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Britannic Group plc

annual report & accounts 2002

britannic group

Contents

britannic

group

Britannic is a broad based financial services group whose specialisms include retail and wholesale asset management, life and pensions, the provision of flexible, buy-to-let and other mortgage products and meeting the needs of the in-retirement market. The Group consists of Britannic Asset Management, Britannic Assurance, Britannic Money and Britannic Retirement Solutions.

headlines

- Operating achieved profit of £86 million before tax and exceptional items
- Achieved profit shareholder funds of £986 million, 502 pence per share
- Focus on prudent capital management, with free asset ratio of 6.5%
- Decision taken to no longer invest in new business capability at Britannic Assurance, therefore gradual withdrawal from writing new policies
- Increasing emphasis to be given to product development at Britannic Asset Management

chairman's statement

Harold Cottam, Chairman

The prolonged fall and volatility of equity markets has reduced investor confidence and affected all in our sector. The Board has acted to ensure the ongoing financial strength of the Group and on 6 January 2003 announced steps to protect both the immediate and longer-term interests of our customers and shareholders. These actions have resulted in a free asset ratio of 6.5% as at 31 December 2002.

We confirm that Britannic Assurance is deferring its annual bonus in respect of 2002 and will not be making a transfer from the shareholders' retained capital (SRC). As a consequence of these actions, Britannic Group plc will not be paying a final dividend in respect of 2002.

Operating achieved profit before tax and exceptional items of £86 million (2001: £145 million) is lower than last year primarily due to a £47 million reduction in the smoothed return from the SRC and the one off restructuring benefit of £13 million in 2001.

Achieved profit shareholder funds at 31 December 2002 were £986 million (2001: £1,355 million) equivalent to 502 pence per share. The reduction from last year reflects short term investment fluctuations and goodwill write downs.

Strategically, we have decided to withdraw from investing in new business capability at Britannic Assurance, with sales now concentrated through our other life and investment companies, Britannic Retirement Solutions and Britannic Asset Management. It is anticipated that this action will save approximately £25 million in capital per annum, and will incur a one off cost to implement of approximately £15 million in 2003.

Britannic Assurance distribution contributed £90 million single premium sales in 2002, excluding DSS receipts, representing 12% of the Group's total single premium sales. It also contributed all of the Group's regular premium business.

chairman's statement (continued)

Therefore overall the annual premium equivalent contribution is higher at 22%.

Britannic Asset Management has performed well in tough market conditions where investor confidence is low, with retail sales of unit trusts through IFAs higher this year than last. We remain committed to maintaining and growing this business over the coming year and will be focusing on investment performance and new product opportunities.

Britannic Retirement Solutions has shown strong growth over the last two years and has become an established brand in its chosen market. This business will be looking to capitalise on this position over the coming year with a break-even financial objective.

Britannic Money is operating in the highly competitive mortgage market but has substantially reduced its losses in 2002. It will continue to focus on costs and margins in 2003, with a break-even financial objective.

Outlook

As stated in our announcement of 6 January 2003, the Group will continue setting its capital management policies to have regard to maintaining an adequate free asset ratio for its life assurance operations and to maintaining a prudent level of gearing.

The Group has prepared its medium term plans on a base case assumption of total equity returns of 7% per annum from the 2002 year end market level. Given the expectation that medium term returns from equities will exceed returns on fixed interest investments, Britannic Assurance does not believe it would be in the interests of policyholders or shareholders to move the fund assets overwhelmingly into fixed interest, but will protect solvency against continued equity market falls as appropriate.

Under these base case assumptions Britannic expects that, in respect of 2003, it will resume annual bonus declarations and resume transfers from the SRC, and will consider a final dividend but no interim dividend.

Thereafter, the board would expect to resume a policy of distributing the majority of available operating cash earnings to shareholders. The base case assumptions indicate a sustainable dividend paying capacity, before any debt repayments, of between 20 pence and 25 pence per share. Under base case assumptions, this would result in a modest strengthening of the free asset ratio in the medium term.

Since the start of 2003 equity markets have fallen and continued to exhibit significant volatility. The board is confident that solvency can be maintained at appreciably lower equity markets than current levels but it is still too early to be more definitive regarding the likely level of dividend, if any, for 2003. However, the action taken to withdraw from investing in new business capability at Britannic Assurance and the more rapid introduction of realistic solvency testing by the FSA should assist matters.

Our people

The board recognises and thanks the management team and all staff for their significant contribution during a further year of change and market challenges.

The board

As recorded in last year's report it was with regret that we announced in January 2002 the resignation of Danny O'Neil as Group chief executive for personal reasons. Following a comprehensive search process we were able to announce in September the promotion of Bryan Portman to the position of Group managing director, his skills and experience and knowledge of the Group suiting him for the role ideally. Interim arrangements were put in place to cover his former position as Group finance director until the appointment of Paul Thompson to this role in December 2002. Paul's background in investment banking, latterly with Merill Lynch, combined with his financial skills, bring the central management team to full strength.

As also reported last year we were pleased to welcome two new independent non executive directors, Malcolm Williamson and David Allvey who both joined the board in March 2002.

Following the retirement of Sir Brian Pearse as a non executive director at last year's AGM we now also extend our thanks to Mervyn Blakeney who similarly retires at the conclusion of this year's AGM.

Annual general meeting

Our annual general meeting will be held at 10.30 am on 23 April 2003 at the Brewery, Chiswell Street, London.

Harold Cottam
Chairman

operational re

This business commentary refers to profits on an achieved profit basis as these best reflect the underlying performance of the long term assurance business. Details of the results on a modified statutory basis are given in the financial review section.

Leslie McIntosh, Chief Executive

britannic asset management

- Total new funds inflow of £393 million
- Strong sales of unit trusts by IFAs
- Strong sales in top performing Britannic Corporate Bond Fund
- Immediate focus on product development and improving fund performance

Against an environment in which consumer confidence is low, sales of unit trusts through IFAs were higher than last year at £100 million compared to £86 million in 2001. Sales through other channels also held up well in a difficult environment.

Operating profits of £9 million before exceptional item (2001: £18 million) are lower than last year largely because revenue is highly geared to stock market levels. In response to falling revenue we took action at the end of 2002 to reduce the cost base of the business in order to protect profitability going forwards.

We have benefited from our strategy of managing a range of asset classes as investors have moved increasingly from equity to fixed interest products. This has resulted in strong demand for our top performing Britannic Corporate Bond Fund.

In the coming year the business will continue to look at opportunities to develop products which meet customers' changing risk appetite, building on the recently launched Secured Growth ISA product.

Britannic Asset Management will be seeking to grow its institutional business through improved investment performance, whilst the retail business will seek to build upon the strong reputation it has with IFAs, and to exploit opportunities when de-polarisation occurs.

view

britannic assurance

- Active capital management to maintain financial strength
- Free asset ratio 6.5%
- Closure of unprofitable channels and decision to withdraw from investing in new business capability
- Moved operations into a service company arrangement

Capital management has been the primary focus of Britannic Assurance during 2002. Specifically, action has been taken to reduce the equity backing ratio of the with profit fund. In addition, a number of unprofitable channels were closed during the year, namely the residual direct sales force, the IFA channel and the worksite marketing sales team. These actions, when added to the decisions to defer annual bonuses, and not to make a transfer from the shareholders' retained capital have resulted in a free asset ratio as at 31 December 2002 of 6.5%.

Since the year-end we have decided to withdraw from investing in new business capability at Britannic Assurance. We will be working with our business partners over the coming months to ensure an orderly transition.

During the year, Britannic Assurance plc signed a services agreement with a fellow subsidiary Britannic Management Services Limited (BMS) for the provision of services and infrastructure to enable the day to day conduct of our business. In return for the services now provided by BMS, the company incurs a monthly recharge of costs which is at present based on a 'look through' basis.

Bernard Brown, Chief Executive

alba life

Alba Life continues to operate as a closed fund, with its focus being on cost and risk reduction as the book of business runs down. During the year the individual life and pensions business was successfully transferred to operate alongside the Britannic Assurance activities in Birmingham. The corporate pension business continues to be operated in Glasgow. To facilitate this transfer all continuing activities are now provided by Britannic Management Services under a services agreement.

The company has also completed the re-assurance of a substantial part of the liabilities of its immediate annuities book during the year.

operational review (continued)

Mike Fuller, Chief Executive

britannic retirement solutions

- Sales more than doubled to £362 million
- Now an established player in the annuity market
- Recognition received for service proposition

Britannic Retirement Solutions is now an established player in the annuity market with sales volumes doubled from £166 million in 2001 to £362 million in 2002. This growth has been attained with only a marginal increase in staff costs due to our past investment in modern scalable administration and underwriting systems. New business margins have more than doubled from 4.8% to 10.8%.

Britannic Retirement Solutions has achieved around a 5% share of the annuity market, equivalent to 13% of the enhanced annuity market, only twenty four months after launch. The quality of its offering has also been recognised with the company being awarded two top service awards at the Financial Adviser LIA Service Awards 2002.

Management actions to contain costs and improve margins during the year have reduced start up losses. Having now achieved critical mass, the priority for the business is to meet its break-even objective in 2003, coupled with a moderation in its growth in sales in the coming year.

britannic money

- Cost management and margins remain the priority
- Losses significantly reduced

In December 2002, Britannic Assurance acquired the remaining 40% share in Britannic Money when First Active plc exercised its put option.

During the year, management has been primarily focused on reducing losses through rigorous management of costs and by improving margins. These actions have reduced costs and increased revenue resulting in a significant reduction in losses.

The mortgage and in particular the re-mortgage markets have remained very competitive with levels of re-mortgage activity remaining high. To counter the effects of this we have continued to include early redemption penalties on all new sales.

The mortgage book remains fairly stable at £2.2bn.

The business has continued to target the buy to let market where margins are better than the private residential market. Within the buy to let market we have maintained loan quality by concentrating lending to the professional rather than private rental sector, thereby avoiding the credit quality issues faced by some other lenders.

Overall our loan quality remains extremely high with our average loan to value ratio maintained at a very prudent 60%.

We expect the mortgage market to remain highly competitive over the short to medium term. Consequently, our priority remains managing costs and margins with the objective of achieving break-even in 2003.

Tony Ward, Chief Executive

financial review

Paul Thompson, Group Finance Director

The following analysis provides a breakdown of the Group performance in 2002.

Modified statutory basis

	2002 £m	2001* £m
Gross premiums written:		
Long term business	**1,058.8**	1,005.6
Britannic Assurance:		
With profit	**9.8**	40.0
Non profit and unit linked	**(32.0)**	(23.4)
Longer term return on shareholders' retained capital	**51.3**	97.9
Longer term return on other shareholders' funds	**7.9**	6.0
General business result	**2.6**	4.2
Other income and charges	**0.2**	1.7
	39.8	126.4
Britannic Asset Management	**9.4**	18.6
Britannic Retirement Solutions	**(29.3)**	(16.3)
Britannic Money	**(5.2)**	(27.8)
Group income and charges	**(3.8)**	4.3
Interest on loan finance	**(6.9)**	(7.1)
Operating profit before tax and exceptional items	**4.0**	98.1
Exceptional items	**(87.4)**	(43.8)
Operating (loss)/profit before tax	**(83.4)**	54.3
Fluctuations in investment return	**(214.1)**	(235.3)
Change in equalisation provision	**0.4**	(0.1)
Loss before tax	**(297.1)**	(181.1)
Taxation:		
Operating loss/(profit) before exceptional items	**0.8**	(27.4)
Exceptional items	**0.5**	–
Other	**46.1**	54.0
Minority interest	**–**	(0.5)
Loss after tax	**(249.7)**	(155.0)
	pence	pence
Operating earnings per share before exceptional items	**2.4**	35.8
Operating earnings per share after exceptional items	**(41.8)**	13.5
Earnings per share	**(127.1)**	(79.1)

* restated for FRS 19 – Deferred Tax.

Gross written premiums have remained over £1 billion, as the increase in sales by our annuity specialist Britannic Retirement Solutions has more than offset declines in sales in Britannic Assurance following closure of its home service sales force in 2001.

The dominant feature in our financial results again this year is the continued poor performance of world equity markets.

Operating profits from Britannic Assurance have fallen by £86.6 million to £39.8 million. This fall is a result of a reduction of £46.6 million in the smoothed return from shareholders' retained capital, £30.2 million from the deferral of the annual with profits bonuses (and general reductions in final bonuses) and the increased losses from our non profit business. The smoothed return from shareholders' retained capital has been calculated by applying the long term rates of return to the opening invested assets (excluding subsidiary investments).

With profits final bonuses have been reduced to reflect falls in asset values and the declaration of 2002 annual bonuses has been deferred. The non profit results are primarily affected by the strengthening of annuitant mortality reserves and poor investment markets.

Britannic Asset Management results largely reflect the reduction in income levels caused by the lower fund values.

Britannic Retirement Solutions losses continue to grow as a result of the new business strain of rapidly increasing sales. This is to be expected from a young business growing rapidly.

Britannic Money's losses have reduced substantially due to tight control on expenditure and a greater focus on lending margins.

Other shareholder income and charges include investment returns and shareholder expenses. These include set-up costs for the new management service company, Britannic Management Services Limited. This company currently operates on a 'look through' basis servicing other Group companies, but it is intended to move onto a profit basis in the future.

Interest on loan finance relates to the borrowings undertaken by Britannic Group plc to fund the purchase of Britannic Asset Management.

The exceptional items relate to the write down of the investments in Britannic Asset Management and Britannic Money. Goodwill on the acquisition of Britannic Asset Management has been written down by £50 million, as the directors believe there has now been a permanent impairment in the value of this business since acquisition. In addition, £2 million has been provided for the cost of restructuring announced in December 2002 to reduce the cost base in the light of falling revenues.

The goodwill relating to the acquisition of Britannic Money was reviewed after the exercise of the outstanding put option by First Active in December 2002 which resulted in Britannic acquiring the remaining 40% of this business. The directors have decided to write off all goodwill held in respect of this business, producing a write down of £35 million.

Short term fluctuations in investment return represent the deficit of the actual return on shareholders' funds over the assumed longer term rate of return, following the very poor performance of equity markets in the year.

The overall loss before tax and the reduction in earnings per share are primarily due to the negative investment fluctuations experienced in the year and the exceptional items.

financial review (continued)

Achieved profits basis

	2002 £m	2001* £m
Britannic Assurance:		
New business profit	**11.6**	12.4
In-force profit	**25.7**	36.2
Longer term return on shareholders' retained capital	**51.3**	97.9
Longer term return on other shareholders' funds	**7.9**	6.0
General business result	**2.6**	4.2
Other income and charges	**0.2**	1.7
Benefit of restructure	**–**	13.1
	99.3	171.5
Britannic Asset Management	**9.4**	18.6
Britannic Retirement Solutions	**(7.1)**	(14.1)
Britannic Money	**(5.2)**	(27.8)
Group income and charges	**(3.8)**	4.3
Interest on loan finance	**(6.9)**	(7.1)
Operating profit before tax and exceptional items	**85.7**	145.4
Exceptional items	**(87.4)**	(43.8)
Operating (loss)/profit before tax	**(1.7)**	101.6
Fluctuations in investment return	**(214.1)**	(235.3)
Investment variance on in-force	**(126.3)**	(125.7)
Other assumption changes	**(64.3)**	(15.4)
Change in equalisation provision	**0.4**	(0.1)
Loss before tax	**(406.0)**	(274.9)
Taxation:		
Operating (loss)/profit	**(19.8)**	(40.0)
Exceptional items	**0.5**	–
Other	**92.0**	86.7
Minority interest	**–**	(0.5)
Loss after tax	**(333.3)**	(228.7)

* restated for FRS 19 – Deferred Tax.

New business profits in Britannic Assurance have stabilised following the closure of unprofitable sales channels during the year. In-force profits are reduced from the 2001 levels, due to the lower opening in-force value and the consequential impact on the unwind of the discount rate, and a £9 million charge for adverse annuitant mortality expectations.

The £13 million benefit in 2001 represented the shareholders' element of future savings from the closure of certain Britannic Assurance distribution channels, and is not repeated in 2002.

The Britannic Retirement Solutions results benefited from the business gaining scale, improving margins and reducing the expense overrun. The business aims to break even in 2003.

The investment variance on in-force is the difference between actual investment returns on policyholder funds and that assumed in our achieved profits projections and the consequential impact this has on shareholders' share of expected future bonuses.

Other assumption changes relate to the impact on shareholders' share of expected future bonuses from a lower equity backing ratio and lower assumed long term investment returns.

All other elements in the achieved profits results are identical to the modified statutory basis analysis.

Equity shareholders' funds – achieved profits basis

	2002 £m	2001* £m
Shareholders' funds held in Britannic Assurance	**203.0**	134.1
Shareholders' funds in Group and Britannic Asset Management	**201.3**	356.9
Less: Group borrowings	**(190.0)**	(180.0)
	214.3	311.0
Present value of in-force	**234.1**	317.7
Shareholders' retained capital (excluding present value of in-force)	**537.9**	726.6
Equity shareholders' funds	**986.3**	1,355.3

* restated for FRS 19 – Deferred Tax.

The shareholders' funds have decreased by 24.5% from last year after adjusting for dividends, reflecting the extremely poor equity market performance, the losses of Britannic Retirement Solutions and exceptional items relating to Britannic Asset Management and Britannic Money.

financial review (continued)

Achieved profit assumptions

We continue to review our economic assumptions underlying the achieved profits calculations in the light of prevailing market conditions, business developments and general trends within our sector. The table below shows the consequent adjustments to our assumptions.

	2002 %	2001 %
Risk discount rate (post-tax)	**7.8**	8.1
Future investment returns (pre-tax):		
Government fixed interest securities	**4.5**	5.0
Equities	**7.0**	7.5
Expense inflation	**3.4**	3.7

The reduction in returns for fixed interest securities drives most of the changes. The assumed future pre-tax return on fixed interest securities is set by reference to redemption yields in the market at the balance sheet date. The corresponding returns on ordinary shares are set by reference to this rate. The risk discount rate is based on the assumed after tax return on ordinary shares increased by an appropriate margin for risk.

Future bonus assumptions for our with profits contracts are set with regard to the levels supported in the longer term by the investment returns assumed on the achieved profits basis. Taxation has been assumed according to current legislation and practice. Expense assumptions are set prudently and take account of the cost of investment, but no account of the benefits that will accrue until they are realised. Lapse and surrender rates are based on recent experience and trends, and other assumptions reflect expected experience, with allowances for recent experience where appropriate.

Bonuses

Bonus declarations in recent years have been progressively reducing in the light of an environment of lower inflation, lower yields on gilt-edged securities and lower investment returns. The pressure for these reductions to continue has increased following the falls and increased volatility in stock markets over the year.

Given the cumulative market falls over the last three years and the underlying solvency of the life funds, Britannic Assurance's directors have decided to defer the annual bonus declaration for 2002, which will be revisited at the end of 2003. Alba Life has declared zero annual bonuses for 2002, apart from where bonus rates are guaranteed or have already been declared in advance. Final bonuses continue to be paid, where appropriate, and have been reduced in accordance with our smoothing policy.

Investment returns

The total investment return for the Britannic Assurance with profit fund for 2002 was 11.5% negative before tax, compared with an overall return from the FTSE 100 index of 22.5% negative.

In order to provide improved stability of returns in future years and improve solvency cover, Britannic Assurance has reduced its equity backing ratio to 42% at 31 December 2002.

Taxation

The effective rate of tax in the Group non technical account has increased from 14.7% to 16.0%, caused by the absence of tax relief on the exceptional goodwill write downs.

The rate of tax used to gross up the transfer from the technical account has remained at 23.4% for Britannic Assurance and 30% for Britannic Retirement Solutions. This is based on a medium term assessment of the appropriate tax rate expected to be borne on income and gains.

Dividends

The interim dividend for 2002 was held at the 2001 level, but no final dividend is proposed.

The payment of the interim dividend cost £36 million, compared with the total cost of dividend of £108 million in the previous year.

Balance sheet

The free asset ratio of Britannic Assurance is approximately 6.5% at the end of 2002, compared with 10.8% (restated) at the end of the previous year. The reduction reflects the significant fall in investment values over the year.

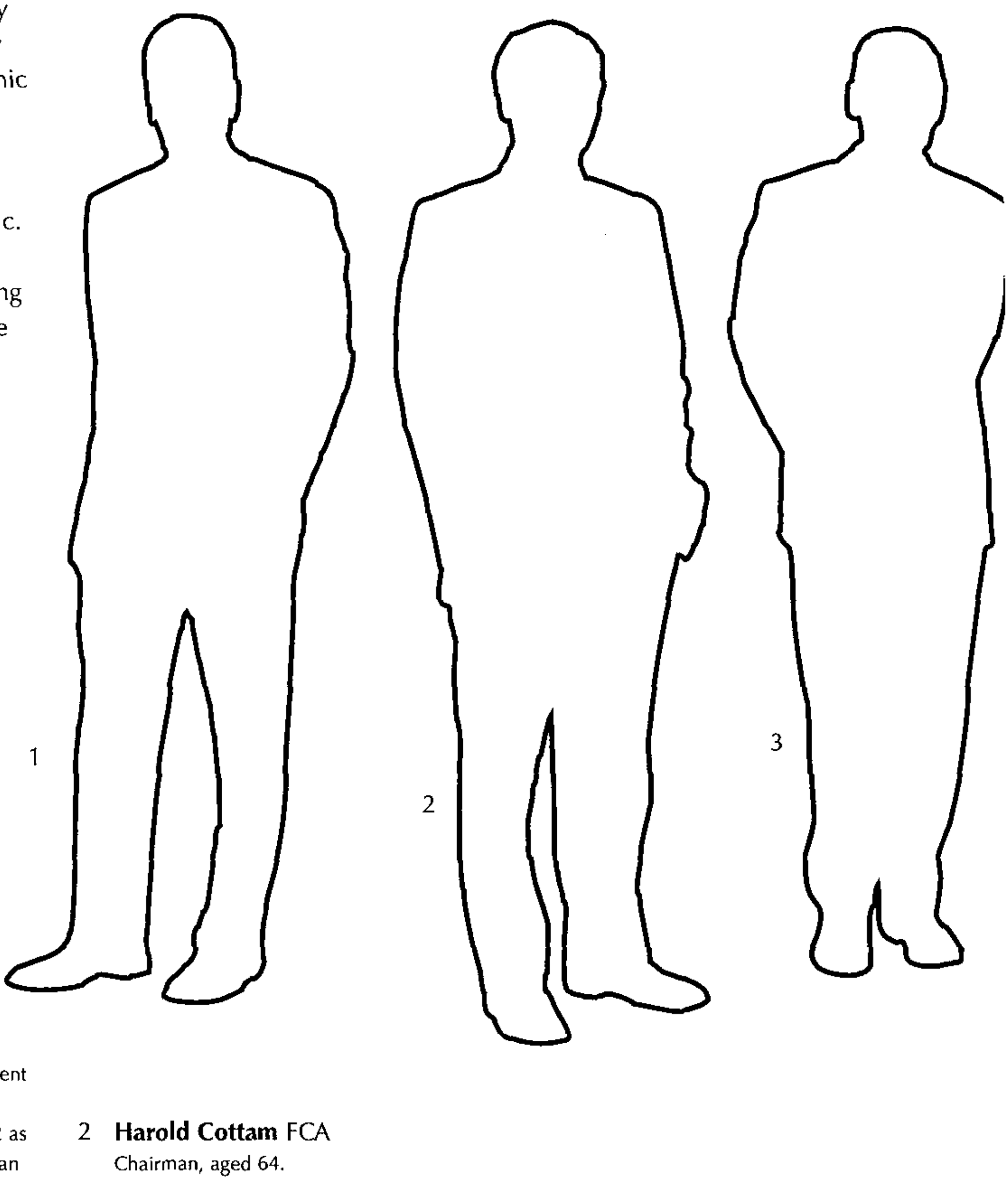
This ratio is calculated using the FSA regulatory valuation basis of available assets (including implicit items and before deduction of required minimum margin) divided by total liabilities.

The Group pension scheme has a surplus of £106 million on a FRS 17 basis at the end of 2002. The shareholders' share of that surplus is estimated at £15 million.

Group funds under management at 31 December 2002 totalled £14.4 billion.

the board

Harold Cottam, Mervyn Blakeney and Richard Fortin were formally appointed to the board of Britannic Group plc in July 1998, having been members previously of the board of the formerly listed company, Britannic Assurance plc. Britannic Group plc was established in 1998 as the holding company for Britannic Assurance plc and its subsidiaries by way of a Scheme of Arrangement under section 425 of the Companies Act 1985.

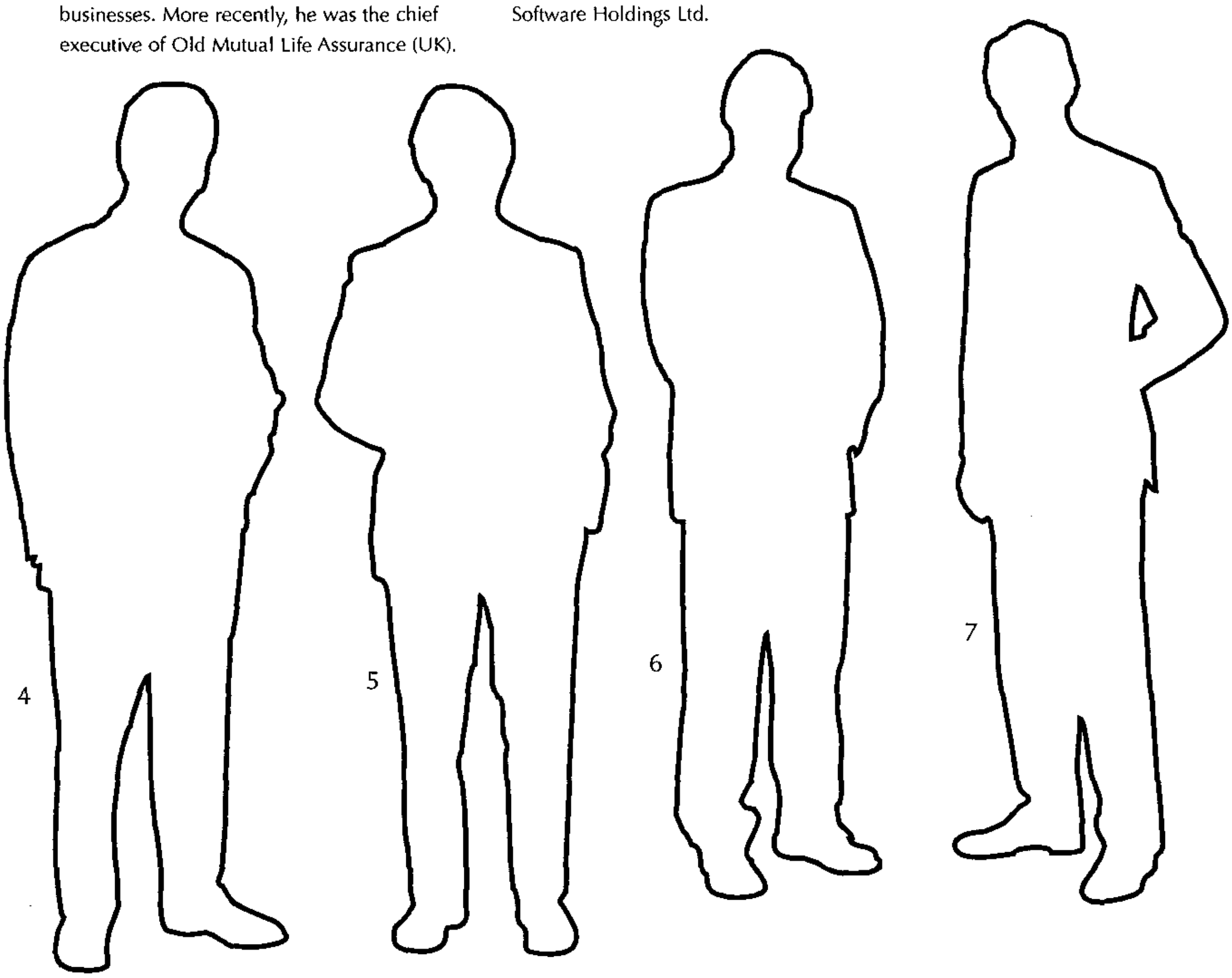


1 **Malcolm Williamson**
Deputy chairman and senior independent director, aged 64.
Appointed to the board in March 2002 as a non executive director. He is chairman of the Remuneration and Nominations committees and a member of the Audit and Compliance Review and Investment committees. He was formerly the Group chief executive of Standard Chartered plc and a non executive director of National Grid Group plc. He is currently the president and chief executive officer of Visa International Inc.

2 **Harold Cottam** FCA
Chairman, aged 64.
Appointed to the board of Britannic Assurance plc as a non executive director in July 1996 and appointed chairman in August 1996. In the interregnum following Danny O'Neil's resignation in January 2002 he assumed the role of chief executive until Bryan Portman's appointment to the position of Group managing director in September 2002. He is also the chairman of the Investment committee and a member of the Capital Management committee. Previously he was UK managing partner of Ernst & Young, the chairman of Anglo United plc, Haden MacLellan Holdings plc and Rebus Group plc and a non executive director of Allied Colloids plc.

3 **Bryan Portman** MBA, FCCA, FCIS
Group managing director, aged 54.
Appointed to the board in June 2001 as finance director, he was appointed to the position of Group managing director in September 2002. He is a member of the Investment and Capital Management committees. He has wide business experience, both within and outside the financial services industry field. He was initially with Courtaulds plc and the Argyll (now Safeway) Group, and then with Hill Samuel as chief executive of their Life Assurance and Investment Services businesses. More recently, he was the chief executive of Old Mutual Life Assurance (UK).

5 **Richard Fortin** MA (Oxon)
Independent non executive director, aged 61.
Appointed to the board of Britannic Assurance plc as a non executive director in January 1994. He hands over the chairmanship of the Audit and Compliance Review committee and relinquishes membership of the Remuneration and Nominations committees following the conclusion of the forthcoming AGM. After a career as a merchant banker he has had extensive experience as a non executive director of public companies. He is currently the chairman of TIS Software Holdings Ltd.



4 **Paul Thompson** MA (Cantab), ACA
Group finance director, aged 40.
Appointed to the board in December 2002 as finance director. He is a member of the Investment committee and is chairman of the Capital Management committee. Initially with Coopers and Lybrand he then pursued a career in investment banking, first with Kleinwort Benson and BZW. More recently he was a managing director in the financial institutions group of Merrill Lynch. He has extensive experience and knowledge of the financial services sector.

6 **David Allvey** FCA, ATII
Independent non executive director, aged 57.
Appointed to the board in March 2002 as a non executive director he is a member of the Audit and Compliance Review committee, which he will chair following this year's AGM and a member of the Remuneration and Nominations committees. He was formerly the group finance director of Barclays Bank plc and BAT Industries plc as well as chief operating officer of Zurich F.S.plc and a non executive director of McKechnie plc. He is currently a non executive director of Costain Group plc, Intertek plc and William Hill plc and a member of the UK Accounting Standards Board.

7 **Mervyn Blakeney**
Independent non executive director, aged 65.
Appointed to the board of Britannic Assurance plc as a non executive director in January 1994. He is a member of the Remuneration and Nominations committees, chairing them until January 2003 and a member of both the Audit and Compliance Review and Investment committees. Previously a main board director with Cadbury Schweppes plc, he is currently the chairman of two managing agencies at Lloyd's of London. He will be retiring from the Group board following the conclusion of the forthcoming AGM.

directors' report

Directors

The names of the current directors are shown on the previous pages. Malcolm Williamson and David Allvey were appointed independent non executive directors on 1 March 2002 and Paul Thompson was appointed Group finance director on 1 December 2002. On 16 January 2002 Danny O'Neil resigned as chief executive but remained as a consultant to the Group and non executive deputy chairman of Britannic Asset Management. In addition independent non executive director Sir Brian Pearse retired from the Company on 24 April 2002. Independent non executive director Mervyn Blakeney will retire following the conclusion of the forthcoming AGM.

Harold Cottam (six months notice period) and Paul Thompson (twelve months notice period) offer themselves for election in accordance with the Company's articles of association.

Details of directors' interests in the Company's shares are shown in the remuneration report. No director had a material interest in any contract of significance to the Group's business.

Principal activities

Britannic Group plc is the holding company for the Britannic Group of financial services companies. Britannic is a broad based financial services group whose specialisms include retail and wholesale asset management, life and pensions, the provision of flexible, buy-to-let and other mortgage products and meeting the needs of the in-retirement market. The Group consists of Britannic Asset Management, Britannic Assurance, Britannic Money and Britannic Retirement Solutions.

Business review

The review of the business of the Group, recent events and likely future developments are contained within the chairman's statement and operational and financial reviews on pages 3 to 15.

Acquisitions

On 10 December 2002 the Group acquired the outstanding 40% of the ordinary share capital of Britannic Money plc for a cash consideration of £56.5 million.

Further details are provided in note 40 of the financial statements on page 73.

Results and dividends

The results for the year are set out on pages 41 to 43.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2002. An interim dividend of 18.5p per share was paid on 18 October 2002 amounting to £36.4 million.

Creditor payment policy

The Group's payment policy in respect of suppliers providing goods or services is to either agree the terms of payment with suppliers when placing orders, or, where appropriate, accept the suppliers' standard terms and to pay in accordance with its contractual and other legal obligations. The Group does not follow any code or statement on payment practice, but it is the Group's policy to pay all of its suppliers within 30 days of the invoice date. As at 31 December 2002, the amounts owed to trade creditors represented 28 days' worth of goods and services supplied to the Group (2001: 28 days). The Company had no trade creditors as at 31 December 2002.

EMU

Britannic has reviewed the implications of monetary union and the investment business has made the necessary modifications to transact in the new currency if it is introduced. Currently, the impact upon the rest of the Group is minimal and this will continue to be monitored in the light of future developments. However, the adoption of EMU by the UK would involve material expenditure.

Corporate social responsibility

Details on human resources, charitable donations and environmental policies are provided in the CSR section on pages 26 to 29.

Substantial shareholdings

As at 4 March 2003, the Company had been notified of the following interests of, or in excess of, 3% of its issued share capital.

Royal London Asset Management Ltd	12.26%
Amvescap plc	12.04%
HBOS plc	4.98%
Prudential plc	3.92%
Wesleyan Assurance Society	3.89%
Standard Life Investments Ltd	3.77%
Legal and General Investment Management Ltd	3.02%

Annual general meeting

The notice to shareholders convening the annual general meeting to be held at the Brewery, London on Wednesday 23 April 2003 at 10.30 am is set out on pages 80 to 83.

Auditors

A resolution for the re-appointment of KPMG Audit Plc as auditors of the Company and authority for the directors to set their remuneration will be proposed at the AGM.

By order of the board

Anna East
Secretary
4 March 2003

corporate gov

The board of directors fully supports the principles of corporate governance and the code of best practice contained in the Combined Code. The board further supports the additional measures required by the Turnbull Report on internal control.

This statement, together with the remuneration report, explains how the Group has applied the governance principles as set out in section 1 of the Combined Code.

Board of directors

The board is responsible for the Group objectives and strategy and has a formal schedule of reserved matters. The full board met ten times during the year and currently comprises seven directors of whom four are non executive. The non executive directors provide independent advice on issues of strategy, performance and resources. The board considers all non executive directors to be independent. Malcolm Williamson, deputy chairman, is also the appointed senior independent director, having succeeded Sir Brian Pearse as the holder of these positions following the 2002 AGM.

As a result of the unanticipated departure for family reasons in January 2002 of the then Group chief executive, Danny O'Neil, the chairman, Harold Cottam, took on the temporary additional responsibility of acting Group chief executive whilst the Nominations committee considered the replacement and succession options. Bryan Portman, the then Group finance director, was appointed Group managing director in September 2002, in which role he assumed responsibility for all day to day operations of the Group with all direct reporting lines of the chief executives of the Group's operating companies. Bryan Portman continued to retain the finance responsibilities that he had held as finance director, supported by an interim senior finance manager, until Paul Thompson was appointed Group finance director in December 2002.

Directors are able to take independent professional advice in the furtherance of their duties. All directors have access to the Group company secretary whose role includes ensuring that board procedures and regulations are followed.

Appropriate training is made available to all directors upon appointment and thereafter as required. During 2003 a formal board evaluation process will be implemented. A summary of directors' experience is provided in their biographical details on pages 16 and 17.

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The board receives management information on a regular and timely basis and delegates day to day management of the Group to executive directors and other managers.

Board committees

The board has established the following committees:

Audit and Compliance Review Committee

During the year the Audit and Compliance Review committee comprised the serving non executive directors chaired by Richard Fortin. Following the conclusion of the forthcoming AGM the chairmanship will pass to David Allvey. The committee, which met three times in the year is constituted formally with written terms of reference and assists the board in meeting its responsibilities in respect of the system of risk management and internal control, external financial reporting and all regulatory compliance matters. The committee may examine any matters relating to the financial and compliance affairs of the Group and the Group's internal and external audits. This includes keeping under review the scope and results of the external audit and other services provided by the auditors and their independence and objectivity. The other directors are not members, but have the right of attendance at meetings. The company secretary, head of Group risk and audit services, compliance officers, appointed actuary for Britannic Assurance plc and external auditors are not members but are invited to attend. The external auditors, the head of Group risk and audit services and compliance officers have direct access to the committee chairman without the presence of the executive directors for independent discussion.

Both the Group and the external auditors have safeguards in place to prevent the compromise of the auditors' independence and objectivity arising from their non-audit activities. The external auditors report regularly to the committee on the actions that they have taken to comply with professional and regulatory requirements and current best practice in order to maintain their independence. This includes the rotation of key audit members.

Remuneration Committee

During the year the Remuneration committee comprised the serving non executive directors chaired by Mervyn Blakeney until January 2003 and by Malcolm Williamson thereafter. Following the conclusion of the forthcoming AGM Richard Fortin will step down from this committee.The committee normally meets at least twice a year. The terms of reference of the committee are to consider and recommend to the board the specific remuneration packages for each of the executive directors, including pension rights and any compensation payments. Service contracts are issued for periods of one year on a rolling basis. In addition, the committee considers and confirms all elements of the senior executive management's service contracts.

Nominations Committee

During the year the Nominations committee comprised the serving non executive directors chaired by Mervyn Blakeney until January 2003 and by Malcolm Williamson thereafter. Following the conclusion of the forthcoming AGM Richard Fortin will step down from this committee.

corporate governance (continued)

The terms of reference of this committee are to consider and recommend suitable candidates for the approval of the board to fill vacancies on the board of directors and key senior management appointments.The committee deals with appointments and reappointments to the board and meets as required. All directors appointed by the board are required to submit themselves for reappointment at the next AGM. In addition, a policy exists whereby the directors submit themselves for re-election to the board at least every three years.

Investment Committee

The committee is chaired by Harold Cottam and comprises Malcolm Williamson, Mervyn Blakeney, Bryan Portman, Paul Thompson and the appointed actuary for Britannic Assurance plc. Meetings are held four times a year. It reviews and approves investment policy and reports to the board on investments, derivatives, regulations, tax and treasury matters. The head of treasury and the investment managers from Britannic Asset Management are not members but are invited to attend.

Capital Management Committee

The committee is chaired by Paul Thompson and comprises Harold Cottam, Bryan Portman, the Group treasurer and the appointed actuary for Britannic Assurance plc. It considers and makes recommendations in respect of all cash and capital resources across the Group.

Directors' remuneration

Details on remuneration policy, service contracts and remuneration of directors are provided in the remuneration report on pages 30 to 37 which have been prepared pursuant to Schedule 7A to the Companies Act 1985.

Investor relations

The Group runs an investor relations programme to ensure that senior management meet regularly with major shareholders, potential new shareholders and market analysts to discuss financial performance and strategy. Investors are also encouraged to visit the operating companies and to understand their operations.

The Group has a policy of responding openly and fairly to requests for information provided that the information requested is not price or market sensitive. Price and market sensitive information is released to the market on a timely basis in accordance with the appropriate financial services regulations and best practice guidelines.

The Company communicates with shareholders through its AGM and interim and annual reports. In addition, shareholders can view the Group website at www.britannicgroup.com which contains links to investor and corporate information.

Responsibilities as institutional shareholders

As a major institutional shareholder itself, the Group continues to exercise its responsibility as a shareholder by using its voting rights and seeking regular contact with company management. Investment managers at Britannic Asset Management as part of their stock picking process take into account any factor that might have a bearing on performance including socially responsible investment issues. If a company has a poor social, environmental or ethical record and the relevant investment manager considers that this is likely to adversely affect its financial performance, the stock would not be included in portfolios.

Accountability and audit

The responsibilities of the directors and auditors in relation to the accounts are set out on pages 38 to 40.

Risk management and control

There is an ongoing process for identifying, evaluating and managing significant risks to the Group which is regularly reviewed by the board.

As outlined above, clear board and board sub committee structures, membership and terms of reference are in place. These have been adopted by all business units within the Group and fully comply with the Combined Code.

The board recognises its overriding responsibility to ensure that high standards of corporate governance apply throughout the Group.

It seeks to deliver continuous improvement in the governance policies and practices in operation, important strands of which relate to risk management and internal control. The Audit and Compliance Review committee has clear terms of reference which outline its responsibility to review, on behalf of the board, the key risks inherent in the business units and the systems of control in place to mitigate, rather than eliminate the risk of failure to achieve the business's objectives. These matters include:

- Review of the effectiveness of the Group's system of internal control and reporting to shareholders that it has done so.

- Review of the Group's governance strategy and recommending how changes in guidance, legislation and regulation should be implemented.

- Review and approval of the risk management systems and processes implemented Group wide and to call for and review a thorough and regular evaluation of the nature and extent of the risks to which the Group is exposed.

- Review of any current and pending litigation or regulatory proceedings to which the Group is a party which could have a material and significant effect upon the financial, legal, regulatory or compliance position or operational results of the Group and the manner in which these have been disclosed in the financial statements.

- Receiving at each meeting reports from the head of Group risk and audit services and compliance officers summarising the internal review activities for the period including details of the actions taken to maintain a sound control environment throughout the Group.

There is a series of key elements to the risk identification and management procedures in operation at Britannic:

- Authority to operate the various business units is delegated to their respective chief executive officers within the limits set by the Group board. Operating standards are established by local management, as required for the type of business, geographical location and risk appetite of each business unit.

- The boards of directors throughout the Britannic Group of companies seek to apply a two tier risk management process. At a strategic level, the executive and senior management teams manage the current key risks facing the business unit. At a detailed operational level, risk focused control self-assessment is designed to give ongoing assurance that internal controls are operating effectively. During 2002 considerable additional work allowed the

corporate governance (continued)

Group to further develop its risk assessment and risk management practices in light of new guidance from the FSA and best business practice.

- Organisational structures are in place which allow clear delegation of authorities and responsibilities throughout the Group, including responsibilities for risk management and internal control.

- The Group's internal audit and Financial Services Authority compliance functions review risk management practice and the effectiveness of internal control structures across the whole Group. The work of the internal audit and Financial Services Authority compliance functions is focused on areas of greatest risk to the Group. The head of Group risk and audit services reports to the chairman of the Group Audit and Compliance Review committee in addition to the Group finance director and Group managing director. The heads of the Financial Services Authority compliance functions for each Group company report directly to the chairmen of their relevant Audit and Compliance Review committees and chief executives.

Management is tasked with ensuring that sufficient control procedures exist in relation to transaction processing and other business activities to manage risk effectively. The additional elements of the internal control structure which allow the directors to be confident that key risk areas are being effectively managed include the following:

- Processes are in place at board level to ensure that Britannic's strategy is focused and remains clear, particularly in the light of significant internal corporate restructuring and the corporate development of competitors.

- The Investment committee or board of each business unit determines the investment strategy, counterparty credit limits, credit policies and treasury policies. Compliance with these criteria is regularly monitored and there is close liaison throughout the Group. There is no speculative use of derivatives within the Group, these are used purely for risk management and investment efficiency purposes.

- There are detailed control procedures in place at the life and pensions business units surrounding underwriting risk and reassuring that risk. Underwriting practices and reassurance treaties are subject to review and monitoring. Specialist actuarial resource has been allocated to further develop insurance risk management.

- Detailed plans, budgets and key performance indicators aligned with corporate strategy are developed and monitored by the boards and executive committees of each operating subsidiary on a regular basis. Key performance indicators cover all aspects of each business unit including customer service, human resources, technology, products and sales and marketing.

- The Audit and Compliance Review committee responsible for each business unit within the Group receives regular reporting on compliance with all key regulation and legislation to which the business units are subject.

The directors are responsible for the Group's system of risk management and internal control, including financial, operational and compliance controls, and for reviewing its effectiveness. Due to the limitations that are inherent in any system of internal control, the system of internal control is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material mis-statement or loss.

The systems of internal control have been developed to manage Britannic's business risks. Business risk and the effectiveness of internal control have been reviewed by directors throughout the Group. Weaknesses identified during the course of this review have been incorporated into action plans to deliver improvements. None of the weaknesses have given rise to material loss, contingency or uncertainty requiring disclosure.

The process of risk management and internal control has been in place for the year under review and up to and including the date of approval of the annual report and accounts. It accords with the guidance in principle D2 of the Code.

Statement of going concern

After making enquiries the directors have formed the view, at the time of approving the financial statements, that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Combined Code compliance

The Group complied with the provisions set out in section 1 of the Combined Code through the twelve months ended 31 December 2002.

corporate soc responsibility

In setting its corporate standards Britannic takes account of the significance of social, environmental and ethical matters. A Group policy provides an overall framework for managing CSR issues, supported by more detailed policies on such issues as human resources, health and safety and the environment.

The Group is a constituent member of the FTSE4Good index.

The Group is committed to being a responsible member of the various communities in which it operates. The board has designated the Group company secretary with specific responsibility for corporate social responsibility issues.

Human resources

The Group fully recognises both the value and the significant contribution its employees are able to make to the current and future success and growth of the business. Group human resources policies are therefore aligned to the business, employee needs, regulatory environment and stakeholder expectations.

Each subsidiary company constantly reviews and develops its HR operating framework. There is a commitment to the identification of Group synergy, cost control and savings, and the presentation of a single Group employer brand image.

Employment policy:

- The Group wishes to be considered an employer of choice with a commitment to recognising and appropriately rewarding its staff.
- Within the Group trade unions and elected bodies are recognised for consultation and negotiation purposes with clear documented procedures and policies surrounding these.
- Employment policies and training provision aim to ensure compliance with all appropriate employment legislation, regulatory obligations and best practice.
- Britannic is an equal opportunity employer and encourages, through the ongoing development of its HR policies, the recruitment and retention of a fully diverse workforce.

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- Full and fair consideration is given to applications from, and the continuing employment, development and training of, disabled people.

- There is an emphasis on communications and use of staff surveys in certain operating companies with published results and action plans to build harmonious employee relations.

- A training and development peer group exists to ensure co-ordination across the Group and expertise and best practice are shared. Within each subsidiary company HR has developed and implemented frameworks to ensure Financial Services Authority competency requirements are met.

- HR across the Group aims to ensure the recruitment and retention of the right people in the right positions to meet both current and future needs. Where this has necessitated a reduction in headcount, full consultation with recognised trade unions has taken place with any severance terms being fair and market compatible. In addition, every effort is taken to reduce the impact on the established headcount. Vacancies are frozen, the need for temporary staff is reviewed and redeployment encouraged and supported with trial periods, training and development. Outplacement support and/or counselling has also been provided where required. Staffing levels are controlled and constantly monitored across the Group.

Reward policy:

- Reward strategies are set within each subsidiary and are linked to market comparators, personal performance and location and the overall Company performance.

- The Remuneration report sets out executive reward policy.

corporate social responsibility (continued)

- The use of share options and long term incentive arrangements vary by business and are designed to reflect specific structures and business goals.

- Differing pension arrangements exist across the Group with both a defined benefit and defined contribution schemes in operation. The defined contribution schemes are in place at Britannic Retirement Solutions and Britannic Money and from October 2002 also for new employees at Britannic Assurance, Britannic Asset Management and Alba Life. A stakeholder scheme is also available to those employees who are eligible.

Health and safety

Britannic aims to achieve best practice in all areas of health and safety, recognising that the Group board as a whole has a collective role in providing health and safety leadership throughout the Group.

On behalf of the board the Group company secretary is responsible for setting the overriding Group health and safety goals within which operating company policies are to operate and for reviewing progress on achievement of goals. Operating companies are responsible for their own health and safety compliance.

Community relations and charitable donations

Britannic is committed to playing an active role in the wider community through sponsorship, supporting local initiatives and charitable donations. No political donations are made. Operating companies are encouraged to identify and support such events and causes as they deem appropriate through various means, including the enabling of employees on an ad hoc basis to take reasonable time off to support such initiatives and the provision of financial contributions to charitable causes supported by employees' generosity.

Project Ability is a community based initiative, established in 1984. The Glasgow based scheme aims to encourage and develop the artistic talent of those with special needs, assisting them in taking an active part in local and international arts events. Britannic Asset Management has sponsored this project for six years. The project has provided funding and assistance to allow many new and unknown artists from socially excluded backgrounds to exhibit their works. Britannic Asset Management also has a regularly changing exhibition at its head office, which provides staff and visitors with the opportunity to purchase some of the work of the artists as well as enhancing the working environment.

The Group has made an important contribution to society by helping young people to develop good financial management habits.This has been accomplished by funding Britannic Street, a financial literacy education programme for schools since 2000. For the third successive year it was awarded a Quality Mark by the Personal Finance Education Group. The multimedia programme, which includes videos, activity discussion, research and information sheets as well as its own website has now been requested by over 80% of UK secondary schools. An estimated 750,000 students are benefiting from the resource currently.

In May 2002 more than nine thousand participants took part in Glasgow's tenth annual Women's 10km race which was sponsored by Britannic Asset Management. This event has now become the largest female road race in the UK over this distance. Earlier in the year the company won the prestigious Sportscotland award for best long term commitment to sport.

During the year £63,025 (2001: £66,625) was donated by Group companies for charitable purposes. A significant proportion of the sum was again given to national charities involved in medical research into life threatening diseases. In addition, just over £39,000 was raised by the generosity of staff around the Group through donations from casual dress days, raffles and other events.

Environment

The Britannic Group comprises office based businesses with relatively low environmental impacts. The environmental programme is focused on improving resource use efficiency to protect the environment and reduce operating costs.

The Group's head office site at Wythall Green near Birmingham comprises attractive landscaped grounds with water features and a wildlife conservation area. This includes a wildflower meadow, bird and bat boxes and a floating raft on which resident black swans nested for the first time during the year, producing five cygnets.This site also participated in a seven month butterfly and moth survey entailing the recording of different species and providing this information for research on the effect of global warming on these creatures.

remuneration

The Britannic Group plc Remuneration committee determines the remuneration packages and service contracts of individual executive directors and of the chief executives of the Group operating companies.

Details of the composition of the Remuneration committee are given on page 21. The Group chairman also usually attends meetings but is not present when his own remuneration is discussed. In addition to her routine responsibilities the Britannic Assurance human resources manager also presents recommendations to the committee on remuneration levels, including bonuses, in conjunction with external advice commissioned by them directly during the year from remuneration consultants Hewitt, Bacon & Woodrow. The law firm Pinsent Curtis Biddle are appointed by the committee to advise on share scheme design. The Group company secretary is secretary to the committee.

Each operating company has its own Remuneration committee dealing with its executive board members other than its chief executive.

Remuneration policy

It is the Group's policy to recruit and retain high calibre executives. An annual review of remuneration is undertaken to ensure reward levels are appropriate to the duties and responsibilities of the roles, including a suitable balance between fixed and performance related elements of pay. In determining salary levels for executives, due regard is given to external market data concerning all elements of remuneration, and due regard is made to comparisons across the financial services sector and to pay and employment conditions generally within the Group. In formulating and reviewing its policy the committee follows the provisions of the Combined Code.

Short term and long term incentives continue to be directed to achieving the strategic repositioning of the Group. This repositioning has involved moving away from the delivery of products entirely through a direct sales and collection work force because this was becoming increasingly unprofitable. As a consequence, the Group has had to re-establish itself as a broader based financial services company concentrating on asset management and the support and provision of specialist niche products aimed essentially at the in retirement market. Product distribution has moved away from complete reliance on a fixed cost direct sales force to one of

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distribution through partnerships and independent financial advisers where the costs are variable according to sales volumes.

These changes have involved new business start ups or radical organisational changes for which it would be inappropriate to try to measure performance against any other specific individual or group of companies. No other quoted member of the life sector has had to undergo such radical change over such a short time scale. However, throughout this period of change, the one constant has been that of the Group being a member of the FTSE 250.

Accordingly, the incentives have been directed towards a combination of internal measures that will deliver the necessary change and reshaping of the Group and external measures that recognise the Group's membership of the FTSE 250.

Annual bonuses have been set using stretching internal targets relevant to the change process. These elements are related to major cost reduction targets, to economic profit targets for distribution channels where these have become unprofitable or insufficiently profitable and to personal objectives that will help to deliver the reshaping.

Long term incentives have their performance targets related to external factors based on either comparative performance against the FTSE 250 or sustained growth in achieved profit targets.

Basic salary

The Committee reviews salaries annually, taking into consideration individual and company performance, size and nature of the specific role, pay policy within the Group and available salaries in comparable companies.

Executive directors' remuneration also includes salary in lieu of non pensionable benefits in kind, being the provision of a company car cash allowance. Benefits in kind include private health expenses.

Bonus schemes

The 2002 bonus scheme for which Bryan Portman and Harold Cottam were eligible was based on a maximum of 40% of basic salary comprising up to 10% based on the achievement of personal objectives. 20% was to be based on achieved profit performance of each of the Group's four operating companies, 5% per company, and 10% against Britannic Assurance plc economic profit objectives. Paul Thompson's bonus for the first period of his employment to 31 December 2002 was set at a guaranteed 25% of salary on a pro rata basis.

During the year a special one off bonus of £40,000 was paid to Bryan Portman in recognition of the extra level of support and commitment during the period prior to his appointment as Group managing director in September 2002.

Similar and other bonus schemes are in place for certain senior executives around the Group. These include annual and in some companies longer term plans designed to focus efforts on those key performance measures of greatest relevance to each Group company. Remuneration committees approve and monitor these schemes, as they apply to directors, and sign off any bonus payments ensuring they are linked to quantifiable objective measures.

remuneration report (continued)

Share options

The Group encourages employee participation through share ownership.

During the year executive directors were eligible for grants of options to acquire shares under the Britannic Group savings related share option scheme which is open to all eligible employees. The scheme provides for the grant of options to subscribe for Company shares at the end of fixed three or five year periods, using the proceeds of respective three or five year savings contracts entered into when the option is granted. Options under these schemes may be granted at a discount of up to 20% of the market price at the time of the grant. Options over nearly half a million shares at £5.46 per share were granted in April 2002. Some 800 employees held options over circa 900 thousand shares under this and previous schemes as at 31 December 2002.

Executive directors and those key employees whose efforts and future commitment are deemed vital to ensure the Company's success and growth are also eligible to participate in the performance related Britannic Group executive option schemes. An Inland Revenue approved scheme qualifies for favourable tax treatment on options granted over shares within statutory limits, while options granted with an initial market value in excess of statutory limits are granted under an unapproved scheme. No executive options have been granted at a discount.

The committee has continued to monitor the performance conditions applied to the executive option schemes to ensure they remain relevant to the changing nature of the Group's business in recent years. Options granted in 1999 and 2000 normally become exercisable only if, over a three year period, firstly the Company is ranked by total shareholder return at or above the median position of a group of comparator companies being the FTSE 250 (excluding investment trusts) and secondly if growth in embedded value added by new business is at least 3% pa above the retail prices index. The performance conditions of the 1999 and 2000 options are retestable on a rolling three year basis.

Following from the integration of Britannic Money and Britannic Retirement Solutions into the Group together with the acquisition of the outstanding shareholding in Britannic Asset Management in 2001 it was determined that a single embedded value performance condition was no longer representative of the new enlarged Group businesses going forward. For options granted in 2001 therefore the performance target set was that of achieved gross operating profit having to match or exceed the retail prices index plus 6% over a fixed three year period. For options granted in March and April 2002, and again further to consultation with external remuneration consultants, the committee changed the performance condition to operating earnings per share having to match or exceed the retail prices index plus 6% over a three year period. For options granted in September 2002 the operating earnings per share definition was refined to that of an achieved profit basis, before exceptional items and excluding any transfer from shareholders' retained capital.

For options to be granted in 2003 it is proposed to further refine the operating earnings per share condition such that any longer term return from the shareholders' retained capital is excluded from the performance measure. Such refinements have been made to maintain the balance of pertinent targets with that of achievability.

Except for the changes detailed above to performance conditions no amendments have been made to the savings related and executive share option schemes since those approved by shareholders at the 2002 AGM.

Long term incentive plan

Under the plan which was approved by shareholders at the 2002 AGM selected executive directors and other senior executives of the Group may, on an annual basis, receive performance related conditional share awards. The awards will take the form of nil cost options. There is a limit of

200% of annual earnings from the Group (excluding benefits in kind) on the aggregate of the initial market value of the shares over which awards and discretionary share options may be granted to an executive in any financial year. Nevertheless, the aggregate initial market value of the only award made during the year (inclusive of any discretionary share options) was limited to 100% of annual earnings (excluding benefits in kind). Awards are not exercisable more than ten years from the date of grant or such earlier time as may be specified at the time the award is made. In the case of 2002 awards the proportion of shares which vest will be determined according to how the Company is ranked in a table of companies in the FTSE 250 according to share price growth over a fixed three year period. No award will vest unless the Company is at or above the median level, at which 25% of the shares will vest. If the Company is ranked in the top quartile, all of the shares will vest. If the Company is ranked between these thresholds, the number of vesting shares will be calculated, on a straight line basis, between them.

Service contracts

Bryan Portman and Paul Thompson have service contracts, dated September 2001 and November 2002 respectively, with a maximum of a rolling twelve month notice period. Harold Cottam's service contract, dated September 2002, provides for a six month notice period. Compensation on termination of service contracts is taken on a case by case basis, having regard to the particular circumstances and recognising the principle of mitigation of damages.

External appointments

Executive directors are not permitted to accept any other non Group engagement or office unless prior board approval has been obtained.

Non executives

Determination of the remuneration of non executive directors remains a matter for the whole board in accordance with the articles of association. Non executive directors do not have service contracts with the Company, they are neither eligible for bonuses nor participation in the Company share schemes. Appointment is normally for a renewable term of three years, terminable by six months' notice on either side.

Pension policy

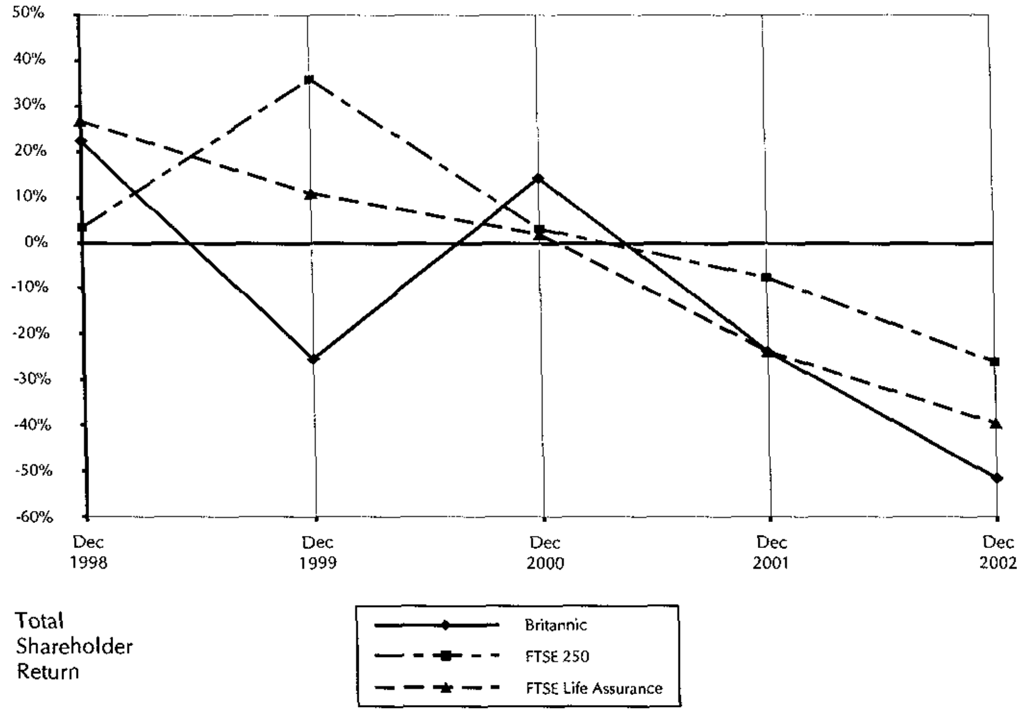
All executive directors, with the exception of the chairman, are members of a defined benefit pension scheme. For relevant executive directors subject to the earnings cap, the Company has established a funded unapproved retirement benefit scheme based on salary in excess of the earnings cap.

Former directors' consultancy services

During the year arrangements were made with former directors Brian Shaw and Danny O'Neil for the provision of consultancy services generating fees of £70,000 and £69,000 respectively. In addition Danny O'Neil received non executive director's fees of £138,000 in respect of his deputy chairmanship of Britannic Asset Management Ltd.

remuneration report (continued)

TSR Monitoring Performance: Britannic Group plc vs FTSE 250 and FTSE Life Assurance



Source: Datastream

The chart above shows a comparison of Britannic Group plc total shareholder return performance on an annualised basis against that of the FTSE 250 and FTSE Life Assurance indices.

Directors' interests

The interests of the directors (including family interests) in Britannic Group plc ordinary 5 pence shares both during the year and up to 4 March 2003 were as follows:

	As at 1 January 2002 (or date of appointment if later)	As at 31 December 2002	As at 4 March 2003
David Allvey	–	600	600
Mervyn Blakeney	2,400	2,400	2,400
Harold Cottam	16,857	16,857	16,857
Richard Fortin	2,281	2,281	2,281
Bryan Portman	–	–	–
Paul Thompson	–	–	–
Malcolm Williamson	–	–	–

The auditors are required to report on the information contained in this section of the remuneration report.

Directors' remuneration

	Fees/salary £'000	Salary in lieu of benefits £'000	Benefits £'000	Bonus £'000	2002 total £'000	2001 total £'000
Chairman:						
Harold Cottam	400	100	–	–	500	460
Executive directors:						
Bill Haynes (resigned 15 June 2001)	–	–	–	–	–	163
Danny O'Neil (resigned 16 January 2002)	29	–	2	–	31	243
Bryan Portman (appointed 28 June 2001)	259	15	53	40	367	173
Brian Shaw (retired 31 December 2001)	–	–	–	–	–	275
Paul Thompson (appointed 1 December 2002)	24	1	–	6	31	–
John Tomlins (resigned 31 May 2001)	–	–	–	–	–	80
Independent non-executive directors:						
David Allvey (appointed 1 March 2002)	37	–	–	–	37	–
Mervyn Blakeney	54	–	–	–	54	52
Richard Fortin	57	–	–	–	57	42
Sir Brian Pearse (retired 24 April 2002)	17	–	–	–	17	52
Malcolm Williamson (appointed 1 March 2002)	33	–	–	–	33	–
Total	910	116	55	46	1,127	1,540

Notes:

1. Fees/salary include for Sir Brian Pearse £5,000 (2001: £17,000) in respect of his directorship of Britannic Retirement Solutions Ltd, for Mervyn Blakeney £24,000 (2001: £24,000) in respect of his chairmanship of Britannic Money plc, for Richard Fortin £15,000 (2001: £14,000) in respect of his directorship of Britannic Asset Management Ltd and £12,000 (2001: nil) in respect of his directorship of Britannic Money plc and for David Allvey £12,000 (2001: nil) in respect of his directorship of Britannic Retirement Solutions Ltd.

2. Salary in lieu of benefits comprise a non pensionable company car cash allowance, and in the case of Harold Cottam, £85,000 (2001: £75,000) in lieu of a company pension contribution.

3. Benefits for Danny O'Neil comprise a company car, private fuel and private health expenses and for Bryan Portman an accommodation and travel allowance and an amount to meet the income tax liability in respect of the Company's funded unapproved retirement benefit scheme contribution.

4. Bill Haynes' 2001 salary included a payment of £50,000 received as compensation for loss of office following his resignation on 15 June 2001.

remuneration report (continued)

Directors' pension benefits information

	Accrued benefit at 31 December 2002	Increase in accrued benefits excluding inflation (A)	Increase in accrued benefits including inflation	Transfer value of (A) less directors' contributions (including death benefit risk value)	Transfer value of accrued benefits at 1 January 2002	Transfer value of accrued benefits at 31 December 2002	Increase in transfer value less directors' contributions	FURBS contributions paid or payable in respect of service during 2002
	£	£	£	£	£	£	£	£
Danny O'Neil (resigned 16 January 2002)	**107,524**	**1,722**	**1,722**	**13,268**	**848,935**	**866,663**	**17,728**	**Nil**
Bryan Portman (appointed 28 June 2001)	**3,645**	**2,432**	**2,452**	**34,531**	**15,625**	**47,178**	**31,553**	**34,064**
Paul Thompson (appointed 1 December 2002)	**135**	**135**	**135**	**1,725**	**0**	**921**	**921**	**Nil**

Notes:

1. The benefits entitlement is based on service to the end of the year, plus any service bought by amounts transferred in from schemes of previous employers.
2. The transfer values of the increase have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 after deducting directors' contributions.
3. Members of the approved scheme have the option to pay additional voluntary contributions: neither the contributions nor the resulting benefits are included in the above table.
4. The funded unapproved retirement benefits scheme ("FURBS") run by Britannic is a defined contribution arrangement. Contributions are paid annually in arrears. The amounts shown above in respect of 2002 allow for contributions due but not yet paid.
5. The accrued benefits for Danny O'Neil and associated costs are based on service to the date on which his service terminated during the year.
6. The accrued benefits for Paul Thompson are based on service from his joining date on 1 December 2002.
7. The transfer value shown for Danny O'Neil is the amount that was actually paid from the scheme on 29 April 2002. Similarly, the accrued benefits amount shown is the amount at the date of transfer. There is no benefits liability within the Group for Danny O'Neil as at 31 December 2002.
8. Pensions paid by the Company to retired directors amounted to £17,000 (2001: £17,000).

Directors' interests in share options

The directors held options to subscribe for Britannic Group plc ordinary shares of 5 pence each granted under the Britannic savings related and executive share option schemes as follows:

	Price at which option is exercisable in pence	Date from which exercisable	Savings related options at 1 January 2002	Savings related options at 31 December 2002	Executive options at 1 January 2002	Executive options at 31 December 2002
Harold Cottam	1,061	Nov 2002	–	–	114,985	114,985
	595	June 2003	1,628	1,628	–	–
Bryan Portman	934	June 2004	–	–	24,089	24,089

Savings related options ordinarily lapse within six months and executive options within seven years of the date they first become exercisable.

During the year and up to 4 March 2003 no directors' share options were exercised by the above directors.

Directors' interests in long term incentive plan

The following director has been made a notional allocation under the Britannic 2002 long term incentive plan which, subject to the attainment of the performance conditions as set out on page 33, become available from 9 September 2005.

Maximum number of shares over which notional allocations have been made at notional share price of £3.64:

	As at 1 January 2002	During 2002	As at 4 March 2003
Bryan Portman	–	85,164	85,164

The market price of the shares at 31 December 2002 was £3.275 and the range for the year was £2.575 to £7.765.

The executive directors are treated as being interested in any dealings in the shares of Britannic Group plc by the Britannic Qualifying Employee Share Ownership Trust (the "Quest"). During the year the Quest acquired a total of 119,154 ordinary shares in Britannic Group plc by subscription at prices between £6.91 and £7.66 per share.

The shares were all transferred by the Quest to individuals who had exercised options under the savings related share option scheme. At 4 March 2003 the Quest held no shares in Britannic Group plc.

By order of the board

Anna East
Secretary
4 March 2003

directors' responsibilities

Statement of directors' responsibilities

Company law requires the 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 Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

independent auditors' report to the members of Britannic Group plc

We have audited the financial statements on pages 41 to 73. 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 are responsible for preparing the annual report and the directors' remuneration report. As described on page 38, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards,

Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and 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 Group is not disclosed.

We review whether the statement on pages 20 to 25 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider

independent auditors' report to the members of Britannic Group plc (continued)

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 the other information contained in the annual report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we 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 affairs of the Company and the Group as at 31 December 2002 and of the loss of the Group 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.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

4 March 2003

independent auditors' report to the members of Britannic Group plc (continued)

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 the other information contained in the annual report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we 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 affairs of the Company and the Group as at 31 December 2002 and of the loss of the Group 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.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

4 March 2003

group profit and loss account technical account – long term business for the year ended 31 December 2002

	Notes	2002 £m	Restated 2001 £m
Earned premiums, net of reinsurance:			
Gross premiums written	2	1,058.8	1,005.6
Outward reinsurance premiums	2	(500.9)	(6.9)
		557.9	998.7
Investment income	7	622.8	1,851.4
Other technical income, net of reinsurance	4	46.9	17.8
		1,227.6	2,867.9
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount		(1,368.4)	(1,638.6)
Reinsurers' share		131.9	129.0
		(1,236.5)	(1,509.6)
Change in the provision for claims:			
Gross amount		(12.7)	(8.4)
Reinsurers' share		0.8	(0.3)
		(1,248.4)	(1,518.3)
Change in other technical provisions, net of reinsurance:			
Long term business provision:			
Gross amount		(252.4)	(134.3)
Reinsurers' share		548.2	24.1
		295.8	(110.2)
Technical provisions for linked liabilities, net of reinsurance		931.2	771.7
		1,227.0	661.5
Net operating expenses:			
Exceptional operating expenses	5	–	(93.5)
Other operating expenses	5	(170.0)	(215.2)
	5	(170.0)	(308.7)
Investment expenses and charges	7	(349.2)	(33.4)
Unrealised losses on investments	7	(1,427.4)	(2,923.1)
Other technical charges, net of reinsurance	3	(1.6)	(21.7)
Tax attributable to the long term business	10	25.4	27.2
Allocated investment return transferred from the non-technical account	7	184.4	215.9
Transfers from the fund for future appropriations		535.9	1,114.3
Balance on the technical account – long term business		3.7	81.6

All figures relate to continuing operations.

group profit and loss account non-technical account – for the year ended 31 December 2002

	Notes	2002 £m	Restated 2001 £m
Balance on the long term business technical account		**3.7**	81.6
Tax attributable to the balance on the long term business technical account	10	**(2.5)**	20.2
Shareholders' pre tax profit arising on long term business		**1.2**	101.8
Investment income	7	**9.6**	5.7
Allocated investment return transferred to the long term business technical account	7	**(184.4)**	(215.9)
Investment expenses and charges	7	**(7.2)**	(7.2)
Unrealised losses on investments	7	**(25.0)**	(9.9)
Allocated investment return transferred to the general business operating result	4	**(0.4)**	(0.7)
Other income	8	**10.3**	20.0
Other charges, including value adjustments:			
Exceptional items	8	**(87.4)**	(43.8)
Other charges	8	**(13.8)**	(31.1)
	8	**(101.2)**	(74.9)
Loss on ordinary activities before tax		**(297.1)**	(181.1)
Tax on loss on ordinary activities	10	**47.4**	26.6
Minority interests		**–**	(0.5)
Loss for the financial year		**(249.7)**	(155.0)
Dividends	11	**(36.4)**	(108.4)
Retained loss for the financial year		**(286.1)**	(263.4)
		Pence	Pence
Operating earnings* per share (before exceptional items) – basic	14	**2.4**	35.8
Operating earnings* per share – basic	14	**(41.8)**	13.5
Earnings per share – basic	14	**(127.1)**	(79.1)
Earnings per share – diluted	14	**(127.1)**	(79.1)

All figures relate to continuing operations.

analysis of result for the financial year

	Notes	2002 £m	Restated 2001 £m
Operating profit* (before exceptional items)		**4.0**	98.1
Exceptional items	8	**(87.4)**	(43.8)
Operating (loss)/profit*		**(83.4)**	54.3
Short term fluctuations in investment return		**(214.1)**	(235.3)
Change in the equalisation provision	4	**0.4**	(0.1)
		(213.7)	(235.4)
Loss on ordinary activities before tax		**(297.1)**	(181.1)
Tax on loss on ordinary activities and minority interests:			
Tax on operating profit (before exceptional items)		**0.8**	(27.4)
Tax on exceptional items		**0.5**	–
Minority interests in operating profit		**–**	(0.5)
Tax on other loss		**46.1**	54.0
		47.4	26.1
Loss for the financial year:			
Operating profit after tax (before exceptional items)		**4.8**	70.2
Exceptional items after tax		**(86.9)**	(43.8)
Other loss after tax		**(167.6)**	(181.4)
		(249.7)	(155.0)

* Operating (loss)/profit is stated before short term fluctuations in investment return and changes to the equalisation provision.

statement of group total recognised gains and losses

	Notes	2002 £m	2001 £m
Loss for the financial year		**(249.7)**	(155.0)
Total recognised losses for the year		**(249.7)**	(155.0)
Prior year adjustment	32	**(29.2)**	
Total losses recognised since last annual report		**(278.9)**	

group balance sheet as at 31 December 2002

	Notes	2002 £m		2001 £m	
Assets					
Intangible assets:					
Positive goodwill	15	171.8		240.7	
Negative goodwill	15	-		(48.0)	
			171.8		192.7
Investments:					
Land and buildings	16		714.9		696.8
Other financial investments:					
Group other than Britannic Money plc		7,913.7		9,648.0	
Britannic Money plc:					
Mortgage advances repayable within one year		41.8		51.5	
Mortgage advances subject to non-recourse funding:					
Securitised mortgages and related assets		2,280.4		2,167.1	
Less: non-recourse funding		(2,215.5)		(2,094.5)	
	19	64.9		72.6	
Total other financial investments	18		8,020.4		9,772.1
Total investments			8,735.3		10,468.9
Present value of acquired in-force business	20		22.4		70.4
Assets held to cover linked liabilities	21		2,552.8		3,484.0
Reinsurers' share of technical provisions:					
Long term business provision		651.0		102.8	
Claims outstanding		1.9		2.7	
			652.9		105.5
Debtors:					
Debtors arising out of direct insurance operations – policyholders		28.4		22.3	
Other debtors	22	203.7		142.0	
			232.1		164.3
Other assets:					
Tangible fixed assets	23	10.4		14.6	
Cash at bank and in hand	39	462.6		76.0	
			473.0		90.6
Prepayments and accrued income:					
Accrued interest and rent		41.1		10.0	
Deferred acquisition costs	24	64.7		82.1	
Other prepayments and accrued income		48.4		85.9	
			154.2		178.0
Total assets			12,994.5		14,754.4

	Notes	2002 £m	Restated 2001 £m
Liabilities			
Capital and reserves:			
Called up share capital	25	**9.8**	9.8
Share premium account	26	**21.7**	20.9
Other reserves	26	**25.3**	25.3
Profit and loss account	27	**695.4**	981.6
Equity shareholders' funds	27	**752.2**	1,037.6
Fund for future appropriations		**48.2**	584.1
Technical provisions:			
Provision for unearned premiums		**2.4**	2.9
Long term business provision	28	**8,983.7**	8,731.3
Claims outstanding		**55.9**	45.3
Equalisation provision	29	**1.6**	2.0
		9,043.6	8,781.5
Technical provisions for linked liabilities		**2,552.8**	3,484.0
Provisions for other risks and charges:			
Provisions for taxation	32	**19.6**	99.8
Other provisions	33	**27.1**	37.9
		46.7	137.7
Deposits received from reinsurers	30	**37.1**	18.0
Creditors:			
Creditors arising out of direct insurance operations		**37.6**	18.9
Amounts owed to credit institutions	34	**271.1**	228.1
Other creditors including taxation and social security	35	**161.8**	393.1
		470.5	640.1
Accruals and deferred income		**43.4**	71.4
Total liabilities		**12,994.5**	14,754.4

The financial statements were approved by the board of directors on 4 March 2003 and were signed on its behalf by:

Bryan Portman B. Portman Group managing director
Paul Thompson P. Thompson Group finance director

company balance sheet as at 31 December 2002

	Notes	2002 £m	Restated 2001 £m
Fixed assets:			
Investments in subsidiary undertakings	17	**285.8**	258.9
Current assets:			
Debtors	22	**8.0**	89.2
Investments	18	**–**	87.1
Cash at bank and in hand		**2.0**	0.2
		10.0	176.5
Creditors: amounts due in less than one year:			
Amounts owed to subsidiary undertakings		**(27.5)**	–
Amounts owed to credit institutions	34	**(190.0)**	(180.0)
Other creditors		**(0.4)**	(6.1)
Proposed dividend		**–**	(72.1)
		(217.9)	(258.2)
Net current liabilities		**(207.9)**	(81.7)
Total assets less current liabilities		**77.9**	177.2
Capital and reserves:			
Called up share capital	25	**9.8**	9.8
Share premium account	26	**21.7**	20.9
Profit and loss account	27	**46.4**	146.5
Equity shareholders' funds	27	**77.9**	177.2

The financial statements were approved by the board of directors on 4 March 2003 and were signed on its behalf by:

Bryan Portman — B. Portman — Group managing director
Paul Thompson — P Thompson — Group finance director

group cash flow statement for the year ended 31 December 2002

	Notes	2002 £m		2001 £m	
Net cash inflow from operating activities	39		**125.4**		130.9
Returns on investment and servicing of finance:					
Interest paid		**(7.0)**		(7.2)	
Dividends paid to minority shareholders in subsidiary undertaking		**–**		(2.4)	
			(7.0)		(9.6)
Taxation			**(1.8)**		(8.1)
Capital expenditure			**(6.0)**		(4.0)
Acquisitions:					
Acquisition of subsidiaries		**(2.0)**		(96.1)	
Net cash acquired with subsidiaries		**–**		0.5	
			(2.0)		(95.6)
Equity dividends paid			**(108.5)**		(108.1)
Financing:					
Issue of ordinary shares		**0.7**		4.7	
Loan borrowing		**9.6**		95.6	
			10.3		100.3
			10.4		5.8
Cash flows were invested as follows:					
Increase in cash holdings	39		**2.4**		5.7
Net portfolio investment/(divestment):					
Shares and other variable-yield securities and units in unit trusts	39	**5.4**		(13.4)	
Debt securities and other fixed income securities	39	**(1.1)**		0.1	
Other financial investments	39	**–**		5.6	
Deposits with credit institutions	39	**3.7**		7.8	
			8.0		0.1
Net investment of cash flows	39		**10.4**		5.8
Movement in opening and closing portfolio investments net of financing:					
Net cash inflow		**2.4**		5.7	
Net portfolio investment		**8.0**		0.1	
Movement arising from cash flows			**10.4**		5.8
Movement in long term business investments			**(1,364.7)**		(1,111.8)
Movement in debtors and creditors			**(9.6)**		(95.6)
Movement on acquisition of subsidiary			**–**		(0.2)
Change to market values and currencies			**(26.1)**		(13.1)
Total movement in portfolio investments net of financing			**(1,390.0)**		(1,214.9)
Portfolio investments net of financing brought forward			**10,316.8**		11,531.7
Portfolio investments net of financing carried forward	39		**8,926.8**		10,316.8

The cash flow excludes cash flows in the long term fund including amounts paid and received by the shareholders' retained capital.

notes to the financial statements

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of investments. A summary of the more important Group accounting policies is set out below, together with explanation of changes to previous policies.

Basis of preparation

The financial statements have been prepared in accordance with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers and the provisions of section 255A of, and Schedule 9A to, the Companies Act 1985 except for the requirement to amortise goodwill over a finite period and the treatment of investment properties. For details of these departures see note 15 and page 51.

The balance sheet of the parent company has been prepared in accordance with the provisions of section 226 of, and Schedule 4 to, the Companies Act 1985.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2002.

Changes in accounting policy

The provisions of Financial Reporting Standard 19 'Deferred Tax' are effective for accounting periods ending on or after 22 January 2002 and have been adopted in these financial statements. Comparative figures for 2001 have been restated for consistency of approach. For details of this change see note 32.

Long term business

The long term business result is determined using the modified statutory solvency basis.

Shareholders' retained capital

The shareholders' retained capital represents amounts held within the long term funds that are attributable to shareholders and not distributable. The amount transferable to the shareholders' distributable reserves each year is subject to ongoing board review.

Premiums

Unit linked and unitised premiums are accounted for when the liability is established. Other premiums are accounted for on a receivable basis. Outward reinsurance premiums are accounted for on a payable basis. Premiums exclude any taxes or duties based on premiums.

Allocation of investment return

Income and realised and unrealised gains and losses on investments are reported in the long term business technical account together with the associated investment expenses and charges.

The allocated investment return transferred to the non-technical account is the return arising on the third party investments of the shareholders' retained capital, after allowing for the longer term investment return.

For further details of the basis of calculation refer to note 7.

Reinsurance

The Group seeks to reduce its exposure to potential losses by reinsuring certain levels of risk with other insurance companies or reinsurers. An asset or liability is recorded in the consolidated balance sheet representing payments due from or premiums due to reinsurers, and the share of losses recoverable from reinsurers.

Certain reinsurance contracts undertaken by the Group include significant financing elements. In such situations, a liability is recognised on the consolidated balance sheet recorded as deposits received from reinsurers. A corresponding asset is also recognised within other debtors, representing the present value of the future margins on the ceded business out of which the financing will be repaid.

Claims

Death and surrender claims are accounted for when claim notifications are received. Maturity claims and annuities are accounted for as they fall due for payment. Provision is made for the estimated cost of settling all claims notified but not settled at the balance sheet date.

Deferred acquisition costs

Deferred acquisition costs comprise the amount of direct and indirect costs arising from the obtaining and processing of new business that is carried forward to be amortised against future margins in respect of the related policies. Deferral of costs is limited to the extent that there are available future margins.

Fund for future appropriations

Surpluses arising as a result of actuarial valuations of the long term business assets and liabilities may be appropriated by the directors to participating policyholders by way of bonuses and to shareholders by way of transfers to the non-technical account. Any unappropriated surplus and funds, the allocation of which has not been determined, are carried forward in the fund for future appropriations.

Long term business provision
The long term business provision is determined by the appointed actuary using statistical methods. The methodology takes into account the risks and uncertainties of the particular classes of long term business written. For traditional business, the net premium valuation method has been used. For unitised with profit business, the provision is the discounted value of basic and bonus units together with an additional amount for future expenses. Provision is made only for vested bonuses; no explicit provision is made for future reversionary or terminal bonuses.

For certain classes of business where policyholders participate in surpluses, the net premium valuation method has been used to calculate the long term business provision. The net premium is calculated such that it would be sufficient at the outset of the policy to provide only the discounted value of the original guaranteed death and maturity benefits. The provision is then calculated by subtracting the present value of future net premiums from the present value of future benefits (including attached bonuses). The method makes implicit allowance for both future expenses of maintaining the policy and sharing in future profits. Under the net premium method, the amount of provision is sensitive to the interest rate used when discounting and, to a lesser extent, the assumed future mortality experience of policyholders.

Technical provisions for linked liabilities
For those policies where benefits are linked to specific pools of assets, the technical provision for linked liabilities is calculated as the number of units attaching to each policy multiplied by the appropriate price at the balance sheet date. In addition, a cash flow projection, using prudent assumptions, is undertaken for each policy to establish whether or not future inflows are sufficient to cover outflows. If not, an additional provision is included in the long term business provision.

The additional provision is sensitive to the assumed level of policy maintenance expenses.

General business

The result for all classes of general business is determined on an annual accounting basis and is included in other technical income in the long term business technical account.

Mortgage lending business

Securitisation
The Company has complied with FRS 5 'Reporting the substance of transactions' and, having met the conditions laid down in the standard, has adopted linked presentation in respect of mortgage advances managed on behalf of other financial institutions.

Mortgage advances
Mortgage advances are stated at the current balance outstanding less any provision for irrecoverable amounts.

Deferred expenses
Deferred expenses comprise expenses incurred on the purchase of, or creation of, mortgage portfolios or during the establishment of off balance sheet mortgage portfolios of funding institutions, which are being amortised over a period not exceeding seven years. Deferred expenses also include loan origination costs which are capitalised and amortised over the shorter of the redemption period of the mortgage portfolio and five years.

Investment income, expenses and charges

Investment income is accounted for on a receivable basis. Dividends are recognised on the date on which the related investment is quoted as ex-dividend. Interest income is accrued up to the balance sheet date. Overseas income includes, where appropriate, withholding tax credits. Realised gains or losses represent the difference between net sale proceeds and cost.

Unrealised gains and losses on investments

Unrealised gains and losses on investments represent the difference between the current valuation of investments and the valuation at the last balance sheet date or cost if acquired at a later date. The movement in unrealised investment gains and losses includes an adjustment for previously recognised gains or losses on investments disposed of in the period.

notes to the financial statements (continued)

Pension costs

The Group operates defined benefit and defined contribution pension schemes. Contributions to the defined benefit pension scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' expected working lives with the Group.

Contributions to the defined contribution schemes are charged to the profit and loss account in the period for which they are payable.

Leases

Finance lease assets are capitalised in the balance sheet and subsequently depreciated according to their useful economic lives. Interest payments made during the period for the financing of the lease are charged to the profit and loss account.

Payments made under operating leases are charged to the profit and loss account in equal instalments.

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	3 years
Personal computers and printers	3 years
Mainframe computer equipment	4 years
Furniture and equipment	10 years

Impairment of intangible and tangible fixed assets

Tangible fixed assets are tested for impairment, only where there has been an indication that impairment may have occurred. Goodwill arising on consolidation, which is amortised, is tested for impairment at the end of the first full financial year following acquisition, and then only in instances where there has been an indication that impairment may have occurred. Goodwill arising on consolidation which is not amortised is tested for impairment on an annual basis.

The need for any impairment write down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use. The value in use is determined by discounting estimated future cashflows, where the discount rate applied depends on the circumstances of the individual business.

Taxation

Taxation is charged to the long term business technical account based on the rules applicable to life assurance business. The taxation deferred as a result of timing differences between the treatment of certain items for taxation and accounting purposes is also taken into account.

For the purposes of the non-technical account, the transfer from the long term business technical account to the non-technical account is grossed up at the long term effective rate of tax.

Taxation is charged to the non-technical account based on the result for the financial year and takes into account taxation deferred as a result of timing differences between the treatment of certain items for taxation and accounting purposes.

The provisions of Financial Reporting Standard 19 'Deferred Tax' (FRS 19) have been adopted in these financial statements and the comparative figures restated accordingly.

Deferred tax is recognised, after discounting, for the future tax effect of transactions and events recognised in the financial statements. The discount rate used is similar to the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities. Deferred tax assets are recognised to the extent that they are considered recoverable.

Goodwill

Except in circumstances where the useful economic life is considered to be indefinite, goodwill arising on consolidation is capitalised in the balance sheet and amortised to the profit and loss account on a systematic basis, over its useful economic life. The useful economic life is determined by assessing each acquisition on an individual basis.

In such instances where the useful economic life is considered to be indefinite, an annual impairment test is performed on the value of goodwill in the balance sheet and a charge made to the profit and loss account where the goodwill is considered to be impaired.

The gain or loss on subsequent disposal of a subsidiary will include any attributable unamortised goodwill.

Present value of acquired in-force business

For long term insurance business, the present value of acquired in-force business (PVIF) is capitalised to the extent that profits are expected to be recognised over the remaining lifetime of the related in-force policies. The PVIF is amortised on a systematic basis, to reflect the pattern of emergence of profits from the acquired contracts. Amortisation is stated net of any unwind of the discount rate.

The carrying value of the asset is tested annually for impairment.

The resulting amount is sensitive to a large number of assumptions, particularly the discount rate used and future investment returns as well as to the rate at which policies are assumed to discontinue.

Investments

In the Group balance sheet, all investments, including those classified as assets held to cover linked liabilities, are stated at their current value.

Land and buildings are valued at open market value. Professionally qualified valuers make full valuations at least every three years. In each intervening year, the values are reviewed by the directors on the basis of independent professional advice in which instance any decrease in values is accounted for.

Under the Companies Act 1985, land and buildings are required to be depreciated over their expected useful economic lives.

In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19, which states that no depreciation should be provided in respect of such investments. The directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations, and the amounts, which might otherwise have been shown, cannot reasonably be separately identified and quantified.

Owner occupied land and buildings are not classified as investment properties and the buildings are depreciated on a straight line over their useful economic lives of between 50 and 100 years.

Listed investments are valued at middle market price less accrued interest where applicable.

Unlisted investments are valued by the directors on a prudent basis having regard to their likely realisable values.

For those investments which have been sold after the balance sheet date, or are to be sold in the short term, the value is reduced by the actual or estimated realisation costs.

In the balance sheet of the parent company, readily marketable investments are held at current value. Other investments are held at the lower of cost and net realisable value.

Financial instruments

Derivative financial instruments are used to reduce the Group's exposure to the effects of falling equity markets. The Group's policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets. Derivative financial instruments are carried at fair value with changes in fair value included in investment returns.

notes to the financial statements (continued)

2. Segmental information

	New business written			
	Regular		Single	
	2002 £m	2001 £m	2002 £m	2001 £m
Life assurance business:				
Individual with profit	**1.5**	7.4	**79.3**	108.3
Individual non profit	**3.4**	3.1	**0.7**	1.6
Individual unit linked	**0.4**	0.5	**0.2**	37.6
Pension business:				
Individual with profit	**1.8**	3.0	**109.2**	85.7
Individual non profit	**–**	0.2	**375.6**	191.9
Individual unit linked	**1.8**	5.0	**12.4**	15.1
Group with profit	**0.3**	0.4	**0.1**	0.3
Group non profit	**–**	–	**3.2**	10.0
Group unit linked	**0.7**	0.4	**139.3**	177.5
Total new business written	**9.9**	20.0	**720.0**	628.0
UK	**9.9**	20.0	**671.0**	627.8
Overseas	**–**	–	**49.0**	0.2
Total	**9.9**	20.0	**720.0**	628.0

New business premiums includes incremental business of Alba Life not included in the supplementary five year business review.

	Gross premiums written			
	Regular		Single	
	2002 £m	2001 £m	2002 £m	2001 £m
Life assurance business:				
Individual with profit	**217.0**	246.5	**79.3**	108.3
Individual non profit	**10.4**	9.9	**0.7**	1.6
Individual unit linked	**23.2**	24.6	**0.2**	37.6
Pension business:				
Individual with profit	**47.0**	50.1	**109.2**	85.7
Individual non profit	**2.5**	2.8	**375.6**	191.9
Individual unit linked	**27.1**	29.2	**12.4**	15.1
Group with profit	**9.0**	11.3	**0.1**	0.3
Group non profit	**0.8**	0.9	**3.2**	10.0
Group unit linked	**1.8**	2.3	**139.3**	177.5
Total gross premiums written	**338.8**	377.6	**720.0**	628.0
UK	**338.8**	377.6	**671.0**	627.8
Overseas	**–**	–	**49.0**	0.2
Total	**338.8**	377.6	**720.0**	628.0

Outward reinsurance premiums of £500.9m include £482m relating to reassurance of Alba Life immediate annuity business (2001: nil). This generated a similar increase in reinsurers' share of technical provisions.

	Gross premiums		Loss before taxation			Net assets
				Restated		Restated
	2002 £m	2001 £m	**2002 £m**	2001 £m	**2002 £m**	2001 £m
Long term business:	**1,058.8**	1,005.6	**(186.2)**	(118.1)	**10,943.5**	12,160.0
Fund for future appropriations	–	–	–	–	**48.2**	584.1
Asset management business:						
Continuing operations	–	–	**9.9**	18.6	**29.3**	23.5
Acquisitions	–	–	–	–	–	0.6
Goodwill write down	–	–	**(50.0)**	–	–	–
Other	–	–	**(2.2)**	–	–	–
	–	–	**(42.3)**	18.6	**29.3**	24.1
Mortgage business:						
Continuing operations	–	–	**(5.2)**	(27.8)	**42.2**	47.3
Goodwill write down	–	–	**(35.7)**	(25.0)	–	–
Other	–	–	–	(18.8)	–	–
	–	–	**(40.9)**	(71.6)	**42.2**	47.3
Other shareholder and general business:						
Continuing operations	**4.3**	5.3	**(27.7)**	(10.0)	**680.7**	966.2
Total	**1,063.1**	1,010.9	**(297.1)**	(181.1)	**752.2**	1,037.6

The net assets of the long term business comprise the technical provisions less the reinsurers' share thereof.

3. Other technical charges

		Long term business	
	Notes	**2002 £m**	2001 £m
Write down of present value of acquired in-force business	20	**48.0**	8.9
Write down of goodwill arising on acquisitions by the long term business	15	**(48.0)**	(4.0)
Valuation adjustment for subsidiaries of the long term business		–	16.8
Repayments of financial reassurance		**1.6**	–
		1.6	21.7

notes to the financial statements (continued)

4. Other technical income

	Notes	2002 £m	2001 £m
Technical account – general business			
Gross premiums written		**4.3**	5.3
Outward reinsurance premiums		**(0.3)**	(0.4)
Net premiums written		**4.0**	4.9
Change in the provision for unearned premiums:			
Gross and net amount		**0.5**	0.6
Earned premiums, net of reinsurance		**4.5**	5.5
Allocated investment return transferred from the non-technical account		**0.4**	0.7
Other income		**2.0**	2.3
		6.9	8.5
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount		**(3.9)**	(7.9)
Reinsurers' share		**0.9**	4.7
		(3.0)	(3.2)
Change in the provision for claims:			
Gross amount		**2.1**	9.5
Reinsurers' share		**(1.6)**	(7.6)
		0.5	1.9
Net operating expenses	5	**(1.8)**	(3.0)
General business operating result		**2.6**	4.2
Change in the equalisation provision	29	**0.4**	(0.1)
Balance on the technical account – general business		**3.0**	4.1

Other technical income also includes net reinsurance income received by Britannic Retirement Solutions of £21.0m (2001: £13.7m) and valuation adjustments for subsidiaries of the long term business of £22.9m (2001: £nil).

5. Net operating expenses

	Technical account long term business		Technical account general business	
	2002 £m	2001 £m	2002 £m	2001 £m
Acquisition costs:				
Exceptional operating expenses	**–**	5.8	**–**	–
Other	**30.1**	68.1	**0.8**	1.3
	30.1	73.9	**0.8**	1.3
Change in deferred acquisition costs	**17.3**	24.5	**0.1**	0.1
Administrative expenses:				
Exceptional operating expenses	**–**	87.7	**–**	–
Other	**122.6**	122.6	**0.9**	1.6
	122.6	210.3	**0.9**	1.6
	170.0	308.7	**1.8**	3.0

Exceptional operating expenses in 2001 relate to the restructuring costs incurred by Britannic Assurance to refocus its home services sales force.

6. Bonuses – long term business

The total bonuses attributable to the financial year amounted to £81.3m (2001: £305.1m).

7. Investment return

	Technical account long term business		Non-technical account	
		Restated		Restated
	2002 £m	2001 £m	2002 £m	2001 £m
(i) Actual investment return:				
Income from land and buildings	49.3	51.7	–	–
Income from other investments	495.9	532.7	9.6	5.7
	545.2	584.4	9.6	5.7
Gains on the realisation of investments	77.6	1,267.0	–	–
Investment income	622.8	1,851.4	9.6	5.7
Net losses on the realisation of investments	(328.2)	–	(0.2)	(0.1)
Investment management expenses, including interest	(21.0)	(33.4)	(7.0)	(7.1)
Investment expenses and charges	(349.2)	(33.4)	(7.2)	(7.2)
Unrealised investment losses	(1,427.4)	(2,923.1)	(25.0)	(9.9)
Allocated investment return	184.4	215.9	(184.4)	(215.9)
Total investment return before tax	(969.4)	(889.2)	(207.0)	(227.3)

(ii) Longer term investment return:

The investment return has been calculated by applying the longer term rates of return to the opening shareholder invested assets (excluding subsidiary investments).

The longer term rate of investment return is determined with regard to historical rates of return and future economic and investment return expectations. The principal assumptions underlying the calculation of long term investment return are 7.5% gross return on equity investments and 5.0% gross return on fixed interest investments.

(iii) Comparison of longer term investment returns with actual returns:

	Restated 2002-1998 £m	Restated 2001-1997 £m
Shareholders' retained capital:		
Actual return	15.7	257.8
Longer term return	438.6	481.6
Deficit of actual returns over longer term returns	(422.9)	(223.8)
Other shareholder investments:		
Actual return	24.0	69.6
Longer term return	74.9	71.4
Deficit of actual returns over longer term returns	(50.9)	(1.8)

notes to the financial statements (continued)

8. Other income and charges

	Notes	2002 £m	Restated 2001 £m
Other income			
Asset management business result before tax		**9.9**	18.6
Other		**0.4**	1.4
		10.3	20.0
Other charges			
Exceptional items:			
Britannic Asset Management goodwill write down	15	**(50.0)**	–
Britannic Money goodwill write down	15	**(35.7)**	(25.0)
Other		**(1.7)**	(18.8)
		(87.4)	(43.8)
Britannic Money result before tax		**(5.2)**	(27.8)
Other		**(8.6)**	(3.3)
		(101.2)	(74.9)

Other exceptional items of £1.7m relate to restructuring costs at Britannic Asset Management (2001: £18.8m Britannic Money write downs).

Other income and other charges have been restated to reflect the net result of Britannic Asset Management and Britannic Money in other income or other charges as appropriate. The total income and expenses of the operations had previously been shown separately.

9. Loss on ordinary activities before taxation

	2002 £m	2001 £m
Stated after charging:		
Remuneration of KPMG Audit Plc and its associates		
Secondment of staff	**2.8**	3.7
Accounting, regulatory and tax advisory	**1.4**	1.9
Consultancy services	**1.0**	3.5
Total non audit fees	**5.2**	9.1
Statutory audit for all Group companies (Company: £20,000, 2001: £20,000)	**0.6**	0.6
Regulatory returns audit	**0.1**	0.1
Depreciation of tangible assets:		
Owned	**7.5**	7.4
Owned – exceptional	**–**	13.1
Held under finance leases	**0.6**	2.4
Amortisation of intangible assets:		
Amortisation of goodwill	**0.5**	(4.0)
Impairment of goodwill	**85.7**	25.0
Write down of present value of acquired in-force business	**48.0**	8.9
Operating lease rentals:		
Land and buildings	**4.6**	5.0
Other	**0.3**	0.3
Finance lease charges	**0.4**	0.1

10. Taxation

	Technical account long term business		Non-technical account	
	2002 £m	Restated 2001 £m	2002 £m	Restated 2001 £m
UK corporation tax				
Current tax charge for the year	**0.3**	93.3	**6.9**	5.6
Double taxation relief	**–**	(1.9)	**–**	–
Overseas taxation	**2.7**	4.2	**–**	–
Tax credit attributable to the allocated investment return transferred to the long term business technical account	**43.2**	50.5	**(43.2)**	(50.5)
Tax credit attributable to the balance on the long term business technical account	**–**	–	**(2.5)**	20.2
	46.2	146.1	**(38.8)**	(24.7)
Deferred taxation:				
Origination and reversal of timing differences	**(33.9)**	(93.1)	**(4.3)**	(0.4)
Decrease in discount	**(37.7)**	(80.2)	**(4.3)**	(1.5)
	(71.6)	(173.3)	**(8.6)**	(1.9)
	(25.4)	(27.2)	**(47.4)**	(26.6)

	2002 £m	Restated 2001 £m
Reconciliation of current tax charge to UK corporate tax rate:		
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	**(89.1)**	(54.3)
Reported current tax credit	**(38.8)**	(24.7)
Difference	**50.3**	29.6
Explanation of differences:		
Non taxable income and gains	**(0.5)**	–
UK tax bases of life insurance profits	**9.4**	3.9
Non deductible unrealised losses	**7.4**	3.0
Deferred tax	**9.7**	9.1
Non taxable/non deductible items	**22.3**	11.0
Prior year items	**0.3**	–
Other items	**1.7**	2.6
	50.3	29.6

Corporation tax has been charged at 30% (2001: 30%) on the shareholders' share of taxable income less expenses, whilst that attributable to policyholders has been charged at rates between 20% and 22% as appropriate.

11. Dividends

	2002 £m	2001 £m
Interim dividend 18.5p (2001: 18.5p) per share	**36.4**	36.3
Proposed dividend nil p (2001: 36.7p) per share	**–**	72.1
Total dividend 18.5p (2001: 55.2p) per share	**36.4**	108.4

notes to the financial statements (continued)

12. Directors' emoluments, pension entitlements and share options

	2002 £'000	2001 £'000
Contributions to funded unapproved retirement benefits	**34**	54
Pensions paid to retired directors	**17**	17
Compensation for loss of office	–	50
Gains on exercise of share options	–	2

Retirement benefits are accruing to two directors (2001: two directors) under the Britannic Group defined benefit pension scheme.

Further information concerning directors' emoluments and details of directors' share options are given in the remuneration report on pages 30 to 37.

13. Employees

	2002 £m	2001 £m
Staff costs:		
Wages and salaries	**100.7**	161.3
Social security costs	**7.2**	9.2
Credit in relation to pension scheme	**(13.0)**	(8.0)
	94.9	162.5

	2002 No.	2001 No.
Average numbers of persons employed during the year:		
Sales and distribution	**373**	1,340
Customer servicing	**1,006**	517
Investment, finance and administrative	**1,685**	1,848
	3,064	3,705

Included within staff costs are £1.5m of severence costs associated with the restructure of Britannic Asset Management (2001: £51.5m of severance costs associated with the restructure of Britannic Assurance, the transfer of the individual life and pensions operations of Alba Life and the downsizing of the Britannic Money internet development operations).

14. Earnings per share

	2002 No.	2001 No.
Weighted average number of shares in issue	**196,454,674**	196,004,107
Dilutive potential ordinary shares:		
Share option schemes	–	451,017
Diluted weighted average number of shares	**196,454,674**	196,455,124

Dilutive potential ordinary shares in 2001 were not treated as dilutive since their conversion would have decreased the loss per share.

The directors consider that operating earnings per share provides a more representative measure of long term profitability. This is adjusted for short term fluctuations in investment return and for the impact of exceptional items.

A reconciliation to basic earnings per share is set out below:

			Restated	
	2002 £m	2002 eps	2001 £m	2001 eps
Loss after tax attributable to ordinary shareholders	**(249.7)**	**(127.1)**	(155.0)	(79.1)
Short term fluctuations in investment return	**214.1**	**109.0**	235.3	120.1
Change in the equalisation provision	**(0.4)**	**(0.2)**	0.1	0.1
Tax on non operating items	**(46.1)**	**(23.5)**	(54.0)	(27.6)
Operating (loss)/profit after tax attributable to ordinary shareholders	**(82.1)**	**(41.8)**	26.4	13.5
Exceptional items	**87.4**	**44.5**	43.8	22.3
Tax on exceptional items	**(0.5)**	**(0.3)**	–	–
Operating profit after tax attributable to ordinary shareholders – (before exceptional items)	**4.8**	**2.4**	70.2	35.8

	2002 Pence	Restated 2001 Pence
Operating earnings per share (before exceptional items) – basic	2.4	35.8
Operating earnings per share – basic	(41.8)	13.5
Earnings per share – basic	(127.1)	(79.1)
Earnings per share – diluted	(127.1)	(79.1)

15. Intangible assets

	Notes	Group positive goodwill 2002 £m	Group negative goodwill 2002 £m
Goodwill			
Cost:			
Brought forward		268.7	(55.7)
Acquisitions during the year		39.6	–
Carried forward		308.3	(55.7)
Amortisation:			
Brought forward		(28.0)	7.7
Charge for the year		(0.5)	–
Provision release		(22.3)	–
Impairment of goodwill previously capitalised	8	(85.7)	48.0
Carried forward		(136.5)	55.7
Net book value:			
Brought forward		240.7	(48.0)
Carried forward		171.8	–

Asset management business goodwill
Goodwill arising on the acquisition of Britannic Asset Management (BAM) is carried at its capitalised value without amortisation, but is reviewed annually for impairment. After consideration of projected future cash flows, discounted at 11%, and external market conditions the directors have decided that the goodwill has been impaired. This has resulted in an impairment charge of £50.0m.

The directors consider the remaining goodwill to be indefinite due to BAM's continuing brand value. They therefore consider it appropriate to depart from the Companies Act requirements to capitalise and subsequently amortise goodwill over its estimated useful economic life and a true and fair override has therefore been invoked. Had the goodwill arising on the acquisition of BAM been amortised over a period of 20 years, this would have resulted in a charge to the profit and loss account of £9.2m (2001: £11.7m).

The goodwill arising on the acquisition of Blairlogie Capital Management is being amortised on a straight line basis over 10 years, which in the opinion of the directors represents the estimated useful economic life of the transaction.

Mortgage business goodwill
The goodwill arising in the year of £39.6m relates to the acquisition of the remaining 40% holding in Britannic Money, following the exercise of the put option held by First Active. Of this amount £22.3m had previously been provided against the value of goodwill on the 40% minority. Following a review of discounted cash flows and having regard to value in use, the directors have decided that the goodwill in respect of the acquisition of Britannic Money is impaired. The goodwill has therefore been fully written off, which resulted in a charge for the year of £35.7m.

Alba Life negative goodwill
The Group negative goodwill arises from the acquisition of Alba Life. Following a review of the present value of acquired in-force business relating to Alba Life the negative goodwill has been fully written off with the present value of acquired in-force being written down by the same amount (refer to note 20).

notes to the financial statements (continued)

16. Land and buildings

	Group 2002 £m	Group 2001 £m
Current value:		
Freeholds	**555.3**	515.0
Long leaseholds	**159.6**	181.8
	714.9	696.8
Years in which the land and buildings were valued:		
2002	**664.0**	–
2001	**13.8**	641.1
2000	**37.1**	55.7
	714.9	696.8
Cost	**665.5**	644.5

Land and buildings are valued on an open market basis by members of the Royal Institution of Chartered Surveyors, or holders of equivalent qualifications, certain of whom are employees of the Group. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors.
No depreciation has been provided on any land and buildings, except where occupied by Group companies.

The current value of land and buildings occupied by the Group for its own activities is £56.2m (2001: £56.6m).

17. Investments in subsidiary undertakings

	Parent company 2002 £m
Brought forward	**258.9**
Increase in the year	**4.0**
Capital contribution in the year	**72.9**
Written down in the year	**(50.0)**
Carried forward	**285.8**

During the year, Britannic Group made a capital contribution of £72.9m to Britannic Assurance. The capital contribution comprised equity investments transferred in specie.

Shares in Britannic Assurance of £9.8m (2001: £9.8m) are held at nominal value of the shares issued.

Principal subsidiaries	Principal activity	% of equity and votes held	% of non-equity shares held**
Britannic Asset Management Limited *	Administration of unit trusts and asset management	100	n/a
Britannic Assurance plc *	Life assurance and certain classes of general business	100	n/a
Britannic Distribution and Sales Limited *	Marketing group associate	100	n/a
Britannic Investment Managers Limited	Investment manager	100	n/a
Britannic Management Services Limited *	Provision of management services to the Britannic Group	100	n/a
Britannic Money plc +	Provision of mortgages	100	n/a
Britannic Property Management Limited	Management of investment property assets	100	n/a
Britannic Retirement Solutions Limited +	Long term insurance business	96	100
Britannic United Linked Assurance Limited	Unit linked life assurance	100	n/a
Britannic Unit Trust Managers Limited +	Unit trust and ISA management company	100	n/a
Alba Life Limited	Life assurance	100	100

* Directly held by Britannic Group plc. All other subsidiaries are held indirectly.
\+ Held by shareholders' retained capital within the long term fund of Britannic Assurance.
** The non-equity shares carry no voting rights.

All of the above companies are incorporated in Great Britain. The principal country of operation of each company is the United Kingdom. All subsidiary undertakings have been consolidated in the financial statements.

A full list of Group companies at 31 December 2002 will be annexed to the Company's next annual return.

18. Other financial investments

	Group 2002 £m	Group 2001 £m	Parent company 2002 £m	Parent company 2001 £m
Current value:				
Shares and other variable-yield securities and units in unit trusts	**2,935.9**	4,562.6	–	76.3
Debt securities and other fixed income securities	**4,356.9**	4,315.9	–	–
Loans secured by mortgages:				
Mortgage advances subject to non-recourse funding:				
– Securitised mortgages and related assets	**2,280.4**	2,167.1	–	–
– Less: non-recourse funding	**(2,215.5)**	(2,094.5)	–	–
	64.9	72.6	–	–
Other	**43.4**	53.9	–	–
	108.3	126.5	–	–
Loans secured by policies	**12.4**	15.1	–	–
Other financial investments	**10.6**	7.2	–	–
Deposits with credit institutions	**596.3**	744.8	–	10.8
	8,020.4	9,772.1	–	87.1
Cost:				
Shares and other variable-yield securities and units in unit trusts	**2,419.5**	2,860.6	–	81.4
Debt securities and other fixed income securities	**4,134.2**	4,260.4	–	–
Loans secured by mortgages:				
Mortgage advances subject to non-recourse funding:				
– Securitised mortgages and related assets	**2,280.4**	2,167.1	–	–
– Less: non-recourse funding	**(2,215.5)**	(2,094.5)	–	–
	64.9	72.6	–	–
Other	**1.6**	2.5	–	–
	66.5	75.1	–	–
Loans secured by policies	**12.4**	15.1	–	–
Other financial investments	**47.8**	7.6	–	–
Deposits with credit institutions	**596.3**	744.8	–	10.8
	7,276.7	7,963.6	–	92.2
Current value of listed investments included above:				
Shares and other variable-yield securities and units in unit trusts	**2,909.1**	4,561.6	–	76.3
Debt securities and other fixed income securities	**4,356.8**	4,315.7	–	–

Other financial investments include £4.6m (2001: £nil) in relation to a derivative purchased by Britannic Assurance and £4.0m (2001: £5.1m) in relation to a FTSE 100 index put option entered into by Britannic Investment Managers (BIM).

The derivative transaction effected by Britannic Assurance on 24 July 2002 provides protection over £1 billion of assets between FTSE levels of 3500 and 3000 with an option date of 21 March 2003, based on the average FTSE 100 level over the previous 90 days. The cost of the derivative was £45.8m. The derivative has been valued on a fair value basis and at 31 December 2002 was valued at £4.6m. The unrealised loss has been charged to investment return.

The cost of the FTSE 100 index put option purchased by BIM on 10 August 2001 is being written off over 5 years to its expiry date on 10 August 2006. The option has been purchased to provide BIM with financial guarantees against a potential liability to the Britannic UK Income Trust plc, an investment trust over which BIM has guaranteed the return of £75.0m capital on 10 August 2006. The option will provide cover for 90% of the potential guarantee (refer to note 36).

notes to the financial statements (continued)

19. Mortgage advances subject to non-recourse funding

	Group	
	2002 £m	2001 £m
Securitised mortgage advances	**2,146.4**	2,062.4
Other related assets	**134.0**	104.7
Non-recourse funding	**(2,215.5)**	(2,094.5)
	64.9	72.6

Britannic Money originates and administers mortgages it has securitised on a non-recourse basis, including the Mortgage Funding Corporation PLC (MFC) and the First Flexible Group of companies (FFL), being First Flexible No.1 plc, First Flexible No.2 plc and First Flexible No.3 plc and the Arianty group of companies (ARI), being Arianty No.1 plc, First Flexible No.4 plc and First Flexible No.5 plc on terms which provide that the Company receives net income from the mortgages after claims of providers of finance have been satisfied in full. MFC, FFL and ARI have in turn securitised certain of these mortgages. MFC and ARI have done this through wholly owned subsidiaries. Britannic Money has the right, but not the obligation, to originate further mortgages on similar terms, subject always to MFC's, FFL's and ARI's ability to finance and insure assets.

In accordance with Financial Reporting Standard 5 'Reporting the substance of transactions', these mortgages have been included in these accounts using linked presentation, whereby the non-recourse finance is shown deducted from the mortgage debtors.

The directors confirm that:
(i) Britannic Money is not obliged to support any losses on mortgages it has securitised on a non-recourse basis, nor does it intend to do so; and
(ii) the providers of finance have agreed in writing that they will only seek repayment of the finance, as to both principal and interest, to the extent sufficient funds are generated by or attached to the mortgages they have financed and they will not seek recourse in any other form.

20. Present value of acquired in-force business

	Group
	2002 £m
Cost:	
Brought forward and carried forward	**84.8**
Amortisation:	
Brought forward	**(14.4)**
Impairment for the year	**(48.0)**
Carried forward	**(62.4)**
Net book value:	
Brought forward	**70.4**
Carried forward	**22.4**

The present value of acquired in-force business arose on the acquisition of Alba Life by Britannic Assurance. Following a review of the present value of in-force business of Alba Life the value has been written down by £48.0m.

21. Assets held to cover linked liabilities

	Group	
	2002 £m	2001 £m
Current value	**2,552.8**	3,484.0
Cost	**2,996.9**	4,517.9

22. Debtors

		Group		Parent company	
	Notes	**2002 £m**	2001 £m	**2002 £m**	2001 £m
Amounts owed by subsidiary undertakings		**–**	–	**–**	44.6
Cancellation debtors		**3.6**	0.3	**–**	–
Tax debtors		**11.0**	12.2	**3.0**	4.6
Pension asset	31	**60.2**	48.6	**–**	–
Future margins	30	**37.1**	18.0	**–**	–
Other debtors		**91.8**	62.9	**5.0**	40.0
		203.7	142.0	**8.0**	89.2

All debtors are due within one year except for future margins (refer to note 30) and the pension asset, which comprises the SSAP 24 pension asset and the fair value adjustment for pension surpluses on acquisition of subsidiaries (refer to note 31).

An amount of £2.2m (2001: £2.3m) related to deferred tax is included in other debtors.

23. Tangible fixed assets

	Group
	2002 £m
Fixtures, fittings and equipment:	
Cost:	
Brought forward	**62.6**
Additions	**3.3**
Disposals	**(8.4)**
Carried forward	**57.5**
Depreciation:	
Brought forward	**(48.0)**
Charge for the year	**(8.1)**
Disposals	**9.0**
Carried forward	**(47.1)**
Net book value:	
Brought forward	**14.6**
Carried forward	**10.4**

Assets held under finance leases included above, are at a cost of £0.4m (2001: £4.1m) and accumulated depreciation of £0.4m (2001: £2.9m).

24. Deferred acquisition costs

		Group
	2002 £m	2001 £m
Long term business	**64.5**	81.8
General business	**0.2**	0.3
	64.7	82.1

notes to the financial statements (continued)

25. Called up share capital, and share capital under option

	Authorised		Allotted, called up and fully paid	
	2002	2001	**2002**	2001
	No.	No.	**No.**	No.
	m	m	**m**	m
Ordinary shares of 5p each	**260.0**	260.0	**196.5**	196.4
	£m	£m	**£m**	£m
Ordinary shares of 5p each	**13.0**	13.0	**9.8**	9.8

During the year 119,154 (2001: 723,579) shares with an aggregate nominal value of £5,957 (2001: £36,179) were issued under the Britannic Group plc savings related share option schemes for a total cash consideration of £780,323 (2001: £4,673,152).

Options outstanding under the Britannic Group plc savings related share option schemes:

Period during which exercisable ordinarily within six months from:	**Exercise price**	**Number of 5p ordinary shares**	
	Pence	**2002**	2001
May 2002	661	–	133,853
June 2002	826	**93**	19,456
May 2003	1,025	**16,045**	29,596
June 2003	595	**220,449**	312,402
June 2004	826	**22,250**	43,200
June 2004	758	**82,697**	178,557
June 2005	595	**228,972**	350,390
June 2005	546	**185,250**	–
June 2006	758	**60,425**	125,093
June 2007	546	**143,133**	–
		959,314	1,192,547

No shares were issued during the year under the Britannic Group plc approved and unapproved share option schemes (2001: 10,818 shares were issued with an aggregate nominal value of £541 for a total cash consideration of £80,919).

Options outstanding under the Britannic Group plc executive share option schemes:

Period during which exercisable ordinarily within seven years from:	**Exercise price**	**Number of 5p ordinary shares**	
	Pence	**2002**	2001
March 2002	1,032	**36,000**	124,000
November 2002	1,061	**114,985**	114,985
March 2003	748	**76,000**	151,982
April 2004	958	**153,000**	309,459
June 2004	934	**24,089**	24,089
March 2005	697	**107,950**	–
April 2005	730	**4,109**	–
April 2005	733	**16,371**	–
September 2005	364	**207,550**	–
		740,054	724,515

Directors' share options, which are included in the above tables, are given in the remuneration report on page 37.

26. Share capital, share premium and other reserves

	Share capital £m	Share premium £m	Other reserves £m	Total £m
Group				
At 1 January 2002	9.8	20.9	25.3	56.0
Issue of ordinary share capital	–	0.8	–	0.8
At 31 December 2002	9.8	21.7	25.3	56.8

	Share capital £m	Share premium £m	Total £m
Parent company			
At 1 January 2002	9.8	20.9	30.7
Issue of ordinary share capital	–	0.8	0.8
At 31 December 2002	9.8	21.7	31.5

27. Equity shareholders' funds

	Held within the long term business fund					
	Shareholders' retained capital £m	Other £m	Distributable reserves £m	Profit and loss account total £m	Share capital and other reserves £m	Total £m
Group						
At 1 January 2002 as previously stated	750.9	22.0	237.9	1,010.8	56.0	1,066.8
Prior year adjustment (refer to note 32)	(24.3)	1.7	(6.6)	(29.2)	–	(29.2)
At 1 January 2002 as restated	726.6	23.7	231.3	981.6	56.0	1,037.6
Issue of ordinary share capital	–	–	(0.1)	(0.1)	0.8	0.7
Dividend paid	–	–	(36.4)	(36.4)	–	(36.4)
Reserve transfer	(26.9)	26.9	–	–	–	–
Loss for the year	(161.8)	(26.6)	(61.3)	(249.7)	–	(249.7)
At 31 December 2002	537.9	24.0	133.5	695.4	56.8	752.2

	Distributable reserves £m	Share capital and other reserves £m	Total £m
Parent Company			
At 1 January 2002 as previously stated	151.8	30.7	182.5
Prior year adjustment	(5.3)	–	(5.3)
At 1 January 2002 as restated	146.5	30.7	177.2
Issue of ordinary share capital	–	0.8	0.8
Dividend paid	(36.4)	–	(36.4)
Loss for the year	(63.7)	–	(63.7)
At 31 December 2002	46.4	31.5	77.9

notes to the financial statements (continued)

28. Long term business provision

Principal assumptions underlying the calculation of the long term business provision:

Class of business	Mortality table		Interest rate	
	2002	2001	**2002**	2001
Assurances:				
Industrial branch	**ELT No. 13**	ELT No. 13	**3.00%**	2.25%
Ordinary branch with profit	**AM80 (ult)**	AM80 (ult)	**3.00%**	2.25%
Ordinary branch non profit	**AM80 (ult)**	AM80 (ult)	**3.00%**	2.25%
Temporary assurances	**AM80 (ult)**	AM80 (ult)	**3.00%**	3.00%
Unitised with profit	**AM80 (ult)**	AM80 (ult)	**3.00%**	2.50%
Unit linked	**AM80 (ult)**	AM80 (ult)	**3.00%**	3.00%
Overseas with profit	**AM80 (ult)**	AM80 (ult)	**3.25%**	2.75%
General Annuities:				
Annuities in payment	**85%PMA/PFA92 C2020**	100%PMA/PFA92 C2020	**3.75%**	4.50%
Pensions:				
Deferred annuities with profit				
pre vesting	**60% AM80 (ult)**	60% AM80 (ult)	**3.75%**	2.50%
post vesting	**70%PMA/PFA92 C2020**	85%PMA/PFA92 C2020	**4.25%**	3.75%
Deferred annuities non profit				
pre vesting	**–**	–	**3.75%**	3.75%
post vesting	**70%PMA/PFA92 C2020**	85%PMA/PFA92 C2020	**4.25%**	3.75%
Annuities in payment	**85%PMA/PFA92 C2020**	100%PMA/PFA92 C2020	**4.50%**	5.20%
Temporary assurances	**AM80 (ult)**	AM80 (ult)	**3.75%**	3.75%
Unitised with profit	**AM80 (ult)**	AM80 (ult)	**3.25%**	2.75%
Unit linked	**AM80 (ult)**	AM80 (ult)	**3.75%**	3.75%
Other business:				
Unitised with profit	**AM80 (ult)**	AM80 (ult)	**3.25%**	2.50%

29. Equalisation provision

The equalisation provision comprises amounts set aside in accordance with the requirements of the Chapter 6 of the Interim Prudential Sourcebook for Insurers to mitigate potential exceptional high loss ratios in future years for classes of general business displaying a high degree of claims volatility. This provision, which is in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that it does not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds as at 31 December 2002 by £1.6m (2001: £2.0m). The movement in the equalisation provision during the year resulted in a favourable movement on the general business technical account result and the profit before tax of £0.4m (2001: £(0.1)m).

30. Financial reinsurance

Britannic Retirement Solutions (BRS) has entered into a long term reinsurance arrangement with a major European reinsurance company. Under these arrangements BRS has ceded 50% of the mortality risk within the business written during 2002 (2001: 75%) and receives commission to assist in financing the new business strain. The advances received from the reinsurer of £37.1m (2001: £17.7m) are shown as deposits received from reinsurers. Interest accrues on advances at a margin over the annualised bank base rate.

Repayment of the advances is contingent upon the emergence of future margins which will be affected by several factors including actual mortality experience and interest rates.

An asset of £37.1m (2001: £17.7m) is included within debtors reflecting the present value of future margins from the reinsured policies that would be payable to the reinsurer.

Deposits received from reinsurers includes £nil (2001: £0.3m) in relation to financial reinsurance entered into by Britannic Assurance.

31. Provisions for pensions and similar obligations

a) SSAP 24 disclosure

Prior to 2001 the Group operated an approved pensions scheme to which the majority of Britannic Assurance's employees belonged. The Group also operated a second approved pension scheme for employees of Alba Life (formerly Britannia Life) and Britannic Asset Management (BAM). These schemes merged on 1 January 2001 to become the Britannic Group Pension Scheme (BGPS).

The BGPS is a defined benefit scheme with assets held in a trustee administered fund. An independent qualified actuary carries out a valuation of the BGPS at least every three years and the contributions to the scheme are paid in accordance with his recommendations.

Calculations for the BGPS were carried out as at 30 June 2001 using the projected unit method. The principal actuarial assumptions were that the long term rate of return on the scheme's investments would be 5.2% pa, earnings growth would average 4.6% pa and pensions in payment would increase by 2.8% pa. The market value of the scheme's assets at 30 June 2001 was £1,130.8m, which represented 134% of the value of benefits accrued to members, allowing for future increases in pensionable earnings.

The surplus in the scheme arising from the valuation at 30 June 2001 is being amortised using the straight line method over the expected working lifetime of members. A pensions credit has been credited to the profit and loss account in the year. This has resulted in a Group pension asset of £60.2m (2001: £48.6m) included within other debtors.

The surplus is currently being used to support a suspension of Group and employee contributions.

Britannic Retirement Solutions operated a defined contribution scheme, the pension cost of which was £0.5m (2001: £0.4m).

b) FRS 17 disclosure

Financial Reporting Standard 17 'Retirement Benefits' (FRS 17) was issued in November 2000 and requires certain disclosures during the transitional implementation period to 22 June 2005 when the standard becomes fully effective and replaces SSAP 24. As required by these transitional arrangements, the impact on the balance sheet of Britannic Group is shown below.

A full actuarial valuation of the Britannic Group Pension Scheme was carried out as at 30 June 2001. An independent qualified actuary has updated this to 31 December 2002. The defined benefit scheme is now closed to the majority of new employees and accordingly under the projected unit method the current service cost will increase as the members of the scheme approach retirement. The major assumptions used by the actuary are shown below.

	2002 %pa	2001 %pa
Rate of increase in salaries	**4.3**	4.5
Rate of increase in pensions in payment	**2.5**	2.6
Rate of price inflation	**2.3**	2.5
Discount rate	**5.5**	5.8

The total assets and liabilities of the Britannic Group Pension Scheme and the expected rates of return as at 31 December 2002 are shown below.

	2002 %	**2002 £m**	2001 %	2001 £m
Equities	**7.0**	**538.9**	7.5	693.1
Bonds	**4.5**	**198.1**	5.2	254.2
Property	**6.5**	**111.2**	5.9	79.9
Cash	**4.0**	**21.1**	3.4	20.6
Total market value of scheme assets		**869.3**		1,047.8
Actuarial value of scheme liabilities		**(763.5)**		(750.4)
Scheme surplus		**105.8**		297.4
Related deferred tax liability		**(25.8)**		(72.5)
Scheme surplus after deferred tax		**80.0**		224.9

notes to the financial statements (continued)

Had the Britannic Group adopted FRS 17, then the Group profit and loss reserve as at 31 December 2002 would have been stated as follows:

	2002 £m	Restated 2001 £m
Group profit and loss reserve as restated (refer to note 27)	**695.4**	981.6
Less: SSAP 24 pension asset	**(3.8)**	(4.6)
Add: FRS 17 pension asset	**15.0**	50.0
Group profit and loss reserve as adjusted	**706.6**	1,027.0

The Group will gain economic benefits from the pension surplus through a decrease in future costs experienced from the pension contribution holiday. Both policyholders and shareholders will derive a benefit from this. An assessment of the shareholders' interests in the surplus has been based on cost allocation principles. Stakeholders, including the pension trustees and other regulatory bodies, could cause this assessment to change in the future.

Analysis of movements in the consolidated profit and loss account	**2002 £m**
Analysis of the amount charged to net operating expenses:	
Current service cost	**12.3**
Past service cost	**2.2**
Total operating charge	**14.5**

	2002 £m
Analysis of the net expected return on pension assets:	
Expected return on pension scheme assets	**68.4**
Interest on pension scheme liabilities	**(42.0)**
Net return	**26.4**

Analysis of pension scheme gains and losses	**2002 £m**
Summary of experience gains and losses:	
Actual return less expected return on pension scheme assets	**(180.4)**
Changes in assumptions underlying the present value of the scheme liabilities	**(23.1)**
Actuarial losses before tax	**(203.5)**

Movement in surplus during the year before tax	**2002 £m**
Recoverable surplus in scheme at 1 January 2002	**297.4**
Total operating charge	**(14.5)**
Net expected return on pension scheme assets	**26.4**
Actuarial losses	**(203.5)**
Recoverable surplus in scheme at 31 December 2002	**105.8**

History of experience gains and losses	**2002**
Difference between the expected and actual return on scheme assets (£m)	**(180.4)**
Percentage of scheme assets (%)	**(20.7)**
Total amount recognised as part of actuarial losses as a percentage of scheme liabilities (£m)	**(203.5)**
Percentage of scheme liabilities (%)	**(26.7)**

32. Deferred tax

	Group 2002 £m
Deferred taxation:	
At 1 January 2002 as previously stated	7.9
Prior year adjustment (FRS 19)	91.9
At 1 January 2002 as restated	99.8
Movements in the year:	
Profit and loss account: technical account – long term business	(71.6)
Profit and loss account: non-technical account	(8.6)
At 31 December 2002	19.6

	Group 2002 £m	2001 £m
Deferred tax provided in the financial statements:		
On deferred acquisition costs	(25.5)	(21.3)
On unrealised appreciation of investments	65.3	188.7
On other timing differences	2.0	(3.4)
Undiscounted provision for deferred tax	41.8	164.0
Discount	(22.2)	(64.2)
Discounted provision for deferred tax	19.6	99.8

Non distributable profit in these financial statements has no corresponding recognition in the FSA regulatory returns. Taxation on long term business is currently based on the FSA regulatory return and therefore no event has yet occurred which would give rise to the payment of tax in relation to these non distributable profits held within the long term business funds. Consequently no deferred tax has been provided. The maximum amount of such deferred tax not provided is £166.3m (2001: £212.8m).

The provisions of Financial Reporting Standard 19 'Deferred Tax' (FRS 19) have been adopted in these financial statements and the comparative figures restated accordingly. The effect of the prior year adjustment for 2001 is set out below:

	Restated 2001 £m	Adjustment £m	As previously reported 2001 £m
Balance on the long term business technical account	81.6	(1.8)	83.4
Tax credit	20.2	(0.6)	20.8
Allocated investment return	(215.9)	44.6	(260.5)
Tax	26.6	(8.8)	35.4
Effect on loss for the financial year		33.4	
Fund for future appropriations	584.1	62.7	646.8
Deferred tax provision	99.8	(91.9)	7.9
Effect on shareholders' funds		(29.2)	

The principal impact of FRS 19 is the recognition of a deferred tax liability in respect of unrealised appreciation of investments. As set out above the deferred tax liability in respect of revaluation of investments is recognised in shareholder funds and the fund for future appropriations.

notes to the financial statements (continued)

33. Other provisions

	Restructuring £m	Contingent consideration £m	Long term incentive plan £m	Other £m	Total £m
As at 1 January 2002	**31.8**	**2.8**	**3.0**	**0.3**	**37.9**
Movements in the year					
Additional provisions made in the year	**1.7**	**–**	**–**	**0.1**	**1.8**
Amounts utilised	**(9.5)**	**(2.0)**	**(1.1)**	**–**	**(12.6)**
As at 31 December 2002	**24.0**	**0.8**	**1.9**	**0.4**	**27.1**

The restructuring provision relates to costs associated with the restructure of Britannic Asset Management (2001: the restructure of the Britannic Assurance direct sales force, and the transfer of a significant proportion of the operations of Alba Life from Glasgow to Birmingham). The residual provision comprises remaining severance benefits payable, associated costs and costs related to the closure of certain Group properties. Payments against the restructure provision will continue up to the point of termination of these property leases.

Contingent consideration of £2.0m in respect of the acquisition of Blairlogie Capital Management in December 2001 was paid in December 2002. The amount payable was based on the achievement of sales targets for the first year following acquisition.

The long term incentive plan provision represents estimated benefits accruing to the members of the plan during 2002. The scheme membership is made up of senior employees of BAM and the first payment from the scheme is due in 2003 with further payments available in each of the next four years.

34. Amounts owed to credit institutions

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Amounts owed to credit institutions:				
Bank loans	**253.6**	221.4	**190.0**	180.0
Bank overdraft	**17.5**	6.7	**–**	–
	271.1	228.1	**190.0**	180.0

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Borrowings are repayable as follows:				
Within one year or on demand	**263.2**	186.6	**190.0**	180.0
Between one and two years	**7.9**	29.9	**–**	–
Between two and five years	**–**	11.6	**–**	–
	271.1	228.1	**190.0**	180.0

The parent company loans of £190.0m (2001: £180.0m) are drawn under bilateral revolving facilities with a number of banks and are repayable within three months or on demand. These facilities expire between 2003 and 2004 and are charged at an interest rate of 5.6% which is linked to LIBOR.

An amount of £40.0m (2001: £44.9m) owed to credit institutions represents loans granted as security for margin payments on derivative contracts and is repayable at a margin over LIBOR interest rates.

Other amounts of £41.1m (2001: £3.2m) are charged at interest rates linked to LIBOR.

35. Other creditors including taxation and social security

	Group	
	2002 £m	2001 £m
Taxation	**76.2**	127.7
Obligations under finance leases	**1.1**	2.5
Amounts owed in respect of purchase of investments	**–**	6.4
Dividends proposed	**–**	72.1
Other creditors	**84.5**	184.4
	161.8	393.1

	2002 £m	2001 £m
Obligations under finance leases fall due as follows:		
Within one year	**0.8**	2.0
Between one and five years	**0.3**	0.5
	1.1	2.5

36. Contingent liabilities

Britannic Investment Managers (BIM), a wholly owned subsidiary of Britannic Asset Management has a contingent liability in respect of a guarantee over the redemption of the Guaranteed Income Shares to the extent not covered by the option purchased to provide 90% of the obligations (refer to note 18) of the Britannic UK Income Trust (BUKIT). The maximum liability under this guarantee is £7.5m.

BIM also undertook a guarantee in respect of the monthly dividend payment to the Guaranteed Income Shareholders of BUKIT, should BUKIT be unable to meet the obligation. Since October 2002, BIM has paid two monthly dividends to the Guaranteed Income Shareholders and will continue to do so until BUKIT is able to meet the obligation. Payments in respect of this guarantee for the period to 31 December 2002 amounted to £1.1m and were repaid in the year from the trust net of the basic rate of tax.

37. Operating lease commitments

At 31 December 2002, the Group had annual commitments under non-cancellable operating leases as set out below:

	Land and Buildings		Other	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Operating leases which expire:				
Within 2-5 years	**–**	–	**0.2**	0.2
After 5 years	**3.4**	3.4	**–**	–
	3.4	3.4	**0.2**	0.2

38. Commitments

Under the subscription and shareholders' agreement between Britannic Assurance (BA) and Britannic Retirement Solutions (BRS), a put option exists whereby BA may be required to buy the minority interest in BRS. At 1 January 2003, the maximum shareholding BA is required to buy is 1.6%. This increases to a maximum of 3.8% by 1 January 2006. The value of the shares is determined with reference to the embedded value of BRS plus a multiple of the value of its new business. As at 31 December 2002, the directors have assessed the value of this commitment to be £0.4m (2001: £0.1m).

notes to the financial statements (continued)

39. Group cash flow statement

(i) Reconciliation of operating profit before tax to net cash inflow from operating activities:

	2002 £m	Restated 2001 £m
Operating profit before tax and exceptional items	**4.0**	98.1
Tax attributable to balance on the long term business technical account	**2.5**	(20.2)
Interest expense	**7.0**	7.2
Short term fluctuations in investment return included in operating income	**(29.7)**	(17.6)
Realised and unrealised losses on investments	**26.1**	13.1
Decrease in general insurance technical provisions, net of reinsurance	**(0.9)**	(2.4)
(Increase)/decrease in debtors	**(6.6)**	29.2
Decrease in amount due from long term business	**96.2**	4.0
Decrease in amounts held within the long term business which are attributable to shareholders	**11.1**	51.8
Increase/(decrease) in creditors and provisions	**11.9**	(34.4)
Depreciation of tangible fixed assets	**3.8**	2.1
Net cash inflow from operating activities	**125.4**	130.9

(ii) The movement on net portfolio investments is made up of:

	2002 £m Purchases	Sales	Net	2001 £m Purchases	Sales	Net
Shares and other variable-yield securities and units in unit trusts	**31.9**	**26.5**	5.4	623.4	636.8	(13.4)
Debt securities and other fixed income securities	**0.6**	**1.7**	(1.1)	0.1	–	0.1
	32.5	**28.2**	4.3	623.5	636.8	(13.3)
Other financial investments			–			5.6
Deposits with credit institutions			3.7			7.8
			8.0			0.1

(iii) Movement in cash, portfolio investments and financing:

	At 1 January 2002 £m	Changes in long term business investments £m	Cash flow £m	Movement in debtors and creditors £m	Changes to market value and currencies £m	At 31 December 2002 £m
Cash at bank and in hand	76.0	**384.2**	**2.4**	**–**	**–**	**462.6**
Amounts owed to credit institutions	(228.1)	**(33.4)**	**–**	**(9.6)**	**–**	**(271.1)**
	(152.1)	**350.8**	**2.4**	**(9.6)**	**–**	**191.5**
Land and buildings	696.8	**18.1**	**–**	**–**	**–**	**714.9**
Shares and other variable-yield securities and units in unit trusts	4,562.6	**(1,606.6)**	**5.4**	**–**	**(25.5)**	**2,935.9**
Debt securities and other fixed income securities	4,315.9	**41.6**	**(1.1)**	**–**	**0.5**	**4,356.9**
Loans secured by mortgages	126.5	**(18.2)**	**–**	**–**	**–**	**108.3**
Loans secured by insurance policies	15.1	**(2.7)**	**–**	**–**	**–**	**12.4**
Other financial investments	7.2	**4.5**	**–**	**–**	**(1.1)**	**10.6**
Deposits with credit institutions	744.8	**(152.2)**	**3.7**	**–**	**–**	**596.3**
	10,316.8	**(1,364.7)**	**10.4**	**(9.6)**	**(26.1)**	**8,926.8**

40. Acquisitions

On 10 December 2002, Britannic Assurance acquired the remaining 40% holding in the ordinary share capital of Britannic Money for cash consideration of £56.5m following the exercise of the put option by First Active plc.

The following table summarises the assets and liabilities acquired. There was no material difference between the book values and fair values of the assets and liabilities acquired.

	Book and fair value at acquisition £m
Fixed assets	2.3
Mortgage advances	106.8
Debtors	10.9
Cash	0.7
Creditors	(78.5)
Net assets	42.2
Consideration	56.5
40% share of net assets acquired	16.9
Goodwill arising on acquisition	39.6

41. Related party transactions

Inter group transactions that have been eliminated on consolidation have not been disclosed in accordance with Financial Reporting Standard 8 'Related Party Transactions'.

At 31 December 2002 the Britannic Assurance plc staff pension scheme owned 937,375 (2001: 940,081) ordinary shares of Britannic Group plc.

supplementary information – achieved profits basis group profit and loss account

non-technical account for the year ended 31 December 2002

	Notes	2002 £m	Restated 2001 £m
Long term business operating profit:			
New business		**17.2**	13.5
In-force business *		**11.4**	33.7
		28.6	47.2
Longer term investment return on shareholders' retained capital held within the long term business		**51.3**	97.9
General business operating result		**2.6**	4.2
Longer term return on other investments		**13.7**	14.3
Other income and charges, including value adjustments		**(10.5)**	(18.2)
Operating profit before exceptional items		**85.7**	145.4
Exceptional items		**(87.4)**	(43.8)
Operating (loss)/profit		**(1.7)**	101.6
Effect of changes in interest rates, investment variance and other assumptions **		**(190.6)**	(141.1)
Short term fluctuations in investment return		**(214.1)**	(235.3)
Change in the equalisation provision		**0.4**	(0.1)
Loss on ordinary activities before tax		**(406.0)**	(274.9)
Tax on loss on ordinary activities:			
Tax on operating (loss)/profit	5	**(19.3)**	(40.0)
Tax on other loss	5	**92.0**	86.7
Minority interest		**–**	(0.5)
Loss for the financial year		**(333.3)**	(228.7)
Dividends paid and proposed		**(36.4)**	(108.4)
Retained loss for the financial year		**(369.7)**	(337.1)

		pence	pence
Operating earnings per share (before exceptional items) – basic	6	**33.5**	53.5
Operating earnings per share - basic	6	**(10.7)**	31.2
Earnings per share - basic	6	**(169.7)**	(116.7)
Earnings per share - diluted	6	**(169.7)**	(116.7)

* Operating profit on the in-force business includes:
- Losses of £15.1m (2001: £16.7m) in respect of expense overruns at Britannic Retirement Solutions.
- Losses of £8.6m (2001: £5.1m) in respect of expected improvements to annuitant mortality for Britannic Assurance.
- Profits of £nil (2001: £13.1m) in respect of long term savings arising from the restructuring of Britannic Assurance.

** Non operating items include:
- Losses of £17.2m (2001: £9.6m) in respect of reductions in future years' bonuses for Britannic Assurance driven by lower investment returns, and for 2002 the deferral of that year's declaration.
- Losses of £21.8m (2001: £5.1m) in respect of a review of the asset mix of the long term fund of Britannic Assurance following poor market investment performance over 2002.

supplementary information – achieved profits basis summarised group balance sheet as at 31 December 2002

	Notes	2002 £m	Restated 2001 £m
Assets:			
Intangible assets		**171.8**	192.7
Investments		**11,288.1**	13,952.9
Internally generated present value of in-force business		**234.1**	317.7
Other assets		**1,512.2**	538.4
Total assets		**13,206.2**	15,001.7
Liabilities		**(597.7)**	(867.2)
Total assets less liabilities		**12,608.5**	14,134.5
Less:			
Fund for future appropriations		**25.8**	513.7
Technical provisions		**11,596.4**	12,265.5
		11,622.2	12,779.2
Net assets	7	**986.3**	1,355.3
Capital and reserves:			
Called up share capital		**9.8**	9.8
Share premium account		**21.7**	20.9
Other reserves		**25.3**	25.3
Other shareholders' reserves		**929.5**	1,299.3
Total equity shareholders' funds	7	**986.3**	1,355.3

notes to the supplementary information - achieved profits basis

for the year ended 31 December 2002

1. Directors' responsibilities

The directors are responsible for preparing the supplementary information on pages 74 to 77. In preparing this supplementary information it is the directors' responsibility to ensure that suitable accounting policies are adopted and applied consistently and that judgements and estimates are reasonable and prudent.

2. Methodology and basis of preparation

This supplementary information has been prepared using achieved profits methodology similar to, but not fully compliant with, the guidance published by the Association of British Insurers ('ABI') in December 2001. Non-life company investments of the shareholders' retained capital and the value of other non-life companies within the Group are based on the financial statements prepared on the modified statutory solvency basis.

The provisions of Financial Reporting Standard 19 'Deferred Tax' are effective for accounting periods ending on or after 22 January 2002 and have been adopted in these financial statements. Comparative figures for 2001 have been restated accordingly.

The achieved profits of life and pensions business recognises profit as it is earned over the life of existing contracts within the long term business funds. The total profit earned over the life of each contract is the same as that calculated on the modified statutory solvency method of reporting, but the timing of recognition of profits is different. For these reasons, reporting on an achieved profits basis is regarded as a more realistic measure of long term insurance business profit.

The shareholders' interests in the long term business is represented by the embedded value. This is the total of net assets of the long term business operations and the present value at the risk discount rate of releases to shareholders arising from the business in-force.

In calculating achieved profits, actuarial modelling is carried out based on certain assumptions such as mortality, morbidity, lapse rates, investment returns and expenses. The expected future cash flows arising from projection models are discounted to a present value using an after tax discount rate, which includes a risk margin to allow for uncertainty of the cash flows projected. The movement in the embedded value between the start and end of the year, together with the transfers to or from the profit and loss account, represents achieved profits.

For assets held in excess of realistic liabilities in the with profits funds, the shareholders' share is calculated by assuming that the future investment return on these assets is distributed by way of bonuses to policyholders and transfers to shareholders.

Non life company investments of the shareholders' retained capital are valued on the same basis as the modified statutory solvency basis.

Achieved profits calculations make allowance for tax within the long term business funds. This includes a provision for tax payable on unrealised capital gains and additional shareholder tax on life and pensions business profits.

The achieved profit is analysed into operating profit for the year, from which a view can be formed on the business performance, and the effect of changes in interest rates and investment returns. Operating profit represents the unwinding of the discount rate and any experience variances (other than investment return) over the year of the business in-force together with the release of risk margins. The profit from new business is calculated at the point of sale, and represents the value created in excess of the risk discount rate of return.

Profits are affected by the movements over the year of underlying interest rates and variations in investment returns. The former represents the difference between the profit calculated using the interest rates at the beginning and end of the year. The latter is the difference between actual investment returns, after allowing for the effect of changes in interest rates, and future investment returns assumed at the beginning of the year.

The supplementary financial information contained in this statement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

3. Assumptions

The principal assumptions underlying the achieved profits results, reflecting the directors' opinion of expected future experience, were:

	2002 %	2001 %
Risk discount rate (after tax)	**7.8**	8.1
Future investment returns (pre-tax):		
Gilts	**4.5**	5.0
Ordinary shares	**7.0**	7.5
Property	**7.0**	7.5
Expense inflation	**3.4**	3.7

The assumed future pre-tax return on gilts is set by reference to redemption yields available in the market at the balance sheet date. The corresponding returns on ordinary shares are set by reference to this rate. The return on other fixed interest assets allows for the higher expected return compared with gilts, reduced for the risk of default. Fund management expenses are allowed for either by reducing the expected investment return or by explicit allowance within the projected cashflows depending on the policy type. The discount rate is based on the assumed after tax return on ordinary shares, increased by an appropriate margin for risk.

Future bonus assumptions are set having regard to the levels supported in the longer term by the returns that would be earned on the achieved profits basis. Taxation rates are based on current legislation and practice. Lapse and surrender rates reflect recent experience and trends. Other assumptions reflect future expected experience, with allowance for recent experience where appropriate.

4. Shareholders' share of profits

The following shareholder proportions have been used:

With profit funds	10%
Non profit funds	100%
Shareholders' retained capital	100%

5. Taxation

Achieved profits on long term business is calculated initially on an after tax basis. The profit has been grossed up at the effective rate of tax applicable to shareholders' profits for the year. The effective rate of tax for Britannic Assurance was 23.4% (2001: 23.4%) and for Britannic Retirement Solutions was 30% (2001: 30%). Deferred tax assets are recognised to the extent that associated future cash flows are expected to enhance achieved profits.

6. Earnings per share

The earnings per share calculations are based on operating profit after tax (before exceptional items) attributable to shareholders of £65.9m (2001: £104.9m), operating (loss)/profit after tax attributable to shareholders of £(21.0)m (2001: £61.1m), loss after tax attributable to shareholders of £(333.3)m (2001: restated £(228.7)m) and the weighted average number of shares in issue of 196.5m (2001: 196.0m). Dilutive potential ordinary shares have not been treated as dilutive in 2001 since their conversion would decrease the loss per share.

7. Analysis of total equity shareholders' funds

	2002 £m	Restated 2001 £m
Present value of in-force business	**234.1**	317.7
Shareholders' retained capital	**537.9**	726.6
Other shareholders' funds	**214.3**	311.0
	986.3	1,355.3

8. Shareholders' retained capital

The value of non-life company investments of the shareholders' retained capital is shown without discounting for the time value of money. The value of life investments of the shareholders' retained capital is shown on an achieved profits basis. £nil (2001: £75.0m) from shareholders' retained capital is transferable to the shareholders' distributable reserves. The amount of this transfer is subject to on-going board review.

No provision has been made for tax which might become payable if further transfers to shareholders' distributable reserves were made.

External review

The preparation of the supplementary information has been reviewed by the Group's auditors, KPMG Audit Plc, who have reported to the board that, in accordance with their terms of reference, the supplementary information has been properly prepared on the basis of the methodology and assumptions adopted.

five year financial review

	2002 £m	2001 £m	2000 £m	1999 £m	Restated 1998 £m
Long term business profits:					
With profit business	**9.8**	40.0	45.3	41.3	40.8
Non profit business	**(66.3)**	(39.5)	(1.9)	(1.1)	(9.8)
Unit linked	**3.4**	(0.6)	2.7	2.4	2.7
Longer term return on shareholders' retained capital	**51.3**	97.9	97.9	94.5	97.0
	(1.8)	97.8	144.0	137.1	130.7
Asset management result	**9.9**	18.6	24.1	0.8	–
Mortgage operations result	**(5.2)**	(27.8)	(5.2)	–	–
General business operating result	**2.6**	4.2	0.8	2.6	0.9
Longer term return on other investments	**13.7**	14.3	14.2	18.3	14.4
Other income and charges	**(15.2)**	(9.0)	(11.3)	(4.0)	(9.3)
	5.8	0.3	22.6	17.7	6.0
Operating profit* before exceptional items and tax	**4.0**	98.1	166.6	154.8	136.7
Exceptional items	**(87.4)**	(43.8)	–	–	–
Operating profit* before tax	**(83.4)**	54.3	166.6	154.8	136.7
Short term fluctuations in investment return	**(214.1)**	(235.3)	(82.0)	61.0	(3.4)
Change in equalisation provision	**0.4**	(0.1)	(0.2)	(0.4)	(0.4)
Non-operating expenses	–	–	–	–	(0.8)
Exceptional reallocation	–	–	–	(48.0)	–
(Loss)/profit before tax	**(297.1)**	(181.1)	84.4	167.4	132.1
Tax on loss on ordinary activities and minority interests:					
Tax on operating profit	**0.8**	(27.4)	(41.9)	(28.9)	(32.5)
Tax on exceptional items	**0.5**	–	–	–	–
Tax on other loss	**46.1**	54.0	22.4	(13.7)	1.4
Minority interest	–	(0.5)	(2.2)	(0.2)	–
(Loss)/profit for the financial year	**(249.7)**	(155.0)	62.7	124.6	101.0
Dividends	**(36.4)**	(108.4)	(105.6)	(94.1)	(78.3)
Retained (loss)/profit for the financial year	**(286.1)**	(263.4)	(42.9)	30.5	22.7

	Pence	Pence	Pence	Pence	Pence
Earnings per share – basic	**(127.1)**	(79.1)	32.2	64.1	52.1
Earnings per share – diluted	**(127.1)**	(79.1)	32.1	63.7	51.6
Operating earnings per share – basic*	**(41.8)**	13.5	62.8	64.7	53.7
Net dividend per share	**18.5**	55.2	54.0	48.4	40.3

* Operating profit is stated before short term fluctuations in investment return and changes to the equalisation provision.

The comparative figures have been restated for deferred tax as appropriate.

five year business review

		2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
New business						
Investment trusts	New single payments	–	258.0	150.0	–	–
Asset management	New single payments	**217.8**	190.6	401.2	32.8	–
Long term business:						
Industrial branch	New annual premiums	**0.5**	3.0	10.0	12.7	11.2
Ordinary branch	New annual premiums	**9.0**	15.2	30.6	36.8	29.7
	New single premiums	**445.8**	291.4	306.1	167.9	120.9
	Recurrent single premiums	**105.3**	77.8	70.2	63.7	56.2
		560.6	387.4	416.9	281.1	218.0
Mortgage business	Completions	**762.0**	1,051.0	162.7	–	–
Unit trusts	New annual payments	–	–	2.8	2.4	–
	New single payments	**175.4**	302.4	237.0	32.1	–
		175.4	302.4	239.8	34.5	–
Net premiums written						
Industrial branch		**85.0**	102.2	112.9	117.8	121.6
Ordinary branch		**268.9**	613.9	613.7	359.9	275.4
Unit linked		**204.0**	282.6	362.8	80.2	46.9
		557.9	998.7	1,089.4	557.9	443.9
General branch		**4.0**	4.9	7.5	12.6	14.0
Policyholder bonuses						
Industrial branch		**29.1**	71.3	95.0	99.7	101.7
Ordinary branch		**52.2**	233.8	253.0	198.9	183.0
		81.3	305.1	348.0	298.6	284.7

Group pensions sold by the asset management business, but written as long term business, are classified above as asset management business for new business and profit purposes. They are included in the premium analysis to allow reconciliation to the technical account for long term business.

					Restated
	£bn	£bn	£bn	£bn	£bn
Funds under management	**14.4**	17.6	19.1	19.5	8.0
Consolidated balance sheet					
Investments	**11.3**	14.0	16.2	16.5	8.3
Other assets	**1.7**	0.8	1.1	0.7	0.2
Total assets	**13.0**	14.8	17.3	17.2	8.5
Shareholders' funds	**0.8**	1.0	1.3	1.3	1.3
Technical provisions and FFA	**11.6**	12.9	14.6	14.8	6.6
Other liabilities	**0.6**	0.9	1.4	1.1	0.6
Total liabilities	**13.0**	14.8	17.3	17.2	8.5

The comparative figures have been restated for deferred tax as appropriate.

notice of mee

Notice is hereby given that the fifth AGM of the shareholders of Britannic Group plc will be held at the Brewery, Chiswell Street, London EC1Y 4SD on Wednesday, 23 April 2003 at 10.30 am for the transaction of the following business:

Resolution 1

To receive the directors' report and audited accounts for the year ended 31 December 2002.

Resolution 2

To approve the directors' remuneration report for the year ended 31 December 2002.

Resolution 3

To re-elect KPMG Audit Plc as auditors and to authorise the directors to determine their remuneration.

Resolution 4

To elect as a director Harold Cottam who retires in accordance with the articles of the Company and offers himself for re-election.

Resolution 5

To elect as a director Paul Thompson who retires in accordance with the articles of the Company and offers himself for re-election.

To consider as special business and, if thought fit, to pass as a special resolution:

Resolution 6

That the directors be generally and unconditionally empowered, pursuant to section 95 of the Companies Act 1985 (the 'Act'), to exercise all powers of the Company to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred on them under section 80 of the Act by ordinary resolution passed at the annual general meeting of the Company on 21 April 1999 as if section 89(1) of the Act did not apply to any such allotment.

This power is limited to:

a) allotments of equity securities where such securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings, but subject to the directors having a right to make such exclusions or other arrangements in connection with the offer as they deem necessary or expedient:

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i) to deal with equity securities representing fractional entitlements; and

ii) to deal with legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory; and

b) other allotments of equity securities for cash up to an aggregate nominal amount of £491,227

and shall expire at the conclusion of the next AGM of the Company or on 22 July 2004, whichever is the earlier, save that the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot equity securities pursuant to such offer or agreement. (Note 1 – page 82.)

To consider as special business and, if thought fit, to pass as a special resolution:

Resolution 7

That the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares in the capital of the Company, subject to the following restrictions and provisions:

a) ordinary shares are hereby authorised to be purchased up to a maximum nominal value of £982,455;

b) the minimum price which may be paid for an ordinary share is an amount (exclusive of expenses) equal to the nominal value of the share;

c) the maximum price which may be paid for an ordinary share is an amount (exclusive of expenses) equal to 105% of the average of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five dealing days immediately preceding the day on which the ordinary share is purchased;

d) unless previously revoked or varied, this authority shall expire at the conclusion of the next AGM of the Company or on 22 October 2004, whichever is the earlier; and

e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares pursuant to any such contract. (Note 2 – page 82.)

By order of the board

Anna East
Secretary
26 March 2003
Registered office:
1 Wythall Green Way,
Wythall, Birmingham
B47 6WG

notice of meeting (continued)

Note1

Resolution 6

If the directors wish to use the general authority to allot shares conferred on them at the 1999 annual general meeting to allot new shares for cash, the Companies Act 1985 states that the new shares must be offered first to existing shareholders in proportion to their existing shareholdings. An offer of this type is called a 'rights issue' or an 'open offer' and the shareholder's entitlement to be offered the new shares is known as a 'pre-emption right'.

For legal, regulatory and practical reasons, however, it might not be possible for new shares allotted by means of a rights issue or open offer to be issued to certain shareholders, particularly those resident overseas. Further, it might in some circumstances be in the Company's interests for the directors to be able to allot some shares for cash without having to offer them first to existing shareholders.

To enable this to be done, shareholders must first waive their pre-emption rights.

Accordingly, Resolution 6 seeks to modify the pre-emption rights of existing shareholders:

a) sub-paragraph (a) of Resolution 6 seeks authority for the directors to make any arrangements which may be necessary to deal with any legal, regulatory or practical problems arising from a rights issue or open offer, for example, by excluding affected shareholders from the rights issue or open offer;

b) sub-paragraph (b) of Resolution 6 seeks the waiver of existing shareholders' pre-emption rights, but only for new shares with a maximum aggregate nominal value of £491,227 which is equivalent to approximately five per cent of the Company's issued ordinary share capital as at the date of this notice. If granted, this authority will enable the directors to allot new shares for cash without further reference to shareholders.

The proposed authority, if granted, will expire within fifteen months.

Note 2

Resolution 7

The Companies Act 1985 permits a company to purchase its own shares provided the purchase has been authorised by the company in general meeting.

Resolution 7 is a special resolution which, if passed, would give the Company the authority to purchase its own issued ordinary shares at a price of not less than five pence per share and not more than 5% above the average of the middle market quotations of the Company's shares as shown in the London Stock Exchange Daily Official List for the five dealing days before the purchase is made. The authority would be to purchase a maximum of 10% of the Company's present issued share capital and would expire at the end of the next AGM or eighteen months from the date of the resolution, whichever is the earlier.

Purchases would be financed out of distributable profits and the directors would not make purchases unless the expected effect of the purchase would be to increase earnings per share of the remaining shares and unless they believe that the purchase is generally in the best interests of the shareholders. Any share purchased under this authority will be treated as cancelled and the number of shares in issue reduced accordingly. The directors have no present intention of making such purchases but do intend that a resolution to renew this authority be proposed at each succeeding AGM.

Explanatory notes

A member entitled to attend and vote may appoint a proxy to attend and vote, on a poll, instead of him/her, and that proxy need not be a member of the Company.

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6 pm on 21 April 2003 shall be entitled to attend or vote at the AGM in respect of the number of shares registered in their name at the time. Changes to entries on the register after 6 pm on 21 April 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

shareholder information

Capital gains tax

As a result of the scheme of arrangement completed on 11 November 1998 and after adjusting for the two for one capitalisation issues made in 1988 and 1993, the Company's shares are deemed to have a market value at 31 March 1982 of 30 pence per ordinary 5 pence share.

Registrar

Administrative enquiries concerning shareholdings in the Company should be addressed to the registrar who should also be kept informed of any change in the holder's address. The registrar can be contacted at:

Lloyds TSB Registrars,
Reference 1513,
The Causeway, Worthing,
West Sussex BN99 6DA.
Telephone: 0870 600 3953.
Textphone for shareholders with hearing difficulties: 0870 600 3950.

If shareholders would prefer to receive communications from the Company electronically, they may register their e-mail address with Lloyds TSB Registrars by creating a portfolio on the Shareview website at http://www.shareview.co.uk. Future communications can be made in electronic form as these options become available.

In addition, the shareview service enables investors to check their holdings in many UK companies and organise their investments electronically. This service is free, easy to use and secure.

If shareholders receive multiple copies of the Group's Annual or Interim Accounts due to differing name and address details, they may write to Lloyds TSB Registrars requesting that their accounts be amalgamated.

Share price information

On 31 December 2002, the middle market price of Britannic Group ordinary 5 pence shares was £3.275 per share, having varied during the year between a low of £2.575 on 4 October 2002 and a high of £7.765 on 22 January 2002.

Share price information on Britannic Group plc is available on Ceefax and Teletext, in the financial press or by calling the FT Cityline service on 0906 843 1964 or 0906 003 1964 (calls charged at 60p per minute).

ShareGift

If shareholders have only a small number of shares with a value that makes it uneconomic to sell them, they may wish to consider donating them to charity through the ShareGift scheme operated by the Orr MacKintosh Foundation. Further information may be obtained from their website at www.sharegift.org or by calling 020 7337 0501.

Websites

The Britannic Group website, containing company profiles, financial information and current news can be found at http://www.britannicgroup.com

Subsidiary company websites can be found at:

http://www.britannicasset.com

http://www.britannicassurance.com

http://www.britannicmoney.com

http://www.britannicretirement.com

Financial calendar 2003

Preliminary announcement of 2002 results	4 March
Annual general meeting	23 April
Interim announcement	2 September

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Secretary
Anna East

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