

BRITANNIC GROUP PLC
FINANCIAL RESULTS FOR THE YEAR ENDED
31st DECEMBER 2002

FINANCIAL REVIEW

The analysis below 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 the 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.

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.

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 investments 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 FRS17 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.

SUMMARY FINANCIAL INFORMATION

The following financial information does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (the Act). The statutory accounts for the year ended 31 December 2002 will be delivered to the Registrar of Companies in England and Wales in accordance with Section 242 of the Act. The auditor has reported on those accounts; its report was unqualified and did not contain a statement under section 237 (2) or (3) of the Act.

Group profit and loss account	Year ended 31 Dec 2002 £m	Restated Year ended 31 Dec 2001 £m
Shareholders' pre-tax profit arising on long term business	1.2	101.8
Investment income	9.6	5.7
Allocated investment return transferred from the long term business technical account	(184.4)	(215.9)
Investment expenses and charges	(7.2)	(7.2)
Unrealised losses on investments	(25.0)	(9.9)
Allocated investment return transferred to the general business operating result	(0.4)	(0.7)
Other income	10.3	20.0
Other charges, including value adjustments:		
Exceptional items	(87.4)	(43.8)
Other charges	(13.8)	(31.1)
	(101.2)	(74.9)
Loss on ordinary activities before tax	(297.1)	(181.1)
Tax on loss on ordinary activities	47.4	26.6
Minority interests	-	(0.5)
Loss for the financial year	(249.7)	(155.0)
Dividends	(36.4)	(108.4)
Retained loss for the financial year	(286.1)	(263.4)
	Pence	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)

All figures relate to continuing operations.

Analysis of result for the financial year	Year ended 31 Dec 2002 £m	Restated Year ended 31 Dec 2001 £m
Operating profit (before exceptional items)	4.0	98.1
Exceptional items	(87.4)	(43.8)
Operating (loss) / profit *	(83.4)	54.3
Short term fluctuations in investment return	(214.1)	(235.3)
Change in equalisation provision	0.4	(0.1)
Loss on ordinary activities before tax	(297.1)	(181.1)
Tax on loss / (profit) 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)/profit 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 profit is stated before short term fluctuations in investment return and changes to the equalisation provision.

Group balance sheet

	As at 31 Dec 2002 £m	Restated As at 31 Dec 2001 £m
Assets		
Intangible assets:		
Positive goodwill	171.8	240.7
Negative goodwill	-	(48.0)
	171.8	192.7
Investments:		
Land and buildings	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
Securitised mortgages and related assets	2,280.4	2,167.1
Less: non-recourse finance	(2,215.5)	(2,094.5)
	64.9	72.6
	8,020.4	9,772.1
	8,735.3	10,468.9
Present value of acquired in-force business	22.4	70.4
Assets held to cover linked liabilities	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	203.7	142.0
	232.1	164.3
Other assets:		
Tangible fixed assets	10.4	14.6
Cash at bank and in hand	462.6	76.0
	473.0	90.6
Prepayments and accrued income:		
Accrued interest and rent	41.1	10.0
Deferred acquisition costs	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

Group balance sheet (continued)

	As at 31 Dec 2002 £m	Restated As at 31 Dec 2001 £m
Liabilities		
Capital and reserves:		
Called up share capital	9.8	9.8
Share premium account	21.7	20.9
Other reserves	25.3	25.3
Profit and loss account	695.4	981.6
Total equity shareholders' funds	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	8,983.7	8,731.3
Claims outstanding	55.9	45.3
Equalisation provision	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:		
Deferred tax	19.6	99.8
Other provisions	27.1	37.9
	46.7	137.7
Deposits received from reinsurers	37.1	18.0
Creditors:		
Creditors arising out of direct insurance operations	37.6	18.9
Amounts owed to credit institutions	271.1	228.1
Other creditors including taxation and social security	161.8	393.1
	470.5	640.1
Accruals and deferred income	43.4	71.4
Total liabilities	12,994.5	14,754.4

Company balance sheet

	As at 31 Dec 2002 £m	Restated As at 31 Dec 2001 £m
Fixed assets:		
Investments in subsidiary undertakings	285.8	258.9
Current assets:		
Debtors	8.0	89.2
Investments	-	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 due to subsidiary undertakings	(27.5)	-
Amounts owed to credit institutions	(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	9.8	9.8
Share premium account	21.7	20.9
Profit and loss account	46.4	146.5
Equity shareholders' funds	77.9	177.2

Group cash flow statement

	Year Ended 31 Dec 2002	Year ended 31 Dec 2001 £m
Net cash inflow from operating activities	125.4	130.9
Returns on investment and servicing of finance:		
Interest paid	(7.0)	(7.2)
Dividends paid to minority shareholders in subsidiary undertakings	-	(2.4)
	(7.0)	(9.6)
Taxation:		
Tax paid	(1.8)	(8.1)
Capital expenditure:		
Purchase of tangible fixed assets	(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:		
Dividends paid on ordinary shares	(108.5)	(108.1)
Financing:		
Issue of ordinary shares	0.7	4.7
Loan borrowing	9.6	95.6
	10.3	100.3
Net cash flow	10.4	5.8
Cash flows were invested as follows:		
Increase in cash holdings	2.4	5.7
Net portfolio investment / (divestment):		
Shares and other variable-yield securities and units in unit trusts	5.4	(13.4)
Debt securities and other fixed income securities	(1.1)	0.1
Other financial investments	-	5.6
Deposits with credit institutions	3.7	7.8
	8.0	0.1
Net investment of cash flows	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	8,926.8	10,316.8

Supplementary Information – Achieved Profits Basis
Group Profit and Loss Account

	Year Ended 31 Dec 2002 £m	Restated Year Ended 31 Dec 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 profit	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 equalisation provision	0.4	(0.1)
Loss on ordinary activities before tax	(406.0)	(274.9)
Tax on loss / (profit) on ordinary activities:		
Operating profit	(19.8)	(40.0)
Exceptional items	0.5	-
Other	92.0	86.7
Minority interests	-	(0.5)
Loss for the financial period	(333.3)	(228.7)
Dividends	(36.4)	(108.4)
Retained loss for the financial period	(369.7)	(337.1)

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

Supplementary Information – Achieved Profits Basis
Group Balance Sheet

	As at 31 Dec 2002 £m	Restated As at 31 Dec 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
Other liabilities	(597.7)	(867.2)
Total assets less other 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	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	986.3	1,355.3
Analysis of equity shareholders' funds:		
Present value of in-force	234.1	317.7
Shareholders' retained capital (excluding present value of in-force)	537.9	726.6
Other shareholders' funds	214.3	311.0
Total equity shareholders' funds	986.3	1,355.3

The supplementary information has been prepared in accordance with the methodology and basis of preparation set out in the supplementary information to the Group's financial statements for the year ended 31 December 2002.