage indemnity classes of business. The relevant management teams review each contract quarterly and set the provision on a contract by contract basis. Provisions are established for all known losses and major events to the extent that management estimates that individual contracts are likely to incur a loss. Claims provisions for all other classes of business have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims incurred but not reported.

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

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

(vii) Equalisation reserves (the insurance companies): Amounts are set aside in accordance with the requirements of the Insurance Companies (Reserves) Regulations 1996 for the purpose of mitigating exceptionally high loss ratios in future years. The amounts reserved are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions.

(viii) Net operating expenses: Operating expenses are charged in the year in which they were incurred.

(ix) The principles of the annual basis of accounting for insurance business are applied to the underwriting transactions and balances of the managed syndicates. Results under the annual basis of accounting are estimated on the basis of premiums earned in the year as a proportion of the projected ultimate premiums for each syndicate year of account, together with any adjustments in relation to prior years. Premium earnings patterns are set on the basis of the Underwriter's and internal actuary's judgement. Major claims are allocated to the year in which they occur.

(x) For each managed syndicate on which the Group participates, the Group's proportion of the syndicate's assets and liabilities has been reflected in its Consolidated Balance Sheet. Syndicate assets are held subject to trust deeds for the benefit of the Syndicate's insurance creditors.

(b) Non-managed syndicates

The Group's non-managed syndicate participations consist entirely of run-off syndicate years of account, with the last year being 2000. These participations are accounted for on a three year funded basis.

(i) Premiums
Written premiums comprise adjustments made in the year to premiums written in prior accounting periods. Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance or inwards reinsurance business.

(ii) Claims
Claims incurred comprise claims and claims handling expenses paid during the financial year together with the movement in the provision for claims outstanding and settlement expenses, including claims incurred but not reported.

(iii) Loss provisions on run-off years

Provision is made for the estimated future deterioration of years of account in run-off. External Managing Agents' published forecast information and Management's market knowledge are used to establish the loss provision for the non-managed syndicates. All available information is reviewed quarterly and the open year loss provisions are set on a syndicate by syndicate basis. While the Directors make every effort to ensure that adequate provision is made for losses on open years of account, their view of the ultimate loss may vary in later periods as a result of subsequent information and events. This in turn may require adjustment of the original provisions. These adjustments are reflected in the financial statements for the period in which the related adjustments are made.

2 Other accounting policies

(a) Investments

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

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

(ii) *Investment return*

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

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

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

(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. For all acquisitions up to 31 December 2002,the Directors' estimate of the useful economic life of the goodwill arising is ten years.

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

(c) Syndicate participation rights

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

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

(d) Taxation

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

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

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

(e) Deferred taxation

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

(f) Tangible fixed assets

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

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

(g) Own shares

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

(h) Agency fees

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

(i) Expenses

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

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

(j) Pension costs

The Group operates a defined contribution stakeholder pension scheme, a defined contribution funded unapproved retirement benefits scheme and several other defined contribution schemes. It also makes payments into a number of personal money purchase pension plans. Contributions in respect of these schemes are charged to the profit and loss account in the period to which they relate.

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

(k) Leased assets

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

(l) Foreign currencies

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

Foreign currency options are marked to market. Any gains or losses are recognised in the profit and loss account.

(m) Convertible Unsecured Subordinated Loan Stock 2008 ("CULS")

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

(n) Performance Share Plans

A provision is set up for an amount equivalent to the amortised portion of the period end market value of shares which have been awarded to participants of the Group's performance share plans. Such amortisation is calculated on a straight-line basis over the lives of the related Schemes. Where shares are acquired by, or issued to, the Brit Insurance Holdings PLC Employee Share Participation Trust, such shares are included in own shares at the market value of the company's shares on the date those shares were acquired and the investment is amortised against profits on a straight-line basis over the life of the scheme.

Note 1 Segmental information

(i) Underwriting result before investment return

Year ended 31 December 2003

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Operating expenses £'000	Reinsurance balance £'000	Change in other technical provisions £'000	Result £'000
Direct Business:							
Accident and Health	17,459	8,678	(4,735)	(3,293)	(710)	–	(60)
Motor	113,087	96,646	(63,923)	(23,093)	(2,483)	–	7,147
Marine, Aviation and Transport	78,930	84,973	(46,218)	(17,915)	(16,219)	–	4,621
Property	160,227	114,274	(58,656)	(37,130)	(13,366)	–	5,122
Third Party Liability	224,535	179,029	(138,732)	(40,072)	(10,634)	–	(10,409)
Life	14,016	13,809	(6,986)	(8,221)	(1,806)	–	(3,204)
Miscellaneous and Pecuniary Loss	66,018	38,827	(15,777)	(20,761)	(2,125)	–	164
Total direct	674,272	536,236	(335,027)	(150,485)	(47,343)	–	3,381
Reinsurance business:							
Reinsurance acceptances	341,455	298,103	(117,874)	(60,355)	(63,109)	(673)	56,092
Total	1,015,727	834,339	(452,901)	(210,840)	(110,452)	(673)	59,473

Year ended 31 December 2002

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Operating expenses £'000	Reinsurance balance £'000	Change in other technical provisions £'000	Result £'000
Direct business:							
Accident and Health	514	306	(213)	(64)	(43)	–	(14)
Motor	76,356	36,066	(23,363)	(8,344)	(1,032)	–	3,327
Marine, Aviation and Transport	65,812	52,255	(35,864)	(9,962)	(6,527)	–	(98)
Property	54,105	30,857	(18,543)	(7,202)	(2,613)	–	2,499
Third Party Liability	94,213	50,232	(41,396)	(11,309)	4,445	–	1,972
Life	13,498	9,127	(4,909)	(3,164)	(934)	–	120
Miscellaneous and Pecuniary Loss	22,666	5,100	(11,329)	(2,655)	7,607	–	(1,277)
Total direct	327,164	183,943	(135,617)	(42,700)	903	–	6,529
Reinsurance business:							
Reinsurance acceptances	335,551	260,327	(120,136)	(54,073)	(66,126)	513	20,505
Total	662,715	444,270	(255,753)	(96,773)	(65,223)	513	27,034

Note 1 Segmental information continued

(ii) Gross premium written by geographical segment

				Year ended 31 December 2003
	United Kingdom £'000	Other EU member states £'000	Outside EU £'000	Total £'000
Direct Business:				
Accident and Health	5,561	–	11,898	17,459
Motor	106,908	6,179	–	113,087
Marine, Aviation and Transport	2,198	7,174	69,558	78,930
Property	56,974	8,868	94,385	160,227
Third Party Liability	125,814	19,872	78,849	224,535
Life	14,016	–	–	14,016
Miscellaneous and Pecuniary Loss	48,995	691	16,332	66,018
Total direct	360,466	42,784	271,022	674,272
Reinsurance business:				
Reinsurance acceptances	42,927	26,323	272,205	341,455
Total	403,393	69,107	543,227	1,015,727

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

Note 1 Segmental information continued

(iii) Technical account

	Year ended 31 December 2003		
	Syndicate participations £'000	Insurance companies £'000	Total £'000
Gross premiums written	610,942	404,785	1,015,727
Net premiums written	495,348	355,417	850,765
Net premiums earned	431,406	240,030	671,436
Net investment return on technical funds and underwriting capital at the long-term rate	32,080	11,905	43,985
Net claims incurred	(250,573)	(149,877)	(400,450)
Changes in other technical provisions, net of reinsurance	–	(673)	(673)
Net operating expenses	(149,374)	(61,466)	(210,840)
Change in equalisation provision	–	(3,186)	(3,186)
Technical profit	63,539	36,733	100,272
Claims ratio (%)	58.1	62.7	59.7
Expense ratio (%)	33.4	22.3	28.8
Combined ratio (%)	91.5	85.0	88.5

	Year ended 31 December 2002		
	Syndicate participations £'000	Insurance company £'000	Total £'000
Gross premiums written	526,302	136,413	662,715
Net premiums written	413,435	108,725	522,160
Net premiums earned	267,862	57,422	325,284
Net investment return on technical funds and underwriting capital at the long-term rate	24,128	3,277	27,405
Net claims incurred	(169,169)	(35,910)	(205,079)
Changes in other technical provisions, net of reinsurance	–	513	513
Net operating expenses	(87,132)	(6,552)	(93,684)
Change in equalisation provision	–	(2,483)	(2,483)
Technical profit	35,689	16,267	51,956
Claims ratio (%)	63.2	61.6	62.9
Expense ratio (%)	29.8	10.3	25.7
Combined ratio (%)	93.0	71.9	88.6

The figures for the syndicate participations for both years are after adjustments to eliminate the business transferred to the Group's insurance companies by way of quota share reinsurances.

Note 1 Segmental information continued

(iv) Corporate

	Underwriting (Lloyd's) £'000	Underwriting (companies) £'000	Peoples Choice (Europe) Limited £'000	Ri3K Limited £'000	Other £'000	Total £'000
						Year ended 31 December 2003
Technical result at the long-term rate of return	**63,539**	**36,733**	–	–	–	**100,272**
Other investment return	**(766)**	**10,869**	**61**	**9**	**8,878**	**19,051**
Interest payable	**(68)**	–	**(704)**	**(5)**	**(3,820)**	**(4,597)**
Fees and commissions	**2,271**	–	**6,251**	**131**	–	**8,653**
Other income	**56**	**90**	**1,257**	–	**137**	**1,540**
Other expenses	–	–	**(10,453)**	**(3,989)**	**(10,912)**	**(25,354)**
	65,032	**47,692**	**(3,588)**	**(3,854)**	**(5,717)**	**99,565**
Amortisation of goodwill and syndicate participations	**(1,919)**	–	**(153)**	–	**(6,335)**	**(8,407)**
Operating profit/(loss) based on long-term rate of investment return	**63,113**	**47,692**	**(3,741)**	**(3,854)**	**(12,052)**	**91,158**
Short-term fluctuations in investment return	**(7,614)**	**(8,126)**	–	–	–	**(15,740)**
Operating profit/(loss)	**55,499**	**39,566**	**(3,741)**	**(3,854)**	**(12,052)**	**75,418**
Profit on disposal of subsidiary undertakings	–	–	–	–	**1,920**	**1,920**
Share of operating profit in associated undertakings.	–	–	–	–	**219**	**219**
Profit/(loss) before taxation	**55,499**	**39,566**	**(3,741)**	**(3,854)**	**(9,913)**	**77,557**
Net assets	**293,959**	**382,427**	–	**8,492**	**16,621**	**701,499**
Net tangible assets	**280,086**	**334,362**	–	**1,116**	**15,967**	**631,531**

	Underwriting (Lloyd's) £'000	Underwriting (companies) £'000	Peoples Choice (Europe) Limited £'000	Ri3K Limited £'000	Other £'000	Total £'000
						Year ended 31 December 2002
Technical result at the long-term rate of return	35,689	16,267	–	–	–	51,956
Other investment return	(442)	3,605	119	–	(4,396)	(1,114)
Interest payable	(10)	–	(425)	–	(4,650)	(5,085)
Fees and commissions	5,318	–	10,663	–	–	15,981
Other income	42	238	768	–	(56)	992
Other expenses	(8,366)	–	(15,427)	–	(7,692)	(31,485)
	32,231	20,110	(4,302)	–	(16,794)	31,245
Impairment of goodwill	–	–	–	–	(1,570)	(1,570)
Amortisation of goodwill and syndicate participations	(2,604)	–	(262)	–	(1,787)	(4,653)
Operating profit/(loss) based on long-term rate of investment return	29,627	20,110	(4,564)	–	(20,151)	25,022
Short-term fluctuations in investment return	(12,056)	(1,589)	–	–	–	(13,645)
Operating profit/(loss)	17,571	18,521	(4,564)	–	(20,151)	11,377
Share of operating loss in associated undertakings	–	–	–	–	(1,395)	(1,395)
Profit/(loss) before taxation	17,571	18,521	(4,564)	–	(21,546)	9,982
Net assets	251,622	178,759	5,000	9,196	31,764	476,341
Net tangible assets	233,747	178,759	545	764	31,764	445,579

Note 2 Claims incurred, net of reinsurance

	Year ended 31 December 2003		
	Syndicate participations £'000	Insurance companies £'000	Total £'000
Gross amount:			
2001 and prior underwriting years	13,157	(1,087)	12,070
2002 underwriting year	122,215	36,941	159,156
2003 underwriting year	159,214	122,461	281,675
	294,586	158,315	452,901
Reinsurers' share:			
2001 and prior underwriting years	(3,113)	1,408	(1,705)
2002 underwriting year	(24,930)	(1,720)	(26,650)
2003 underwriting year	(15,969)	(8,127)	(24,096)
	(44,012)	(8,439)	(52,451)
Claims incurred, net of reinsurance:			
2001 and prior underwriting years	10,044	321	10,365
2002 underwriting year	97,285	35,221	132,506
2003 underwriting year	143,245	114,334	257,579
	250,574	149,876	400,450

	Year ended 31 December 2002		
	Syndicate participations £'000	Insurance company £'000	Total £'000
Gross amount:			
2000 and prior underwriting years	26,337	966	27,303
2001 underwriting year	67,126	3,514	70,640
2002 underwriting year	122,658	35,152	157,810
	216,121	39,632	255,753
Reinsurers' share:			
2000 and prior underwriting years	(10,352)	(1,241)	(11,593)
2001 underwriting year	(13,062)	(204)	(13,266)
2002 underwriting year	(23,538)	(2,277)	(25,815)
	(46,952)	(3,722)	(50,674)
Claims incurred, net of reinsurance:			
2000 and prior underwriting years	15,985	(275)	15,710
2001 underwriting year	54,064	3,310	57,374
2002 underwriting year	99,120	32,875	131,995
	169,169	35,910	205,079

Note 3 Net operating expenses

	31 December 2003 £'000	31 December 2002 £'000
Acquisition costs	**199,594**	113,258
Movement in deferred acquisition costs	**(33,946)**	(40,640)
Administrative expenses	**37,566**	15,838
Loss on exchange translation	**7,626**	5,228
	210,840	93,684

Note 4 Investment return

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

	31 December 2003 £'000	31 December 2002 £'000
Investment return on Funds at Lloyd's and other corporate funds:		
Investment income	**20,638**	14,345
Realised losses on investments	**(6,244)**	(10,816)
Unrealised gains/(losses) on investments	**15,282**	(7,547)
Investment management expenses	**(1,692)**	(937)
Interest payable on bank loans	**(764)**	(1,264)
Interest payable on convertible unsecured loan stock	**(3,836)**	(3,821)
	23,384	(10,040)
Investment return on syndicate funds:		
Investment income	**13,562**	11,184
Realised (losses)/gains on investments	**(6,128)**	1,352
Investment management expenses	**(1,289)**	(228)
	6,145	12,308
Investment return on insurance company funds:		
Investment income	**17,908**	5,578
Realised (losses)/gains on investments	**(2,339)**	63
Unrealised losses on investments	**(1,795)**	(152)
Investment management expenses	**(604)**	(196)
	13,170	5,293
Total investment return		
Investment income	**52,108**	31,107
Realised losses on investments	**(14,711)**	(9,401)
Unrealised gains/(losses) on investments	**13,487**	(7,699)
Investment management expenses	**(3,585)**	(1,361)
Interest payable on bank loans	**(764)**	(1,264)
Interest payable on convertible unsecured loan stock	**(3,836)**	(3,821)
	42,699	7,561

Note 4 Investment return continued

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

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

The long-term rates of return used were:

	31 December 2003 %	31 December 2002 %
Insurance companies and Funds at Lloyd's		
Equities – capital return	**5.0**	5.0
Equities – income	**2.0**	2.0
Bonds and cash	**5.0**	5.0
Syndicate investments	**5.0**	5.0

Comparison of long-term investment return with actual return

	1999 to 2003 £'000	1999 to 2002 £'000
Actual return attributable to Shareholders:		
Funds at Lloyd's	**27,684**	9,362
Syndicate funds	**41,627**	35,483
Insurance company funds	**9,555**	5,777
	78,866	50,622
Long-term return credited to technical account:		
Funds at Lloyd's	**50,755**	35,775
Syndicate funds	**47,630**	30,530
Insurance company funds	**19,234**	7,330
	117,619	73,635
Excess of the long-term investment return over actual returns	**38,753**	23,013

Note 5 Fees and commissions

	31 December 2003 £'000	31 December 2002 £'000
Managing agent's fees	**1,644**	1,624
Sale and administration of private motor and household insurance (Peoples Choice (Europe) Limited)	**6,251**	10,663
Marham Consortium Management Limited fees and profit commission	**465**	2,597
Broking commission earned	**162**	1,097
Reinsurance industry electronic infrastructure design and development (Ri3K Limited)	**131**	–
	8,653	15,981

Note 6 Other income

	31 December 2003 £'000	31 December 2002 £'000
Rental and other income	**1,540**	992

Note 7 Other expenses

	31 December 2003 £'000	31 December 2002 £'000
The following items have been charged/(credited) in operating profit:		
Amortisation of goodwill	**6,488**	2,502
Impairment of goodwill	**–**	1,570
Amortisation of syndicate capacity	**1,919**	2,150
Depreciation of tangible fixed assets	**2,169**	1,925
Loss/(profit) on sale of fixed assets	**844**	(27)
Operating lease rentals – land and buildings	**2,522**	2,140
Consortium result	**(271)**	1,328

Details of Auditors' remuneration are given in Note 10.

Note 8 Staff costs

	31 December 2003 £'000	31 December 2002 £'000
Wages and salaries (including profit related pay)	**36,617**	24,604
Social security costs	**3,098**	2,202
Other pension costs	**3,583**	1,860
	43,298	28,666

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

	31 December 2003 Number	31 December 2002 Number
Management	**33**	42
Administration	**307**	413
Underwriting	**327**	284
	667	739

Note 9 Directors' emoluments

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

	Increase in accrued pension during the year £ p.a.	**Accrued pension benefits at 12 May 2003 £ p.a.**	**Transfer value of accrued benefits at 12 May 2003 £**	Transfer value of accrued benefits at 31 December 2002 £	Increase in transfer value in the year after contributions £
Andrew Holland	**200**	**13,900**	**137,900**	126,800	11,100

Andrew Holland left the defined benefit plan on 1 February 2003 and transferred the cash equivalent transfer value of his rights on 12 May 2003.

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

The disclosures given above are those required by the Directors' Remuneration Report Regulations 2002.

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

	Increase in accrued pension during the year in excess of inflation £ p.a.	Accrued pension benefits at 12 May 2003 £ p.a.	Accrued pension benefits at 31 December 2002 £ p.a.	Increase in transfer value during the year £
Andrew Holland	100	13,900	13,700	11,100

Neil Eckert is a member of the Brit Insurance Limited defined contribution scheme.

Matthew Scales is a member of the FURBS scheme and the Brit Insurance Limited defined contribution scheme.

Dane Douetil is a member of the FURBS scheme and the defined contribution Brit Group Services Limited stakeholder scheme.

Andrew Holland joined the FURBS scheme and defined contribution Brit Group Services Limited stakeholder scheme on 1 February 2003 and was a member until leaving the Company on 31 December 2003.

The Non-Executive Directors do not have any pension entitlements.

Further details of the pension schemes are given in Note 35.

Further details of Directors' emoluments and interests are included in the Remuneration Report. These details include, as specified for audit by the UK Listing Authority, an analysis, by Director, of salary and other payments and benefits and an analysis of Directors' share interests, share options and details of the Directors' conditional rights over the Company's shares under the Long-Term Incentive Plan and the Brit All Employee Share Ownership Plan, Brit Executive Share Option Scheme 2003 and Brit the Performance Share Plan in Note 36 and in the Remuneration Report all of which form part of these audited financial statements.

Note 10 Auditors' remuneration

	31 December 2003 Mazars £'000	31 December 2003 Other auditors £'000	31 December 2002 Mazars £'000	31 December 2002 Other auditors £'000
Audit services:				
Statutory audit Corporate	**235**	**9**	296	–
Syndicate	**64**	**293**	75	311
Audit-related regulatory reporting:				
Corporate regulatory reports	**25**	**–**	3	–
Interim review	**40**	**–**	30	–
Further Assurance Services:				
Acquisition *	**170**	**–**	–	–
Disposals	**21**	**–**	–	–
Capital raising	**–**	**–**	257	–
Tax services:				
Compliance services	**105**	**15**	103	4
Advisory services	**38**	**–**	35	–
Other services:				
Printing services	**162**	**–**	–	–
Other advisory	**37**	**3**	14	180
	897	**320**	813	495

Of the above charges, £520,000 (2002: £481,000) has been charged to the non-technical account.

* Included within the capitalised acquisition costs on the purchase of Brit Underwriting Group Limited.

Note 11 Taxation

(i) Analysis of charge in year

	31 December 2003 £'000	31 December 2002 £'000
Current taxation:		
UK corporation tax on profits of the year	**–**	(2)
Adjustments in respect of prior years	**(145)**	2,282
Overseas tax	**(250)**	(38)
Share of associates' tax	**(82)**	346
	(477)	2,588
Deferred tax:		
Origination and reversal of timing differences	**(19,908)**	(4,951)
	(19,908)	(4,951)
Tax charge on profit on ordinary activities	**(20,385)**	(2,363)

Note 11 Taxation continued

(ii) Factors affecting tax charge for year

	31 December 2003 £'000	31 December 2002 £'000
Profit on ordinary activities before tax	**77,557**	9,982
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	**(23,267)**	(2,995)
Effects of:		
Expenses not deductible for tax purposes and other permanent differences	**(4,100)**	(1,960)
Investment gains/(losses) for which no tax relief is available in future periods	**4,429**	(6,709)
Equity dividends not subject to corporation tax	**646**	604
Short-term timing differences:		
Syndicate results	**20,874**	11,648
Realised and unrealised investment losses	**139**	835
Other timing differences	**1,197**	(1,079)
Overseas taxation not recoverable	**(250)**	(38)
Adjustments to tax charge in respect of prior years	**(145)**	2,282
Current tax (charge)/credit for the year (per Note 11(i))	**(477)**	2,588

(iii) Factors that may affect future tax charges

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

Note 12 Earnings per share

The calculations of the basic and diluted earnings per share are based on the following figures:

	31 December 2003 £'000	31 December 2002 £'000
Profit attributable to members of the parent company	**57,484**	5,361
Dilutive post tax effect on profits:		
Convertible Unsecured Subordinated Loan Stock	**2,685**	–
Diluted profit attributable to members of the parent company	**60,169**	5,361

	31 December 2003 Number	31 December 2002 Number
Basic weighted average number of shares	**874,056,697**	481,174,679
Dilutive potential ordinary shares:		
Convertible Unsecured Subordinated Loan Stock	**51,276,076**	–
Employee share options	**698,381**	81,611
Diluted weighted average number of shares	**926,031,154**	481,256,290

In accordance with Financial Reporting Standard 14, Convertible Unsecured Subordinated Loan Stock and employee share options are only treated as dilutive when their conversion to ordinary shares would decrease net profit per share or increase net loss from continuing operations.

Note 13 Intangible assets

	Syndicate participations £'000	Goodwill £'000	Total £'000
Cost:			
At 1 January 2003*	9,025	36,527	45,552
Acquired with Brit Underwriting Group Limited	–	771	771
Additions	–	51,358	51,358
Disposal	–	(8,248)	(8,248)
At 31 December 2003	**9,025**	**80,408**	**89,433**
Amortisation:			
At 1 January 2003*	4,870	9,920	14,790
Acquired with Brit Underwriting Group Limited	–	35	35
Disposals	–	(3,767)	(3,767)
Charge for the year	1,919	6,488	8,407
At 31 December 2003	**6,789**	**12,676**	**19,465**
Net book value:			
At 31 December 2003	**2,236**	**67,732**	**69,968**
At 31 December 2002	4,155	26,607	30,762

In accordance with the provisions of Financial Reporting Standard 10 "Goodwill and Intangible Assets", the goodwill arising on the acquisition of Ri3K Limited has been subject to an impairment review being the first full financial year after its acquisition. The Directors believe that following this impairment review, the carrying value of Ri3K Limited does not exceed its recoverable amount.

* An impairment charge of £1,570,000 made in the year ended 31 December 2002 has been reallocated from cost to amortisation for fairer presentation purposes.

Note 14 Investments

Group:

	31 December 2003 Market value £'000	**31 December 2003 Cost £'000**	31 December 2002 Market value £'000	31 December 2002 Cost £'000
Investments – corporate				
Shares and other variable-yield securities and units in unit trusts:				
Listed	**215,936**	**220,268**	84,937	111,137
Unlisted	**1,115**	**7,440**	5,372	10,760
Debt securities and other fixed income securities:				
Listed	**474,477**	**478,420**	329,392	328,862
Unlisted	**125,960**	**125,677**	93,196	93,229
Deposits with credit institutions	**60,047**	**60,047**	33,458	33,458
Total investments – corporate	**877,535**	**891,852**	546,355	577,446
Investments – syndicate participations				
Shares and other variable-yield securities and units in unit trusts:				
Listed	**9,188**	**10,278**	4,736	4,801
Debt securities and other fixed income securities:				
Listed	**211,443**	**231,984**	153,563	155,839
Participation in investment pools	**65,956**	**68,661**	29,184	29,184
Deposits with credit institutions	–	–	45,561	45,561
Other	–	–	1,773	1,773
Total investments – syndicate participations	**286,587**	**310,923**	234,817	237,158
Total investments	**1,164,122**	**1,202,775**	781,172	814,604

Note 14 Investments continued

Company:

	31 December 2003 Market value £'000	31 December 2003 Cost £'000	31 December 2002 Market value £'000	31 December 2002 Cost £'000
Investments – corporate				
Shares and other variable-yield securities and units in unit trusts:				
Listed	**23,935**	**29,603**	23,440	37,596
Unlisted	**1,115**	**7,440**	2,373	7,761
Debt securities and other fixed income securities:				
Listed	**23,967**	**23,920**	58,808	58,798
Unlisted	**–**	**–**	–	–
Deposits with credit institutions	**13,988**	**13,988**	–	–
Total investments – corporate	**63,005**	**74,951**	84,621	104,155

If the investments held at 31 December 2003 had been sold at that date, there would have been no liability to tax.

The movement in the Company's corporate investments during the year were as follows:

	31 December 2003 £'000	31 December 2002 £'000
Market value at 1 January	**84,621**	41,829
Purchases	**186,504**	292,053
Sales	**(213,081)**	(241,720)
Sales – realised losses on sales	**(345)**	(9,192)
Increase in unrealised gains	**5,306**	1,651
Market value at 31 December	**63,005**	84,621

Note 15 Investments in subsidiary undertakings

Company:

	£'000
Cost at 1 January 2003	306,903
Opening provision for permanent diminution in value	(13,406)
Value at 1 January 2003	293,497
Movements in the year	
Purchases:	
(i) Purchase of Brit Underwriting Group Limited	173,514
(ii) Purchase of new Brit Underwriting Group Limited share capital	195,202
Disposals:	
(i) Peoples Choice (Europe) Limited	
Cost	(10,973)
Provision for permanent diminution in value	10,973
(ii) Brit Insurance Limited	
Cost	(156,691)
Balance arising on settlement of contingent share capital	1,332
Value at 31 December 2003	**506,854**
Cost at 31 December 2003	507,955
Closing provision for permanent diminution in value	(1,101)
Value at 31 December 2003	**506,854**

Further details relating to the acquisition of Brit Underwriting Group Limited are provided in Note 18.
Further details relating to the disposal of Peoples Choice (Europe) Limited are provided in Note 19.
Brit Insurance Limited was sold to Brit Underwriting Group Limited on 4 December 2003.
Brit Underwriting Group Limited issued new share capital on 4 December 2003.

Note 15 Investments in subsidiary undertakings continued

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

Name of company	Nature of business	Proportion of ordinary shares held by the Company %	Proportion of ordinary shares held by subsidiary %
Underwriting companies			
Brit Insurance Limited	Insurance company		100
Brit Insurance (UK) Limited*	Insurance company		100
Brit Syndicates Limited	Lloyd's managing agent		100
Brit UW Limited	Lloyd's corporate member		100
Wren Insurance Services Limited	Lloyd's syndicate support company		100
Marham Consortium Management Limited	Lloyd's syndicate support company		100
Investment company			
Masthead Insurance Underwriting Limited	Intermediate holding company	100	
Distribution companies			
Ri3K Limited	E-commerce solutions company	77.2	
Ri3K Asia Pte Limited	E-commerce solutions company		83.5
Group services companies			
Brit Group Services Limited	Group services company		100
PRI Management Limited	Group services company		100
Intermediate holding companies			
Wren Limited	Intermediate holding company	100	
Wren Holdings Group PLC	Intermediate holding company		100
HCG Holdings Limited	Intermediate holding company	100	
Finsbury Underwriting Limited	Intermediate holding company		100
Brit Underwriting Group Limited*	Intermediate holding company	100	
Open ended investment company			
CF Epic Investment Funds	Open ended investment company		81.6
Lloyd's corporate members (last year of account 1999)			
HCG Alpha Limited	Lloyd's corporate member		100
HCG Bravo Limited	Lloyd's corporate member		100
HCG Charlie Limited	Lloyd's corporate member		100
HCG Delta Limited	Lloyd's corporate member		100
HCG Echo Limited	Lloyd's corporate member		100
HCG Foxtrot Limited	Lloyd's corporate member		100
FUIT One Limited	Lloyd's corporate member		100
FUIT Two Limited	Lloyd's corporate member		100
FUIT Three Limited	Lloyd's corporate member		100
FUIT Four Limited	Lloyd's corporate member		100
FUIT Five Limited	Lloyd's corporate member		100
Masthead A Limited	Lloyd's corporate member		100
Masthead B Limited	Lloyd's corporate member		100
Masthead C Limited	Lloyd's corporate member		100
Masthead D Limited	Lloyd's corporate member		100
Masthead E Limited	Lloyd's corporate member		100

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

* On 22 May 2003, the Company purchased Brit Underwriting Group Limited (formally PRI Group plc). See note 18 for further information. Brit Insurance (UK) Limited (formally Professional Risks Insurance Limited) ceased to accept business from third parties from 1 July 2003.

All subsidiaries are included in the Group consolidated financial statements.

Note 16 Investments in associated undertakings

Group:

	The Equity Partnership Limited £'000
Profit and loss accounts, Group share:	
Turnover	**1,340**
Profit on ordinary activities before tax	**219**
Tax charge on profit	**(82)**
Profit on ordinary activities after tax	**137**
Balance sheet, Group share:	
Fixed assets	**4**
Current Assets	**763**
Current Liabilities	**(514)**
Net assets	**253**

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

	The Equity Partnership Limited £'000
Balance at 1 January 2003	116
Share of profit after tax arising in the year	137
Balance at 31 December 2003	**253**

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

The carrying value of The Equity Partnership Limited in the Company balance sheet represents its cost of £62,000 (2002: £62,000).

The Equity Partnership Limited
The Company owns 34.1% of the ordinary share capital of The Equity Partnership Limited ("EPL").

As at the balance sheet date, EPL had issued £850,000 of preference shares to a third party. These preference shares do not have dividend rights but EPL is prevented from paying a dividend on the ordinary shares until the preference shares have been repaid in full.

The company's principal activity is that of an investment manager.

The company's accounting reference date is 31 December. It is registered and operates in England.

Note 17 Significant interests in other companies

At 31 December 2003, the Company/Group had holdings in the companies listed below which exceeded 20% of any class of equity share capital. The Company/Group does not exercise control over or significantly influence the activities of these companies and therefore the holdings have not been equity accounted.

Name of undertaking	Country of incorporation and registration	Class of capital	Percentage of class held by Company	Percentage of class held by Group	Latest available accounts	Aggregate capital and reserves £'000	Profit/(loss) after tax for the year £'000
Insurance Broadcast Systems Inc	USA	Ordinary shares	23.2%	23.2%	31 Dec 2001	(1,632)	(626)
Ebix Inc	USA	Common stock	40.1%	40.1%	31 Dec 2002	2,953	314
The Equity Partnership Investment Company PLC	Isle of Man	Capital shares	14.4%	34.7%	31 Jul 2003	34,696	2,802
The Equity Partnership Investment Company PLC	Isle of Man	Income shares	0.0%	4.8%	31 Jul 2003	34,696	2,802

The investment in Insurance Broadcast Systems Inc was written down to nil in the books of the Company during 2002.

Note 18 Acquisitions

(i) Brit Underwriting Group Limited

On 22nd May 2003, the Group purchased the entire share capital of Brit Underwriting Group Limited (formally PRI Group plc) by issuing new ordinary Brit Insurance Holdings PLC shares in exchange for the Brit Underwriting Group Limited shares not already owned by Brit. Prior to this date, Brit held 811,215 shares in Brit Underwriting Group Limited as a trade investment being a holding of 0.6%. Brit issued 1.703 new ordinary shares, valued at 74 pence each, for each remaining Brit Underwriting Group Limited share. This transaction has been accounted for as an acquisition.

Goodwill:

The provisional goodwill arising in respect of the acquisition of Brit Underwriting Group Limited is as follows:

	£'000
Fair value of consideration and costs	
Cost of existing holding	893
Issue of 226,583,744 new Brit Insurance Holdings PLC ordinary shares	167,672
Costs of acquisition	4,949
	173,514
Fair value of net assets acquired	(122,306)
Goodwill capitalised	51,208
Less goodwill amortised as at 31 December 2003	(3,143)
Goodwill carried forward	48,065

The Brit Underwriting Group Limited acquisition balance sheet contains technical provisions whose value will not be known until premiums written up to the date of acquisition have been fully earned and their related claims reported. Consequently, the goodwill at this stage is classed as provisional.

The net assets of Brit Underwriting Group Limited on 22 May 2003 were as follows:

	Book value and fair value at acquisition £'000
Intangible assets	736
Investments	107,886
Reinsurers' share of technical provisions	5,859
Debtors	14,164
Other assets	33,910
Prepayments and accrued income	6,174
Technical provisions	(40,355)
Creditors	(6,068)
	122,306

There are no fair value adjustments to the net assets of Brit Underwriting Group Limited at the date of acquisition.

The summarised profit and loss account for Brit Underwriting Group Limited from 1 January 2003 (the beginning of its accounting period) to 22 May 2003 (the date of acquisition) and for the period commencing 21 February 2002 (the date of its incorporation) and ended 31 December 2002 (being its previous accounting period) was as follows:

	Period 1 January 2003 to 22 May 2003 £'000	Period 21 February 2002 to 31 December 2002 £'000
Gross premiums written	29,100	18,507
Loss before tax	(6,082)	(1,450)
Tax	1,825	435
Loss after tax	(4,257)	(1,015)

Note 18 Acquisitions continued

(ii) CF Epic Investment Funds

CF Epic Investment Funds is an open ended investment company ("OEIC") which managed two funds at 31 December 2003 being the Insurance and General Fund and the UK Equity Fund.

On 14 October 2003, the Group acquired an 81.5% interest in the Insurance and General fund for £35,000,000 and an 81.9% interest in the UK Equity fund for £10,000,000. CF Epic Investment Funds had not traded prior to this date. This transaction resulted in the Group having an overall interest in CF Epic Investment Funds of 81.6% and has been accounted for as an acquisition. The cash consideration of £45,000,000 was equal to the value of the net assets acquired and hence no goodwill arose on acquisition. The assets of CF Epic Investment Funds at acquisition consisted of cash and investments in listed companies.

Note 19 Disposals

(i) Peoples Choice (Europe) Limited

Between 11 July and 30 July 2003, the Group purchased the remaining 17.7% minority interest in Peoples Choice (Europe) Limited for a cash consideration of £149,350. On 31 July 2003, the Group disposed of Peoples Choice (Europe) Limited, retaining no further ownership interest.

The loss before tax of Peoples Choice (Europe) Limited for the period up to the date of disposal was £3,741,000, and for the year ending 31 December 2002 was a loss of £4,564,000.

Net assets disposed of and the related sales proceeds were as follows:

	£'000
Fixed assets	545
Current assets	5,686
Creditors	(5,772)
Net assets	459
Related goodwill	4,244
Profit on disposal	2,069
Net sale proceeds	6,772

(ii) Ri3K Limited

On 7 February 2003, Ri3K Limited, a subsidiary company issued new share capital to third parties. As a consequence, the Group's holding in Ri3K Limited reduced from 80.0% to 77.2%. The transaction has been treated as a deemed disposal.

Net liabilities disposed of and the related sales proceeds were as follows:

	£'000
Fixed assets	7
Current assets	16
Creditors	(83)
Share of net liabilities	(60)
Related goodwill	237
Loss on disposal	(149)
Net sale proceeds	28

Note 20 Debtors

Amounts due within one year:

	Group		Company	
	31 December 2003 £'000	31 December 2002 £'000	**31 December 2003 £'000**	31 December 2002 £'000
Trade debtors	**6,078**	15,644	**–**	–
Amounts owed by managed syndicates	**1,347**	4,394	**550**	750
Amounts owed by Group undertakings	**–**	–	**186,550**	205,837
Tax recoverable	**227**	231	**–**	–
Other debtors	**6,177**	1,827	**439**	255
Share of syndicates' other debtor balances	**18,147**	25,059	**–**	–
	31,976	47,155	**187,539**	206,842

Note 21 Tangible assets

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

					Group
	Freehold property £'000	Office refurbishment £'000	Computers and office machinery, furniture and equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 January 2003	509	2,321	11,796	76	14,702
Additions	–	613	1,318	–	1,931
Acquisitions	–	–	1,824	–	1,824
Disposals	–	(3)	(3,600)	–	(3,603)
Exchange adjustments	–	–	(18)	–	(18)
At 31 December 2003	**509**	**2,931**	**11,320**	**76**	**14,836**
Depreciation:					
At 1 January 2003	320	1,056	8,410	49	9,835
Charge for the period	7	492	1,657	13	2,169
Acquisitions	–	–	263	–	263
Disposals	–	(3)	(2,199)	–	(2,202)
Exchange adjustments	–	–	(8)	–	(8)
At 31 December 2003	**327**	**1,545**	**8,123**	**62**	**10,057**
Net book value:					
At 31 December 2003	**182**	**1,386**	**3,197**	**14**	**4,779**
At 31 December 2002	189	1,265	3,386	27	4,867

Note 22 Own shares

In December 1999, May 2000 and December 2001 the trustees of the Brit Long-Term Incentive Plan ("the LTIP") acquired Brit Insurance Holdings PLC shares on behalf of certain employees, in accordance with the terms of that plan. Following the vesting of some of these shares during 2003 the number of shares held at 31 December 2003 was 588,268 (2002: 1,182,680). Details of the LTIP are given in Note 36.

In November 2003 the trustees of the Brit Performance Share Plan 2003 ("the PSP") acquired Brit Insurance Holdings PLC shares on behalf of certain employees, in accordance with the terms of that plan. The number of shares held at 31 December 2003 was 4,659,895 (2002: nil). Details of the PSP are given in Note 36.

As at 31 December 2003 Brit Insurance Limited held 265,623 (2002: 265,623) ordinary 25p shares of Brit Insurance Holdings PLC.

		Group		Company
	31 December 2003 £'000	31 December 2002 £'000	**31 December 2003 £'000**	31 December 2002 £'000
Brit Insurance Holdings PLC shares – Long-Term Incentive Plan	**445**	920	**445**	920
Brit Insurance Holdings PLC shares – Performance Share Plan	**3,337**	–	–	–
Brit Insurance Holdings PLC shares – Held by Brit Insurance Limited	**193**	202	–	–
Peoples Choice (Europe) Ltd Shares and loan stock – Held by Peoples Choice (Europe) Trustees Ltd	–	89	–	–
	3,975	1,211	**445**	920

In October 2001, the Brit All Employee Share Ownership Plan ("the ESOP") commenced purchasing shares to be held in trust for the benefit of employees of the Group. Ongoing purchases of shares are made on a monthly basis. Details of the ESOP including the market value of its shares are given in Note 36.

Note 23 Deferred tax

		Group		Company
	31 December 2003 £'000	31 December 2002 £'000	**31 December 2003 £'000**	31 December 2002 £'000
Declared underwriting losses	**17,989**	35,037	–	–
Provision for future underwriting losses	**100**	2,386	–	–
Unrealised losses on investments	**625**	764	**295**	295
Other timing differences	**208**	208	–	–
	18,922	38,395	**295**	295
Undiscounted provision for deferred taxation at the start of the year	**38,395**	43,346	**295**	926
Acquired with Brit Underwriting Group Limited	**435**	–	–	–
Deferred tax charge in profit and loss account for year (Note 11(i))	**(19,908)**	(4,951)	–	(631)
Provision at the end of the year	**18,922**	38,395	**295**	295

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

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

There are unrealised equity losses of £1,717,000 (2002: £12,356,000) on which deferred tax has not been provided because of uncertainty as to the timing of their utilisation. If these losses were included at 31 December 2003, the deferred tax asset would be increased by £515,000 (2002: £3,707,000).

In addition the Group has unclaimed capital allowances on which deferred tax has not been provided because of the uncertainty as to the timing of their utilisation. If the capital allowances were included at 31 December 2003, the deferred tax asset would be increased by £1,149,000 (2002: £900,000).

Note 24 Prepayments and accrued income

	Group		Company	
	31 December 2003 £'000	31 December 2002 £'000	**31 December 2003 £'000**	31 December 2002 £'000
Accrued income:				
underwriting	**7,870**	1,003	**–**	–
investment income	**417**	4,832	**19**	48
other	**–**	284	**–**	12
Prepayments	**812**	1,249	**–**	–
Share of syndicates' prepayments and accrued income	**2,310**	1,714	**–**	–
	11,409	9,082	**19**	60

Note 25 Other creditors

Amounts payable within one year:

	Group		Company	
	31 December 2003 £'000	31 December 2002 £'000	**31 December 2003 £'000**	31 December 2002 £'000
Bank loans and overdrafts	**–**	1,037	**–**	–
Trade creditors	**58,473**	93,216	**–**	–
Amounts due to managed syndicates	**–**	737	**–**	–
Other taxes and social security costs	**1,639**	1,470	**–**	–
Other creditors	**5,110**	1,338	**–**	95
Share of syndicates' other creditor balances	**(34,027)**	(64,799)	**–**	–
	31,195	32,999	**–**	95

	Group		Company	
	31 December 2003 £'000	31 December 2002 £'000	**31 December 2003 £'000**	31 December 2002 £'000
Amounts payable between two and five years:				
Bank borrowings	**15,000**	21,000	**15,000**	21,000
Convertible Unsecured Subordinated Loan Stock 2008	**43,872**	43,625	**43,872**	43,625
	58,872	64,625	**58,872**	64,625

On 3 February 2000, the Group entered into a £80,000,000 facility with Barclays Bank PLC and National Westminster Bank PLC. The interest rate payable on the loan is equal to LIBOR plus 1.0%. £15,000,000 remains outstanding as at 31 December 2003 and falls due for repayment on 3 February 2005.

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

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

Note 26 Provisions for other risks and charges

	Provision for lease shortfall £'000	Provision for rent-free period £'000	Provision for pensions and similar obligations £'000	Group Total £'000
At 1 January 2003	606	462	61	1,129
Utilised during the year	(36)	(231)	(61)	(328)
At 31 December 2003	**570**	**231**	–	**801**

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

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

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

Note 27 Share capital

	31 December 2003 £'000	31 December 2002 £'000	**31 December 2003 Number '000**	31 December 2002 Number '000
Authorised:				
Ordinary shares of 25p each	**350,000**	280,000	**1,400,000**	1,120,000
Allotted, issued and fully paid:				
Ordinary shares of 25p each	**243,513**	186,867	**974,054**	747,466

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

	2003 Number	2002 Number
At 1 January	**747,466,314**	421,593,793
Exercised share options	**25**	25
Converted unsecured loan stock	**3,564**	52,406
Acquisition of Brit Underwriting Group Limited	**226,583,744**	–
Settling contingent share capital	–	5,737,705
Placing and open offer	–	319,109,052
Terminating Brit Insurance Limited phantom share option scheme	–	973,333
At 31 December	**974,053,647**	747,466,314

On 22 May 2003 the Company issued 25 ordinary shares in relation to exercised share options.

During the May and October 2003 conversion periods, the Company issued 3,106 and 458 shares respectively to converting holders of the Convertible Unsecured Loan Stock 2008 issued on 18 December 2001.

During the period May 2003 to August 2003 the Company issued 226,583,744 shares to Brit Underwriting Group Limited shareholders in return for shares in that company. Details of this acquisition are given in Note 18.

On 18 June 2003, the Company's authorised share capital was increased from 1,120,000,000 to 1,400,000,000 25p ordinary shares.

Note 28 Reserves

Group:

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2003	370,107	586	(81,219)	289,474
Issue of shares	111,028	–	–	111,028
Profit for the year	–	–	57,484	57,484
At 31 December 2003	**481,135**	**586**	**(23,735)**	**457,986**

Company:

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2003	370,107	586	(27,147)	343,546
Issue of shares	111,028	–	–	111,028
Profit for the year	–	–	1,403	1,403
At 31 December 2003	**481,135**	**586**	**(25,744)**	**455,977**

The Company had negative distributable reserves of £65,587,000 at 31 December 2003 (2002: £27,147,000)

Note 29 Reconciliation of Equity Shareholders' funds

	Group		Company	
	31 December 2003 £'000	31 December 2002 £'000	**31 December 2003 £'000**	31 December 2002 £'000
Total recognised gains/(losses) for the year	**57,484**	6,789	**1,403**	(17,119)
Issue of shares	**167,674**	208,840	**167,674**	208,840
Issue costs charged to the share premium account	**–**	(10,081)	**–**	(10,081)
Settlement of Brit Insurance Limited contingent purchase consideration	**–**	(5,291)	**–**	(5,291)
Total movements during the year	**225,158**	200,257	**169,077**	176,349
Opening Equity Shareholders' funds	**476,341**	276,084	**530,413**	354,064
Closing Equity Shareholders' funds	**701,499**	476,341	**699,490**	530,413

Note 30 Equity minority interests

	31 December 2003 £'000	31 December 2002 £'000
At 1 January	**(371)**	(2,258)
Equity minority interest at date of acquisition – CF Epic Investment Funds	**10,134**	–
Equity minority interest at date of acquisition – Ri3K Limited	**–**	(371)
Deemed disposal of Ri3K Limited	**(53)**	–
Loss on ordinary activities after tax	**(312)**	–
Write down of equity minority interests – Peoples Choice (Europe) Limited	**–**	2,258
At 31 December	**9,398**	(371)

The equity minority interest in Ri3K Limited represents holdings of 22.8% of the ordinary shares.

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

Note 31 Capital commitments

	31 December 2003 £'000	31 December 2002 £'000
Capital expenditure contracted but not provided for in the financial statements	**580**	57

Note 32 Operating leases

At 31 December 2003, the Group was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2004:

	Land and buildings		Other	
	31 December 2003 £'000	31 December 2002 £'000	**31 December 2003 £'000**	31 December 2002 £'000
Annual commitments under operating leases which expire:				
within one year	**280**	73	**126**	93
between two to five years	**47**	235	**84**	115
after five years	**1,802**	2,042	**–**	–
	2,129	2,350	**210**	208

Note 33 Consolidated cash flow statement notes

(i) Scope of consolidated cash flow statement

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

(ii) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	31 December 2003 £'000	31 December 2002 £'000
Profit before tax on ordinary activities	**77,557**	9,982
Loss/(profit) on sale of fixed assets	**844**	(18)
Profit on disposal of subsidiary undertakings	**(1,920)**	–
Loss on disposal of associated undertaking	**–**	212
Depreciation of fixed assets and exchange adjustments	**2,179**	1,925
Amortisation of goodwill	**6,488**	2,502
Impairment of goodwill	**–**	1,570
Charges in respect of employee share schemes	**221**	603
Amortisation loan stock issue costs	**250**	252
Amortisation of syndicate capacity	**1,919**	2,150
Increase in debtors	**(72,838)**	(94,599)
Decrease in creditors	**(13,303)**	(13,518)
Increase in provisions	**223,395**	63,492
Realised and unrealised investment (gains)/losses	**(2,767)**	18,732
Unrealised losses on own shares	**10**	–
Share of result of associated undertakings	**(219)**	1,183
Interest payable	**4,600**	5,072
Net cash inflow/(outflow) from operating activities	**226,416**	(460)

Note 33 Consolidated cash flow statement notes continued

(iii) Movement in opening and closing portfolio investments net of financing

	31 December 2003 £'000	31 December 2002 £'000
Net cash inflow/(outflow) for the year	**41,819**	(36,484)
Cash flow – portfolio investments	**221,421**	215,029
Movement arising from cashflows	**263,240**	178,545
Changes in market value and currencies	**2,767**	(18,732)
Other changes	**106,992**	–
Total movement in portfolio investments net of financing	**372,999**	159,813
Portfolio at 1 January	**580,381**	420,568
Portfolio at 31 December	**953,380**	580,381

(iv) Movement in cash and portfolio investments

	At 1 January 2003 £'000	Cash flow £'000	Changes to market value and currencies £'000	Other changes £'000	At 31 December 2003 £'000
Cash at bank and in hand	34,026	41,819	–	–	**75,845**
Deposits with credit institutions	33,458	26,589	–	–	**60,047**
Total cash	67,484	68,408	–	–	**135,892**
Fixed income investments	422,588	128,176	(11,509)	61,182	**600,437**
Variable income investments	6,063	18,517	(363)	46,703	**70,920**
Protected funds	9,747	(8,336)	(28)	–	**1,383**
Equities	74,499	56,475	14,667	(893)	**144,748**
Total portfolio investments	512,897	194,832	2,767	106,992	**817,488**
Total cash and portfolio investments	580,381	263,240	2,767	106,992	**953,380**
Borrowings	(22,037)	7,037	–	–	**(15,000)**
Total cash and portfolio investments, net of debt	558,344	270,277	2,767	106,992	**938,380**

(v) Net cash outflow on portfolio investments

	Year ended 31 December 2003			Year ended 31 December 2002		
	Purchases £'000	**Sales £'000**	**Net cash flow £'000**	Purchases £'000	Sales £'000	Net cash flow £'000
Deposits with credit institutions	**26,589**	**–**	**26,589**	3,216	93,500	(90,284)
Fixed income investments	**1,619,256**	**1,491,080**	**128,176**	1,254,048	940,082	313,966
Variable income investments	**25,547**	**7,030**	**18,517**	5,072	8,158	(3,086)
Protected funds	**–**	**8,336**	**(8,336)**	–	2,055	(2,055)
Equities	**90,880**	**34,405**	**56,475**	46,407	49,919	(3,512)
	1,762,272	**1,540,851**	**221,421**	1,308,743	1,093,714	215,029

Note 34 Purchase of subsidiaries

During the period, the Group acquired Brit Underwriting Group Limited. The assets of Brit Underwriting Group Limited on the date of acquisition included cash of £32,351,000.

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

Note 35 Pensions

The Group has the following pension schemes in operation:

(i) Brit Group Services Limited - defined benefit pension scheme
For Brit Group Services Limited employees, the Group operates a funded pension scheme providing benefits for its employees based on final pensionable emoluments. The assets of the Scheme are held in a separate trustee administered fund. The most recent completed actuarial valuation of the Scheme was carried out as at 31 July 2000 by a professionally qualified actuary using the projected unit method. The actuarial assumptions made for the valuation were that the investment returns would be 7.5% per annum, salary increases would average 5% per annum and that present and future pensions for members retiring from the Scheme would increase at the rate of 3% per annum. For the Minimum Funding Requirement (MFR), the Scheme's assets at 31 July 2000 taken at a value of £66.4 million, exceed 120% of the amount of liabilities of the Scheme as at that date.

Due to the significant fall in equity markets since the valuation date the position has worsened. However, at 31 December 2003 the value of assets was above 100% of the amount of liabilities on the MFR basis. The employer has been making contributions at the rate of 24.8% of pensionable salaries since 1 January 2003.

The pension cost charge represents contributions payable by the Group to the fund and amounted to £1,690,730 (2002: £1,305,154). At 31 December 2003 no contributions were payable to the fund (2002: £nil).

Financial Reporting Standard 17 "Retirement Benefits" ("FRS 17") disclosures
While the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs", under Financial Reporting Standard 17 "Retirement Benefits" transitional disclosures are required as at 31 December 2003 using the different measurement basis prescribed by the Standard. None of the information set out in a) to g) below is reflected in the primary statements of the Group for the year ended 31 December 2003.

(a) Composition of the scheme
The provisional results of the formal actuarial valuation as at 31 July 2003 were updated to the accounting date by an independent qualified actuary in accordance with the transitional arrangements of FRS 17. As required by FRS 17, the value of the defined benefit liabilities has been measured using the projected unit method.

The following table sets out the key FRS 17 assumptions used for the scheme. The table also sets out as at the accounting date the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the deficit of assets below the FRS 17 liabilities (which equals the gross pension liability).

	31 December 2003 %	31 December 2002 %	31 December 2001 %
Retail Price Index inflation	**2.80**	2.30	2.50
Discount rate	**5.40**	5.60	6.00
Pension increases in payment	**2.60**	2.30	2.50
General salary increases	**4.80**	4.30	4.50

Note 35 Pensions continued

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

	31 December 2003		31 December 2002		31 December 2001	
	Expected return %	**Value £'000**	Expected return %	Value £'000	Expected return %	Value £'000
Equities	**7.70**	**48,741**	7.40	37,906	8.00	46,957
Bonds	**5.40**	**4,316**	5.60	5,537	6.00	6,020
Gilts	**4.80**	**2,411**	4.40	2,733	4.90	3,712
Cash	**4.60**	**1,187**	4.00	1,862	5.10	3,138
Total market value of assets		**56,655**		48,038		59,827
Present value of liability		**(72,171)**		(58,401)		(53,434)
(Deficit)/surplus in the scheme		**(15,516)**		(10,363)		6,393
Gross pension (liability)/asset		**(15,516)**		(10,363)		6,393
Related deferred tax asset/(liability) at 30%		**4,655**		3,109		(1,918)
Net pension (liability)/asset		**(10,861)**		(7,254)		4,475

Under FRS 17, the scheme would be represented on the balance sheet at 31 December 2003 as a liability of £15,516,000 (2002: £10,363,000), which amounts to £10,861,000 net of deferred tax (2002: £7,254,000).

Notes:

(1) Figures have been estimated, where necessary.

(2) Contributions were paid at the rate of 15.0% of pensionable salaries until 31 December 2002, thereafter they have been paid at the rate of 24.8% of pensionable salaries.

(3) The Scheme closed to new entrants with effect from 4 October 2001. Under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

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

	31 December 2003 £'000	31 December 2002 £'000
Employer's part of current service cost	**2,059**	2,144
Vested past service cost	**125**	118
Curtailment	**(306)**	0
Total operating charge	**1,878**	2,262

(c) Analysis of the amount to be credited to other finance income (for illustrative purposes only)

	31 December 2003 £'000	31 December 2002 £'000
Expected return on pension scheme assets	**3,273**	4,418
Interest on pension scheme liabilities	**(3,249)**	(3,199)
Net return – credit	**24**	1,219

(d) Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (for illustrative purposes only)

	31 December 2003 £'000	31 December 2002 £'000
Actual return less expected return on pension scheme assets	**6,428**	(15,155)
Experience (losses) and gains arising on the scheme liabilities	**(2,499)**	190
Changes in assumptions underlying the present value of scheme liabilities	**(8,965)**	(2,093)
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	**(5,036)**	(17,058)

Note 35 Pensions continued

(e) Movement in scheme deficit during the year (for illustrative purposes only)

	31 December 2003 £'000	31 December 2002 £'000
(Deficit)/surplus in scheme at beginning of the year	**(10,363)**	6,393
Movement in year:		
Current service cost (total)	**(2,059)**	(2,143)
Aggregate contributions	**1,737**	1,344
Past service costs (vested and non-vested)	**(125)**	(118)
Curtailment	**306**	–
Other finance income	**24**	1,219
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	**(5,036)**	(17,058)
Deficit in scheme at end of the year	**(15,516)**	(10,363)

(f) History of experience gains and losses (for illustrative purposes only)

	31 December 2003 £'000	31 December 2002 £'000
Difference between expected and actual return on scheme assets:		
Amount – gain/(loss)	**6,428**	(15,155)
Percentage of scheme assets	**11%**	(32%)
Experience gains and losses on scheme liabilities		
Amount – gain/(loss)	**(2,499)**	190
Percentage of the present value of the scheme liabilities	**(3%)**	0%
Total amount recognised in the Statement of Total Recognised Gains and Losses		
Amount – (loss)	**(5,036)**	(17,058)
Percentage of the present value of the scheme liabilities	**(7%)**	(29%)

(g) Reserves note (for illustrative purposes only)

	31 December 2003 £'000	31 December 2002 £'000
Profit and loss reserve excluding pension liability	**(23,735)**	(81,219)
Pension reserve	**(10,861)**	(7,254)
Profit and loss reserve	**(34,596)**	(88,473)

(ii) Brit Group Services Limited – Defined Contribution Stakeholder Scheme

From 5 October 2001, Brit Group Services Limited has operated a defined contribution stakeholder pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £1,034,710 (2002: £458,506). At 31 December 2003 no contributions were payable to the fund (2002: £nil).

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

Brit Group Services Limited also operates a defined contribution FURBS, into which additional contributions are paid in respect of certain employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £72,000 (2002: £161,968). At 31 December 2003, contributions amounting to £72,000 (2002: £88,898) were payable to the fund and are included in creditors.

(iv) Brit Insurance Limited

For Brit Insurance Limited employees, the Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £63,044 (2002: £110,589). At 31 December 2003, no contributions were payable to the fund (2002: £95,040).

(v) PRI Management Limited

PRI Management Limited operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £172,519 for the period since acquisition. At 31 December 2003, contributions amounting to £9,153 were payable to the fund and are included in creditors.

Note 36 Long-Term incentive schemes

There are three active schemes and five closed schemes, details of which are set out below:

Active Schemes

(i) Brit All Employee Share Ownership Plan ("the ESOP")

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

An aggregate of 158,500 free shares were awarded on 19 October 2003 to 317 members of staff, including certain Executive Directors, (each of whom were awarded 500 shares each) at a cost per share of 71p each. Since the launch of the ESOP, all participating employees have had the opportunity to subscribe for partnership shares on a monthly basis and to be awarded matching shares. All shares are held in trust for a three year qualifying period.

As at 31 December 2003, the Trust held 375,000 free shares, 243,285 matching shares and 488,824 partnership shares with a total nominal value of £276,777 and a market value, based on mid-market value of the Company's shares at close of business on 31 December 2003, as shown in the Official List of the London Stock Exchange of £805,422. This equates to 0.11% of the Company's issued share capital as at 31 December 2003.

(ii) Brit Executive Share Option Scheme 2003 ("the ESOS")

The ESOS was approved by shareholders on 18 June 2003 and comprises of two parts, namely the 'Approved' part, which has been approved by the Inland Revenue, and the 'Unapproved' part, which is intended to be used primarily where executives have more than £30,000 worth of outstanding Approved options.

The price per share payable upon exercise of an option will not be less than the higher of the average of the middle-market quotations of a share on the London Stock Exchange on the three dealing days immediately prior to the grant date, provided that no such dealing day falls prior to the date on which the Company last announced its results for any period and the nominal value of a share (unless the option is expressed to relate only to existing shares).

Further details of the operation of the ESOS are disclosed in the Directors' Remuneration Report.

Outstanding options granted at nil cost under the ESOS are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
3 Nov 03	79	8,004,738	76.92	3 Nov 06	2 Nov 13

(iii) Brit Performance Share Plan 2003 ("the PSP")

The PSP was approved by shareholders on 18 June 2003 and details of its operation are disclosed in the Directors' Remuneration Report.

Awards will be satisfied by the transfer of shares from the Company's employee benefit trust which may acquire shares for this purpose either by subscribing for new shares or by buying shares in the market. The trustees have waived their entitlement to dividends on any shares acquired. As at 31 December 2003, the employee benefit trust held 5,248,163 ordinary 25p shares which represented 0.54% of the issued share capital of the Company as at 31 December 2003.

Awards have been made under the PSP as follows:

Date of grant	Number of employees including Directors	Number of shares	Value of shares at date of grant £	Latest vesting date
3 Nov 03	54	4,659,894	3,459,971	2 May 07

Note 36 Long-term incentive schemes continued

Closed Schemes

(iv) Brit 1998 Approved Executive Share Option Scheme ("the Approved Scheme")

The Approved Scheme is a discretionary share option scheme approved by the Inland Revenue. Following shareholder approval of the ESOS in 2003, no further grants of options will be made under the Approved Scheme. Options granted under the Approved Scheme were subject to performance criteria at the discretion of the Board and are generally exercisable between three and ten years from the date of grant.

Outstanding options granted at nil cost under this scheme are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
6 Dec 99	4	118,379	80.25	6 Dec 02	5 Dec 09
8 Jun 00	1	38,710	77.50	8 Jun 03	7 Jun 10
20 Nov 00	9	162,164	74.00	20 Nov 03	19 Nov 10
7 Jun 01	24	361,241	113.50	7 Jun 04	6 Jun 11
27 May 02	1	28,368	70.50	27 May 05	26 May 12
6 Feb 03	11	130,118	75.50	6 Feb 06	5 Feb 13

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

This is a discretionary share option scheme approved by the Inland Revenue. Options granted under this scheme were not subject to performance criteria and are generally exercisable between three and ten years from date of grant. All option holders accepted rollover terms granting them options over shares in the Company on 21 September 1999. It is not expected that any future options will be granted under this scheme.

Outstanding options granted at nil cost under this scheme are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
10 Sep 98	16	397,557	112.00	10 Sep 01	9 Sep 08

(vi) Brit 1998 Unapproved Executive Share Option Scheme ("The Unapproved Scheme")

The Unapproved Scheme is a discretionary share option scheme not approved by the Inland Revenue. Following shareholder approval of the ESOS in 2003, no further grants of options will be made under the Unapproved Scheme. Options granted under this scheme were subject to performance criteria determined by the Board and are generally exercisable between three and ten years from the date of grant.

Outstanding options granted at nil cost under this scheme are as follows:

Date of grant	Number of employees including Directors	Number of shares under option	Subscription price per 25p share (pence)	Date from which exercisable	Expiry date
10 Sep 98	2	799,999	142.50	10 Sep 01	9 Sep 08
6 Dec 99	7	1,875,000	80.25	6 Dec 02	5 Dec 09
24 May 00	2	550,000	66.00	24 May 03	23 May 10
20 Nov 00	5	715,000	74.00	20 Nov 03	19 Nov 10
7 Jun 01	1	125,000	113.50	7 Jun 04	6 Jun 11
31 May 02	37	2,497,550	70.50	31 May 05	30 May 12
31 May 02	8	2,460,000	70.83	31 May 05	30 May 12
5 Jun 02	10	635,500	70.50	5 Jun 05	4 Jun 12
23 Oct 02	3	1,353,913	62.50	23 Oct 05	22 Oct 12
4 Nov 02	2	839,844	64.00	4 Nov 05	3 Nov 12
15 Jan 03	1	240,000	78.00	15 Jan 06	14 Jan 13

Note 36 Long-term incentive schemes continued

(vii) Brit 1998 Unapproved Executive Share Option Scheme – Part B (formerly Wren Unapproved Share Option Scheme 1998)
This is a discretionary share option scheme not approved by the Inland Revenue. Options granted under this scheme were subject to performance criteria (other than those granted on 18 May 1998) determined by the Board of Wren Limited. Options are generally exercisable between three and ten years from the date of grant (with the exception of those granted on 18 May 1998). All option holders accepted rollover terms granting them options over shares in the Company on 21 September 1999. It is not expected that any future options will be granted under this scheme.

Outstanding options granted at nil cost under this scheme are as follows:

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

(viii) Brit Long Term Incentive Plan 1999 ("the LTIP")
Following shareholder approval of the PSP in 2003, no further awards will be made under the LTIP.

The LTIP was controlled by the Remuneration Committee, which set performance targets in respect of all allocations. The LTIP was established under a discretionary employee benefit trust set up for the provision of benefits and assistance to employees of the Company and its subsidiaries. Further details of the trust are disclosed above.

Outstanding awards made under the LTIP are as follows:

Date of grant	Number of employees including Directors	Number of shares	Value of shares at date of grant	Latest vesting date
24 May 00	3	266,500	181,220	31 Dec 03
18 Dec 01	1	67,030	50,000	31 Dec 04

Note 37 Related party transactions

(i) Directors' interests in share capital
The interests of the Directors who held office as at 31 December 2003 and their families in the ordinary shares of 25p each of the Company are as follows:

	Held at 31 December 2003			Held at 31 December 2002		
	Shares	**Options**	**PSP/LTIP**	Shares	Options	PSP/LTIP
Dane Douetil	**828,875**	**1,806,744**	**462,613**	770,483	1,449,224	102,500
Neil Eckert	**5,822,335**	**1,601,993**	**491,055**	1,561,588	1,114,473	187,708
Matthew Scales	**107,185**	**1,230,166**	**496,780**	82,185	872,646	136,667
Clive Coates	**100,000**	–	–	20,000	–	–
Glyn MacAulay	**40,000**	–	–	40,000	–	–
Don McCrickard	**40,000**	–	–	–	–	–
Anthony Townsend	**352,538**	–	–	352,538	–	–
Jo Welman	**208,874**	**510,526**	–	128,500	510,526	93,855

All Directors' interests in the ordinary shares of the Company are beneficial. Neil Eckert and Anthony Townsend and Jo Welman are also interested in 456,761, 47,543 and nil units of 8.5% Convertible Unsecured Subordinated Loan Stock 2008 respectively (2002: 456,761, 47,543 and 40,077 respectively). No other Director held any interest in the 8.5% Convertible Unsecured Subordinated Loan Stock 2008 as at 31 December 2003 and no Director held any interest in any other group company.

As at 27 February 2004, the Equity Share Ownership Trust was interested in 1,153,291 ordinary 25p shares in which the Directors who are employees are deemed to be interested by virtue of section 324 of the Companies Act 1985 (see Note 36 of the financial statements).

As at 27 February 2004, the employee benefit trust held 5,248,163 ordinary shares in which the Directors who are employees are deemed to be interested by virtue of section 324 of the Companies Act 1985 (see Note 36 of the financial statements).

Note 37 Related party transactions continued

(ii) Directors' interests in transactions

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

(iii) Loans

As at the balance sheet date, Brit Insurance Holdings PLC had a loan of £5,700,000 outstanding made to Ri3K Limited, a 77.2% owned subsidiary. This amount has been fully provided for in the books of the Company. With effect from 1 January 2004 interest will be charged on outstanding balances at an annual rate of 1% above the prevailing LIBOR rate.

(iv) Trading

The Equity Partnership Limited, EPIC Asset Management Limited and EPIC Special Investments Limited

During the year, the Group traded with The Equity Partnership Limited ("EPL"), an associated undertaking 34.1% owned by Brit Insurance Holdings PLC and with EPIC Asset Management Limited ("EPAM") and EPIC Special Investments Limited ("ESI"), subsidiaries of EPL. Jo Welman, a Non-Executive Director of Brit Insurance Holdings PLC is also a Director of EPL. Brit Insurance Holdings PLC charges EPL £8,500 per annum per EPL employee in respect of operational office costs.

EPL, EPAM and ESI also have an agreement with Brit Group Services Limited ("BGS"), a 100% subsidiary of Brit Insurance Holdings PLC, whereby BGS pays certain expenses on behalf of these companies which it then recovers in full. The total of all of these costs amounted to £2,863,222 (2002: £2,032,782), of which £782,267 (2002: £260,634) was outstanding at the balance sheet date.

EPL also traded during the year with The Equity Partnership Investment Company PLC ("EPIC"), a company with a 29.9% holding in EPL. Brit Insurance Holdings PLC owns 34.7% of the ordinary share capital of EPIC. EPIC purchased investment management services from EPL amounting to £698,836 (2002: £712,876). As at the balance sheet date the amounts owed in relation to these services amounted to £114,000 (2002: £105,000).

EPAM and ESI are Investment Managers regulated by the Financial Services Authority and provided the following services to Brit Insurance Holdings PLC and its subsidiaries:

EPAM

		Fund value	Fee charged *per annum*		*Fees outstanding*
	Commenced	**As at 31 December 2003**	£	**As at 31 December 2003 £**	As at 31 December 2002 £
Investment Management:					
Brit Insurance Holdings PLC	2001		100,000		8,400
		£m	%	**£**	£
Investment Advisory:					
Brit Syndicates Limited	2001	**514**	0.18	**89,400**	68,800
Brit Insurance Holdings PLC	2002	**23**	0.15	**3,300**	7,300
Masthead Insurance Underwriting Limited	2002	**142**	0.15	**19,800**	13,000
Brit Insurance Limited	2002	**160**	0.15	**31,300**	8,400

Note 37 Related party transactions continued

ESI

		Fund value	Fee charged per annum	Fees outstanding	
	Commenced	**As at 31 December 2003 £m**	%	**As at 31 December 2003 £**	As at 31 December 2002 £
Investment Advisory:					
Brit Syndicates Limited	2003	**5**	1.5	**6,820**	–
Brit Syndicates Limited	2003	**13**	1	**10,946**	–
Brit Insurance Holdings PLC	2003	**1**	1	**1,873**	–
Masthead Insurance Underwriting Limited	2003	**5**	1	**4,580**	–
Brit Insurance Limited	2003	**3**	1.5	**11,569**	–
Brit Insurance Limited	2003	**26**	1	**26,718**	–
Brit Insurance (UK) Limited	2003	**8**	1	**6,567**	–

Ebix Inc

The Group entered into various software and service agreements with Ebix Inc, a company in which Brit Insurance Holdings PLC owns 40.1% of the common stock. The cost of these contracts in 2003 was £1,100,551 (2002: £1,292,799). £29,268 (2002: £413,298) was outstanding at the year end.

Brit Insurance Limited/managed syndicate

During the year a syndicate managed by Brit Syndicates Limited paid a gross quota share premium to Brit Insurance Limited amounting to £103,889,790.

Note 38 Contingent liabilities

(i) Fixed and floating charges

(a) Company

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

Brit Insurance Holdings PLC has given a guarantee in respect of a leasing contract entered into by a subsidiary company. The value of this guarantee did not exceed £30,000 at 31 December 2003.

(b) Group

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

(a) Lloyd's will be entitled to require the other corporate member subsidiaries to cease or reduce their underwriting; and/or

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

At the date of signing 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.

Note 38 Contingent liabilities *continued*

A deed of charge was entered into by Masthead with Lloyd's to support the underwriting activities of all corporate member subsidiaries within the Brit Insurance Holdings PLC Group. Masthead entered into deeds of covenant with Lloyd's to cover the run-off liabilities of these corporate members. It also entered into guarantees with respect to interavailable funds of £118,738,728. As at 31 December 2003 the value of these funds was £86,807,120 (2002: £88,126,983).

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

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

(ii) Bank borrowings
As detailed in Note 25, Brit Insurance Holdings PLC had a Term Facility Agreement with National Westminster Bank PLC and Barclays Bank PLC at 31 December 2003. Under the terms of this facility, the lenders have a fixed and floating charge over certain investments owned by the Company. The lenders have priority over the charges held by Lloyd's.

Independent auditors' report to the members of Brit Insurance Holdings PLC

We have audited the financial statements for the year ended 31 December 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Accounting Policies and related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2003 and of the group's profit for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Mazars
Chartered Accountants and Registered Auditors
24 Bevis Marks
London EC3A 7NR
1 March 2004

Company Information

Chairman
Clive Frederick Coates •+

Executive Directors
Neil David Eckert *Group Chief Executive Officer*
Matthew Scales *Group Finance Director*
Dane Jonathan Douetil *Deputy Group Chief Executive Officer*

Non-Executive Directors
Peter Hazell (with effect from 1 April 2004)*
George Franklin MacAulay *•+
Donald Cecil McCrickard *•+ *Senior Independent Director*
Michael Smith (with effect from 8 March 2004) •+
John Anthony Victor Townsend *•
Jo Mark Pole Welman •+

* member of the Audit Committee
• member of the Nomination Committee
+ member of the Remuneration Committee

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Financial Calendar 2004	
Full Year Figures	March
Annual Report Posted	March
Annual General Meeting	May
Half Year Figures Announced	September
Interim Report Posted	September

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