

HAMILTON
Insurance

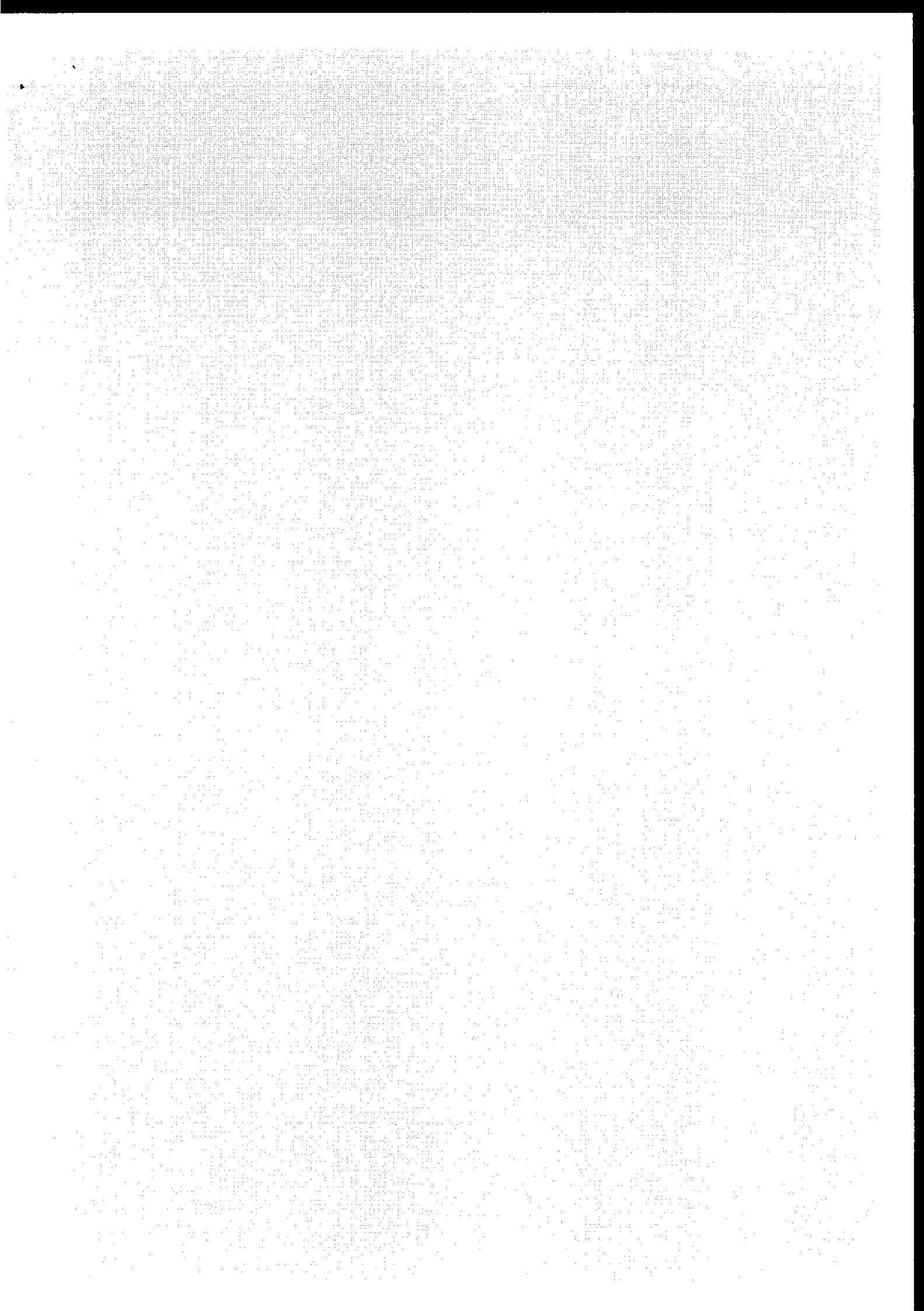
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Hamilton Insurance Company Limited
Report and Accounts 2002



Contents

Directors and Officers	02
Directors' Report	03
Auditors' Report	05
Profit and Loss Account	06
Balance Sheet	08
Notes to the Financial Statements	10

Directors and Officers

Directors:

S G Boyle – Chairman

P J Blackmore

P A de Chazal

A H Doggart

A R Hill

S J Young – Managing Director (appointed 16 July 2002)

R V Lovering (resigned 2 December 2002)

C Gillespie (appointed 2 September 2002)

A K A Ferguson (resigned 16 July 2002)

Secretary:

C J Rivers

Registered Office:

North Street

Winkfield

Windsor

Berkshire

SL4 4TD

Registered in England No: 1655888

Bankers:

The Royal Bank of Scotland plc

Corporate Banking Office

PO Box 450

5-10 Great Tower Street

London

EC3P 3HX

Auditors:

KPMG Audit plc

Chartered Accountants

Registered Auditor

100 Temple Street

Bristol

BS1 1AG

Directors' Report

The Directors present their annual report on the affairs of the Company, together with the financial statements and Auditors' report, for the year ended 31 December 2002.

Principal activity and business review

The Company is a wholly owned subsidiary of HFC Bank plc and is a member of the Household International, Inc. group of companies.

The principal activity of the Company continues to be the transaction of accident and health, property and miscellaneous pecuniary loss general insurance business. The Directors expect operations to continue at current levels.

On 14 November 2002 it was announced that HSBC Holdings plc intended to acquire Household International, Inc., the ultimate parent company of the Company. In the event that the acquisition is completed, the Company will become a subsidiary of HSBC Holdings plc.

Financial results

Gross earned premium income increased by £16.4 million during the year to £88.3 million (2001: £71.9 million). Profit after taxation increased by £3.2 million to £3.9 million (2001: profit £0.7 million).

The Directors do not recommend a dividend payment (2001: £nil).

Results were as follows:

	2002 £000
Retained profit for the year	3,860
Retained profit, beginning of year	18,333
Retained profit, end of year	22,193

Directors and Directors' interests

The Directors of the Company are shown on page 2.

None of the Directors had at any time during the year any disclosable interest in the shares or loan stock of the Company or any Group Company incorporated within the United Kingdom.

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 of the profit or loss of the Company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 Company and to prevent and detect fraud and other irregularities.

Directors' Report

Employee information

The Company does not employ any staff directly. All staff used by the Company were employed and provided by HFC Bank plc for both 2001 and 2002.

Equality of Opportunity

The Group of which the Company is a member is an equal opportunity employer. The aim is to ensure that all job applicants and employees are treated in the same way regardless of their sex, marital status, age, race, colour, disability, sexual preference, nationality or ethnic origin.

Payment of creditors

The policy of the Group of which the Company is a member is to pay for goods or services received, invoiced and not in dispute within the payment terms agreed with its suppliers. Where no payment terms have been agreed for goods or services received, payment typically occurs within 60 days of receipt of the invoice. Trade creditor days for the Company as at 31 December 2002 were 1 day (2002: 1 day), calculated in accordance with the requirements set down in the Companies Act 1985 and its Regulations. This represents the ratio, expressed in days, between the amount due to suppliers at the end of the year by the Group and the amount invoiced by suppliers in the year.

The Euro

Other than a very small amount of business transacted in the Republic of Ireland and the Channel Islands, all the Company's activities are carried out in the United Kingdom.

Auditors

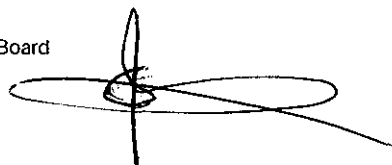
Arthur Andersen resigned as Auditors to the Company with effect from 15 April 2002. On 10 April 2002, the Board of Directors appointed KPMG Audit plc as Auditors to the Company with effect from 15 April 2002 to fill the casual vacancy which had arisen to hold office until the conclusion of the next General Meeting at which financial statements are laid before the Company.

By Order of the Board

C J Rivers

Secretary

10 March 2003

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a series of loops and a long horizontal stroke extending to the right.

Auditors' Report

Independent auditors' report to the members of Hamilton Insurance Company Limited

We have audited the financial statements on pages 6 to 18.

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 directors' report and, as described on page 3, 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 and by our profession's ethical guidance.

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

Basis of audit opinion

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

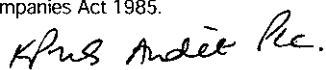
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has regard to the statutory requirements for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2002, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in notes 1 and 20 respectively.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
100 Temple Street, Bristol BS1 6AG
10 March 2003

Profit and loss account

for the year ended 31 December 2002

Technical Account – General Business

	Notes	2002 £000	2001 £000
Earned premiums			
Gross premiums written	2	96,617	86,762
Outward reinsurance premiums	2	(27,116)	(21,814)
		69,501	64,948
Change in gross provision for unearned premiums		(8,318)	(14,893)
Change in provision for unearned premiums, reinsurers' share		24	(242)
		(8,294)	(15,135)
Earned Premiums, net of reinsurance	2	61,207	49,813
Allocated investment income transferred from the non-technical account		4,430	4,343
Claims paid			
gross amount		(22,856)	(17,129)
reinsurers' share		13,020	11,039
		(9,836)	(6,090)
Change in the provision for claims			
gross amount		621	(1,436)
reinsurers' share		0	22
		621	(1,414)
Claims incurred, net of reinsurance	2	(9,215)	(7,504)
Changes in other technical provisions, net of reinsurance		1,480	(679)
Change in equalisation provision		313	0
Net operating expenses	2,4	(52,657)	(44,936)
Balance on the technical account – general business		5,558	1,037

The accompanying notes are an integral part of this profit and loss account

Profit and loss account

for the year ended 31 December 2002

Non-technical account

	Notes	2002 £000	2001 £000
Balance on the general technical account		5,558	1,037
Investment income	5	4,430	4,343
Allocated investment return transferred to the general business technical account		(4,430)	(4,343)
Profit on ordinary activities before tax		5,558	1,037
Tax on profit on ordinary activities	9	(1,698)	(311)
Profit on ordinary activities after tax		3,860	726
Dividends			–
Profit for financial year		3,860	726

The only recognised gains or losses in the accounting period are those disclosed in the profit and loss account. All operations of the Company continued throughout both periods and no operations were acquired or discontinued.

The accompanying notes are an integral part of this profit and loss account

Balance sheet

at 31 December 2002

Assets


	Notes	2002 £000	2001 £000
Investments	10	93,000	85,600
Reinsurers' share of technical provisions			
Provision for unearned premiums		270	246
Claims outstanding		151	151
Debtors			
Debtors arising out of direct insurance operations	11	4,624	5,210
Debtors arising out of reinsurance operations		493	904
Other debtors		518	727
Other assets			
Cash at bank and in hand		377	2,845
Prepayments and accrued income			
Accrued interest		1,956	2,106
Deferred acquisition costs		22,424	16,406
Total Assets		123,813	114,195

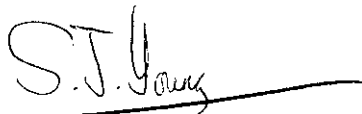
The accompanying notes are an integral part of this balance sheet

Liabilities

	Notes	2002 £000	2001 £000
Capital and reserves			
Called up share capital	15	8,212	8,212
Share premium		93	93
Profit and loss account	16	22,193	18,333
Shareholders' funds – equity interests		30,498	26,638
Technical provisions			
Provision for unearned premiums		64,155	55,837
Claims outstanding	3	15,840	17,096
Equalisation provision	20	313	-
		80,308	72,933
Deposits received from reinsurers	19	198	2,304
Creditors			
Creditors arising out of direct insurance operations	12	8,093	9,181
Creditors arising out of reinsurance operations		3,006	3,139
Other creditors including taxation	13	1,710	-
		12,809	12,320
Total Liabilities		123,813	114,195

The financial statements on pages 6 to 18 were approved by the Board of Directors on 10 March 2003 and signed on its behalf by the Directors listed below.


 S G Boyle
 Chairman


 S J Young
 Managing Director

The accompanying notes are an integral part of this balance sheet

Notes to the Financial Statements

For the year ended 31 December 2002 continued

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and with the Statement of Recommended Practice issued by the Association of British Insurers in December 1998. The financial statements have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985.

The Company has adopted the provisions of the new Financial Reporting Standards 18 'Accounting Policies'. The Company has also adopted Financial Reporting Standards 19 'Deferred Taxation' which has not resulted in any changes to the way the Company accounts for deferred taxation.

A summary of the more important accounting policies, which have been applied consistently throughout this year and the preceding year, unless otherwise stated, is set out below.

(a) Basis of Accounting

The financial statements are prepared in accordance with the historical cost convention.

(b) Annual Basis

The technical result for accident and health, miscellaneous financial loss, and property damage is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) Premiums

Written premiums are recognised when the policy liability is set up and the premium is due for payment.

Premium income is earned over the life of each contract, using rules appropriate to the type of each insurance contract, and taking account of the effect of reinsurance agreements.

Provision is made for net unearned premiums. The unearned premiums are set aside to provide for periods of risk extending beyond the year end. Unearned premiums are calculated on a basis appropriate to the contract. The most significant contract sold by the Company is a policy providing benefits that can last for up to five years; unearned premiums for this contract are calculated on a basis known as the Rule of 45 (i.e. the average of a Rule of 78 unearned premiums reserve and a pro-rata reserve). Unearned premiums for all other contracts are calculated on a pro-rata basis.

Premiums are stated net of Insurance Premium Tax.

Reinsurance premiums are accounted for on a basis consistent with the associated premiums.

(ii) Acquisition Costs

Acquisition costs, which represent commission and other related expenses, are deferred subject to recoverability against future margins and amortised over the period in which the related premiums are earned.

(iii) Claims

Claims outstanding includes provision for claims incurred but not reported and related claims handling expenses. The provision is assessed using historic claims experience and, for the major classes of business, a triangulation methodology in which future claims payments are projected using the historic claims data. Whilst Directors consider the determination of the provision to be appropriate, the ultimate cost of claims may vary from that provided for depending on future outcome.

Claims incurred comprises claims paid in the year and changes in provisions for claims outstanding, together with any other adjustments to claims from previous years.



1 Principal accounting policies (continued)

(c) Investments

Investments in cash deposits and certificates of deposits are shown in the balance sheet at cost.
Gross investment income is accounted for on an accruals basis.

(d) Transfer of investment return

A transfer of investment return, expenses and charges, is made from the non-technical account to the technical account – general business to reflect the return made on those assets directly attributable to the insurance business.

(e) Taxation

Tax on profit on ordinary activities comprises current tax and deferred tax.

Current tax is the amount estimated to be payable or recoverable as a result of the application of the rules for the taxation of general insurance companies to the items included in both the non-technical account and the general business technical account together with any necessary prior period adjustments.

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(f) Financial reinsurance

Where reinsurance contracts are structured to provide financing as well as transfer of risk, they are accounted for as insurance contracts.
A linked presentation is adopted in the balance sheet to reflect the liability due to the reinsurer.

(g) Equalisation provision

An equalisation provision is maintained in accordance with the Financial Services and Markets Act 2000 in respect of the property class of business written by the company in order to reduce the impact of possible future claims volatility. It is calculated in accordance with the rules contained within Appendix 6.1 of the Interim Prudential Sourcebook for Insurers.

(h) Cash Flow Statement

Under the provisions of Financial Reporting Standard No. 1 (Revised 1996) the Company has not prepared a cash flow statement because its ultimate holding company, Household International, Inc., which is incorporated in the United States of America, has prepared consolidated accounts which include the results of the Company for the year which contain a consolidated cash flow statement. The accounts in which the consolidated cash flow statement appears are publicly available.

Notes to the Financial Statements

For the year ended 31 December 2002 continued

2 Segmental information

A

	Gross £000	2002 Reinsurance Ceded £000	Net £000	Gross £000	2001 Reinsurance Ceded £000	Net £000
Written premiums						
Direct insurance						
Accident and health	44,647	(15,721)	28,926	46,115	(13,750)	32,365
Miscellaneous financial loss	43,632	(11,194)	32,438	39,380	(7,858)	31,522
Property damage	8,338	(201)	8,137	1,267	(206)	1,061
	96,617	(27,116)	69,501	86,762	(21,814)	64,948

All premiums are in respect of direct insurance business and are written in the United Kingdom, Channel Islands and the Republic of Ireland. Business written outside the United Kingdom represents less than 5% of total gross premiums and has therefore not been analysed.

B

	Gross £000	2002 Reinsurance Ceded £000	Net £000	Gross £000	2001 Reinsurance Ceded £000	Net £000
Earned premiums						
Direct insurance						
Accident and health	40,550	(15,722)	24,828	38,547	(13,990)	24,557
Miscellaneous financial loss	39,529	(11,193)	28,336	32,051	(7,859)	24,192
Property damage	8,220	(176)	8,044	1,271	(207)	1,064
	88,299	(27,091)	61,208	71,869	(22,056)	49,813

2 Segmental information (continued)

C

	Gross £000	2002 Reinsurance Ceded £000	Net £000	Gross £000	2001 Reinsurance Ceded £000	Net £000
Incurring claims						
Direct insurance						
Accident and health	10,651	(6,670)	3,981	12,542	(8,090)	4,452
Miscellaneous financial loss	7,699	(6,350)	1,349	5,024	(2,889)	2,135
Property damage	3,885	0	3,885	1,000	(82)	918
	22,235	(13,020)	9,215	18,566	(11,061)	7,505

D

	Gross £000	2002 Reinsurance Ceded £000	Net £000	Gross £000	2001 Reinsurance Ceded £000	Net £000
Operating expenses						
Direct insurance						
Accident and health	25,145	(993)	24,152	22,200	(1,212)	20,988
Miscellaneous financial loss	25,169	(912)	24,257	23,607	(878)	22,729
Property damage	4,248	0	4,248	1,278	(59)	1,219
	54,562	(1,905)	52,657	47,085	(2,149)	44,936

E

	Gross £000	2002 Reinsurance Ceded £000	Net £000	Gross £000	2001 Reinsurance Ceded £000	Net £000
Profit on ordinary activities before tax						
Direct insurance						
Accident and health	6,969	(7,230)	(261)	5,977	(5,062)	915
Miscellaneous financial loss	8,877	(3,123)	5,754	5,590	(4,392)	1,198
Property damage	87	(22)	65	(1,007)	(69)	(1,076)
	15,933	(10,375)	5,558	10,560	(9,523)	1,037

Notes to the Financial Statements

For the year ended 31 December 2002 continued

3 Movements in prior years provisions for claims outstanding

	2002 £000	2001 £000
Opening claims outstanding	17,096	15,209
Payments in respect of previous years' claims	(11,241)	(9,117)
Run-off variance in prior years' provisions	(2,527)	(2,515)
Claims reserving for current year	24,127	21,531
Claims paid in respect of current year	(11,615)	(8,012)
Closing claims outstanding	15,840	17,096

Favourable run-off deviations were experienced during the year of £2,095,000 in respect of Accident and Health business and £99,000 in respect of Miscellaneous Financial Loss business. In 2001 there were favourable run-off deviations of £2,303,000 in respect of Accident and Health business and £232,000 in respect of Miscellaneous Financial Loss business.

4 Net operating expenses

	2002 £000	2001 £000
Acquisition costs	58,402	48,899
Changes in deferred acquisition costs	(6,018)	(4,068)
Administrative expenses	2,178	2,254
	54,562	47,085
Reinsurance commissions	(1,905)	(2,149)
Net operating expenses	52,657	44,936

5 Investment income

	2002 £000	2001 £000
Interest on cash deposits	2,960	2,756
Interest on certificates of deposit	1,470	1,587
	4,430	4,343

6 Directors' emoluments

	2002 £000	2001 £000
Aggregate emoluments as Directors	326	142
Gains made on Employee Stock Purchase Plan	1	6
Amounts receivable under long-term incentive schemes	5	20
Company pension contributions to money purchase schemes	14	12
Gains made on exercise of share options	8	27
	354	207

Retirement benefits are accruing to four Directors under a money purchase scheme.

One Director is due to receive amounts under long-term incentive schemes.

One Director exercised share options in the ultimate holding company, Household International Inc. during the year.

Directors' emoluments were paid by HFC Bank plc for both 2002 and 2001.

7 Employee Information

The Company does not employ any staff directly. All staff used by the Company were employed and provided by HFC Bank plc for both 2002 and 2001.

8 Profit on ordinary activities before tax

	2002 £000	2001 £000
Profit on ordinary activities before tax is stated after:		
Auditors' remuneration		
Statutory Audit	20	21
Regulatory Audit	6	6

9 Taxation

	2002 £000	2001 £000
Corporation tax at 30% (2001: 30%)	1,698	311

There are no timing differences giving rise to deferred tax. All of the corporation tax is attributable to the technical account – general business.

Notes to the Financial Statements

For the year ended 31 December 2002 continued

10 Investments

	2002 £000	2001 £000
Cash deposits	67,500	57,850
Certificates of Deposit	25,500	26,500
Cash deposits with parent company	0	1,250
	93,000	85,600

The amortised cost of investments held at 31 December 2002 is the same as original cost. The market value of investments held was £94,296,668 (2001: £86,431,000). The maturity value of these investments is £93,000,000.

11 Debtors arising out of direct insurance operations

	2002 £000	2001 £000
Premiums collected by parent company	4,624	5,210

12 Creditors arising out of direct insurance operations

	2002 £000	2001 £000
Amount owed to parent company	6,595	7,637
Insurance premium tax	1,428	1,073
External commissions	70	300
Accruals	0	171
	8,093	9,181

13 Other creditors including taxation

	2002 £000	2001 £000
Taxation	1,710	–
	1,710	–

14 Reconciliation of shareholders' funds

	2002 £000	2001 £000
Retained profit for the year	3,860	726
Opening shareholders' funds	26,638	25,912
Closing shareholders' funds	30,498	26,638

15 Called up share capital

	2002 £000	2001 £000
Authorised:		
10,000,000 Ordinary shares of £1 each	10,000	10,000
Allotted, called up and fully paid:		
8,212,000 Ordinary shares of £1 each	8,212	8,212

16 Profit and Loss Account

	2002 £000	2001 £000
Balance as at 1 January	18,333	17,607
Retained profit for the year	3,860	726
Balance as at 31 December	22,193	18,333

Notes to the Financial Statements

For the year ended 31 December 2002 continued

17 Ultimate parent company

The Company's immediate holding company is HFC Bank plc. The ultimate holding company and the largest group in which HFC Bank plc and its subsidiary companies are consolidated is Household International, Inc., which is incorporated in the State of Delaware, United States of America.

The smallest group in which the results of the Company are consolidated is that headed by HFC Bank plc. The consolidated accounts of these groups are available to the public and may be obtained from the Company Secretary at the Company's registered office.

Hamilton Insurance Company Limited is registered in England and Wales.

18 Related party transactions

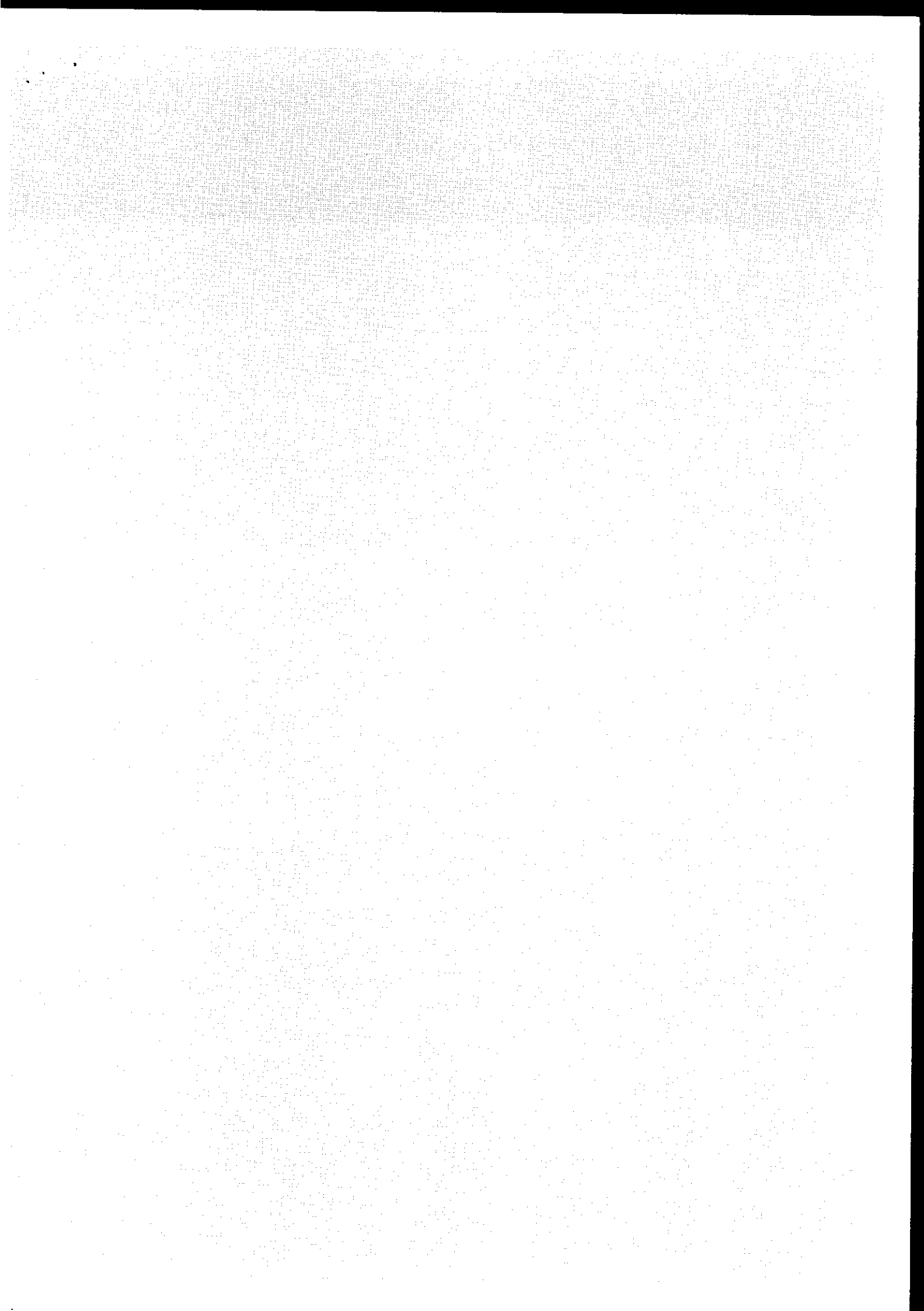
The Company has taken advantage of the exemption in Financial Reporting Standard No. 8 to not disclose intercompany transactions within the Group.

19 Deposits received from reinsurers

The Company entered into reinsurance arrangements the terms of which involved the payment by the reinsurer of an initial expense allowance. These advances, totalling £6,800,000 (2001: £6,800,000), are repayable to the reinsurer from product margins. At the end of 2002, £198,000 (2001: £2,304,000) was outstanding to the reinsurer and this amount is shown as a deposit received from reinsurers.

20 Equalisation provision

The equalisation provision, which is in addition to the provision required to meet the ultimate cost of settlement of outstanding claims at the balance sheet date, is required by Schedule 9A to the Companies Act to be included within technical provisions in the balance sheet, notwithstanding that it does not represent a liability at the balance sheet date. This has the effect of reducing shareholders' funds by £313,000 (2001: £Nil). The movement in the provision during the year resulted in a decrease in the profit on the general business technical account and the profit before taxation of £313,000 (2001: £Nil).



Hamilton Insurance
Company Limited

Registered and Head Office

North Street

Winkfield

Windsor

Berkshire SL4 4TD

Telephone: (01344) 890 000

Website: www.hicbank.co.uk

Registered in England No. 1655888