



MASTHEAD INSURANCE UNDERWRITING LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2003



**MASTHEAD INSURANCE UNDERWRITING LIMITED**

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# **MASTHEAD INSURANCE UNDERWRITING LIMITED**

## **Company Information**

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### **Directors**

D J Douetil  
N D Eckert  
R A Field  
P J Goddard  
M Scales  
J M P Welman

### **Secretary**

Brit Group Services Limited

### **Registered Office**

55 Bishopsgate  
London  
EC2N 3AS

### **Registered Number**

2863362

### **Auditors**

Mazars  
Chartered Accountants & Registered Auditors  
24 Bevis Marks  
London EC3A 7NR

# MASTHEAD INSURANCE UNDERWRITING LIMITED

## Report of the Directors

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

### Principal activities and business reviews

The Company is an investment company, acting as an intermediate holding company for six direct subsidiaries, each of which is a corporate member that participates in underwriting at Lloyd's. Five of these subsidiaries ceased underwriting at the end of December 1999 and were put into run-off while the sixth subsidiary, Brit UW Limited, commenced underwriting on 1 January 2000.

The principal activity of the Company has remained unchanged since its formation. Its funds are used to support the underwriting activities of the Brit Insurance Holdings Plc's corporate member subsidiaries.

In the opinion of the directors the state of affairs of the company at the end of the year was satisfactory.

### Result and dividend

The profit for the year attributable to shareholders amounts to £4,485,239 (2002: loss of £4,569,768) and is dealt with as shown in the profit and loss account.

The directors do not recommend the payment of a dividend for the year ended 31 December 2003 (2002: Nil).

### Directors and share interests

The names of the directors throughout the year and as at the date of this report are listed on page 2. A Holland resigned on 31 October 2003. D J Douetil, N D Eckert, R A Field, P J Goddard and M Scales were appointed on 2 December 2003.

No director held any interest in the share capital of the Company on 31 December 2003. The interests of the directors who held office as at 31 December 2003 and their families in the share capital of other group companies are dealt with in the accounts of Brit Insurance Holdings PLC, the ultimate holding company, with the exception of the following:

	Brit Insurance Holdings PLC - Ordinary shares of 25p each					
	Shares		Options		LTIP/PSP*	
	31 December 2003	31 December 2002	31 December 2003	31 December 2002	31 December 2003	31 December 2002
R A Field	131,513	37,658	1,209,881	880,000	332,273	93,855
P J Goddard	6,250	-	675,016	415,000	328,931	67,030

\* Awards made under the Brit Long Term Incentive Plan 1999 or Brit Performance Share Plan 2003, details of which are provided in the Report and Accounts of the ultimate parent company, Brit Insurance Holdings PLC.

The interests of the directors who held office as at 31 December 2003 in the Brit Employee Share Ownership Plan 2001 ("ESOP") are dealt with in the accounts of Brit Insurance Holdings PLC, the ultimate holding company, with the exception of the following:

	Free Shares awarded	Partnership Shares	Matching Shares awarded	Subsisting at 31 December 2003	Subsisting at 31 December 2002
R A Field	1,500	4,600	2,292	8,392	4,866
P J Goddard	1,000	2,078	1,033	4,111	1,905

# **MASTHEAD INSURANCE UNDERWRITING LIMITED**

## **Report of the Directors continued**

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An award of 500 free shares was made to all participants on 20 October 2003. Participating directors are able to acquire further shares on a monthly basis. Details of the ESOP and its operation are given in the accounts of Brit Insurance Holdings PLC, copies of which can be obtained from 55 Bishopsgate, London EC2N 3AS.

### **Ultimate holding company**

The ultimate parent company is Brit Insurance Holdings PLC.

### **Donations**

No contributions to political organisations or charities were made during the year (2002: £nil).

### **Elective resolutions**

Elective resolutions under section 379A of the Companies Act 1985 were passed on 11 July 2000.

### **Statement of directors' responsibilities**

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

In addition, the directors are required to:

- select suitable accounting policies and 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 accounts; and
- prepare financial statements on a going concern basis unless it is inappropriate to assume the Company will continue in business.

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

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

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

By Order of the Board



**for BRIT GROUP SERVICES LIMITED**  
**Corporate Secretary**

Brit Group Services Ltd  
Secretary  
28 June 2004

# **MASTHEAD INSURANCE UNDERWRITING LIMITED**

## **Independent Auditors' Report**

### **To the Member of Masthead Insurance Underwriting Limited**

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We have audited the financial statements for the year ended 31 December 2003 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments and the accounting policies set out therein.

This report is made solely to the company's member 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 it in an auditor's report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and 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.

We read the other information contained in the Annual 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 misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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.

# **MASTHEAD INSURANCE UNDERWRITING LIMITED**

## **Independent Auditors' Report continued**

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### **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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



MAZARS  
Chartered Accountants & Registered Auditors  
24 Bevis Marks  
London EC3A 7NR  
28 June 2004

# MASTHEAD INSURANCE UNDERWRITING LIMITED

## Profit and Loss Account For the Year Ended 31 December 2003

		Year ended 31 December 2003 £	Year ended 31 December 2002 £
	Notes		
<b>Turnover</b>	1(d) & 2	16,428,392	10,342,556
Administrative expenses		(8,497,515)	(720,970)
Other operating charges	3	(3,543,749)	(10,823,161)
<b>Operating profit/(loss) and profit/(loss) on ordinary activities before taxation</b>	4	4,387,128	(1,201,575)
<b>Taxation</b>	7	98,111	(3,368,193)
<b>Profit/(loss) on ordinary activities after taxation</b>		4,485,239	(4,569,768)
<b>Retained profit brought forward</b>		8,392,840	12,962,608
<b>Retained profit carried forward</b>		12,878,079	8,392,840

There is no difference between the profit/(loss) on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The company's turnover and expenses for the year all relate to continuing operations.

## Statement of Total Recognised Gains and Losses

		Year ended 31 December 2003 £	Year ended 31 December 2002 £
	Notes		
Profit/(loss) for the financial year		4,485,239	(4,569,768)
Unrealised gains on investments	13	5,721,642	-
<b>Total profit/(losses) recognised since the last annual report</b>		10,206,881	(4,569,768)

The notes on pages 9 to 15 form part of these accounts.

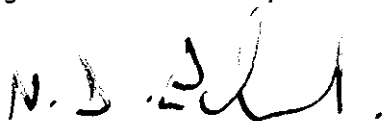


# MASTHEAD INSURANCE UNDERWRITING LIMITED

## Balance Sheet As at 31 December 2003

		2003 £	2002 £
	Notes		
<b>Fixed assets</b>			
Investments	8	287,678,644	259,729,601
<b>Current assets</b>			
Debtors	9	18,896,317	19,654,424
Prepayments and accrued income		3,817,628	3,096,683
Cash at bank, deposits and cash in hand		20,588,574	12,301,027
		43,302,519	35,052,134
<b>Creditors:</b> Amounts falling due within one year	10	(274,103,864)	(248,124,543)
<b>Net current liabilities</b>		230,801,345	(213,072,409)
Total assets less current liabilities		56,877,299	46,657,192
<b>Debtors:</b> Amounts due after one year			
Deferred taxation	11	455,275	468,501
<b>Net assets</b>		57,332,574	47,125,693
<b>Capital and reserves</b>			
Called up equity share capital	12	10,062,750	10,062,750
Share premium		28,670,103	28,670,103
Investment revaluation reserve	13	5,721,642	-
Profit and loss account		12,878,079	8,392,840
<b>Shareholder's funds</b>	14	57,332,574	47,125,693

The financial statements on pages 7 to 15 were approved by the Board of Directors on 28 June 2004 and signed on their behalf by:-



N D Eckert  
Director

The notes on pages 9 to 15 form part of these accounts.

# **MASTHEAD INSURANCE UNDERWRITING LIMITED**

## **Notes to the Financial Statements For the year ended 31 December 2003**

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### **1. Accounting policies**

#### **(a) Accounting convention**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed asset investments and in accordance with applicable accounting standards.

#### **(b) Consolidated accounts**

The financial statements present information relating to Masthead Insurance Underwriting Limited, not to the group of which it is the parent company. Masthead Insurance Underwriting Limited is exempt from preparing consolidated financial statements, under Section 228 of the Companies Act 1985. Brit Insurance Holdings PLC, which is incorporated in England and is the ultimate holding company, prepares consolidated financial statements which include the company and its subsidiaries accounts.

#### **(c) Investments**

The values of fixed asset investments are stated in the financial statements on the following bases:

(i) Listed investments are stated at closing middle market prices on recognised stock exchanges;  
And

(ii) Unlisted investments and subsidiary undertakings are stated at the lower of cost or directors' valuation.

The difference between the market value and cost of investments is booked as follows:

(i) where a profit, to the Investment Revaluation Reserve.  
(ii) where a loss, to the profit and loss account.

#### **(d) Turnover**

Turnover consists of dividend income on investments held, realised gains on the disposal of investments in the period, interest receivable on gilts and certificates of deposit and bank interest receivable.

Dividends are taken into account by reference to the date the security becomes "ex-dividend". Dividends and interest on investments in unlisted shares and securities are taken into account when it is reasonably certain that they are receivable.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price.

The holdings of investments is an integral part of the strategic operations of the company, realised gains and losses on the sale of these investments, dividends receivable, interest receivable and unrealised losses on investments are therefore shown as a part of operating activities.

#### **(e) Expenses**

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

#### **(f) Deferred taxation**

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

#### **(g) Cashflow statement**

Masthead Insurance Underwriting Limited is exempt from preparing a cashflow statement, under FRS1. Brit Insurance Holdings PLC, the ultimate parent company, prepares a consolidated cashflow statement.

# MASTHEAD INSURANCE UNDERWRITING LIMITED

## Notes to the Financial Statements continued

### 2. Turnover

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Investment income	1,385,027	1,233,943
Interest receivable on gilts and certificates of deposit	13,042,867	7,161,951
Bank interest receivable	2,000,498	1,946,662
	<u>16,428,392</u>	<u>10,342,556</u>

### 3. Other operating charges

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Realised losses on investments	(5,899,475)	(1,624,304)
Unrealised gains/(losses) on investments	2,355,726	(9,198,857)
	<u>(3,543,749)</u>	<u>(10,823,161)</u>

### 4. Operating profit/(loss) - continuing operations

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
This is arrived at after charging:-		
Auditors' remuneration		
- audit work	68,000	31,000
Staff costs (see note 5)	-	-
	<u>-</u>	<u>-</u>

Auditor's remuneration includes fees in respect of the company's subsidiaries which have been borne by the company.

### 5. Staff costs

	Year ended 31 December 2003 No.	Year ended 31 December 2002 No.
The average number of persons employed in the activities of the company during the year, including directors, was as follows:-		
Management	<u>2</u>	<u>2</u>

### 6. Directors' remuneration and transactions involving directors

None of the directors or employees received any remuneration for their services to the company during the year ended 31 December 2003 or 31 December 2002.

# MASTHEAD INSURANCE UNDERWRITING LIMITED

## Notes to the Financial Statements continued

### 7. Taxation

(a) Analysis of tax credit/(charge) in year	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Current tax:		
UK corporation tax on profits/(loss) of the period	(2,632,210)	(2,772,279)
Adjustment in respect of previous periods	2,743,547	(390,931)
	<u>111,337</u>	<u>(3,163,210)</u>
Deferred tax:		
Originating and reversal of timing differences	(13,226)	(204,983)
Total deferred tax	(13,226)	(204,983)
Tax on profit/(loss) on ordinary activities	<u>98,111</u>	<u>(3,368,193)</u>
(b) Factors affecting tax credit/(charge) for period	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Profit/(loss) on ordinary activities before tax	4,387,128	(1,201,575)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	(1,316,138)	360,472
Effects of:		
Expenses not deductible for tax purposes	-	(1,157)
Unrealised investment profits/(losses) on equities	621,313	(3,501,777)
Equity dividends not subject to corporation tax	415,508	370,183
Write off of inter company balances not allowable for corporation tax	(2,295,755)	-
Unrealised gains on bonds taken to investment revaluation reserve	(57,138)	-
Adjustments to corporation tax charge in respect of prior years	2,743,547	(390,931)
Current tax credit/(charge) for the period Note 7 (a) above	<u>111,337</u>	<u>(3,163,210)</u>

### (c) Factors that may affect future tax charges

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

# MASTHEAD INSURANCE UNDERWRITING LIMITED

## Notes to the Financial Statements continued

### 8. Fixed asset investments

		2003 £	2002 £
Interests in group undertakings at cost		5,000	5,000
Other investments listed and unlisted at valuation		287,673,644	259,724,601
		<u>287,678,644</u>	<u>259,729,601</u>
Other investments			
	Listed £	Unlisted £	Total £
Cost at 1 January	268,364,011	3,000,000	271,364,011
Opening unrealised depreciation	(11,639,410)	-	(11,639,410)
Value at 1 January	<u>256,724,601</u>	<u>3,000,000</u>	<u>259,724,601</u>
Purchases at cost	501,253,096	-	501,253,096
Sales & maturities - proceeds	(472,481,946)	(3,000,000)	(475,481,946)
- realised losses on sales	(5,899,475)	-	(5,899,475)
Increase in unrealised appreciation	<u>8,077,368</u>	<u>-</u>	<u>8,077,368</u>
Value at 31 December	<u>287,673,644</u>	<u>-</u>	<u>287,673,644</u>
Cost at 31 December	291,235,687	-	291,235,687
Closing unrealised depreciation	(3,562,043)	-	(3,562,043)
Value at 31 December	<u>287,673,644</u>	<u>-</u>	<u>287,673,644</u>

### Interests in group undertakings

The company owns 100% of the ordinary share capital of the following companies which are incorporated in England:

Brit UW Limited - Lloyd's corporate member (active)  
 Masthead A Limited - Lloyd's corporate member (in run-off)  
 Masthead B Limited - Lloyd's corporate member (in run-off)  
 Masthead C Limited - Lloyd's corporate member (in run-off)  
 Masthead D Limited - Lloyd's corporate member (in run-off)  
 Masthead E Limited - Lloyd's corporate member (in run-off)

The directors are of the opinion that the aggregate value of the company's investments is not less than the amount stated in the Balance Sheet.

# MASTHEAD INSURANCE UNDERWRITING LIMITED

## Notes to the Financial Statements continued

### 9. Debtors

	2003 £	2002 £
Due within one year:		
Amounts due from group companies	18,891,216	19,649,177
Other debtors	5,101	5,247
	<u>18,896,317</u>	<u>19,654,424</u>

### 10. Creditors

	2003 £	2002 £
Amounts falling due within one year:		
Amounts due to group companies	273,878,734	247,947,411
Accruals and deferred income	225,130	177,132
	<u>274,103,864</u>	<u>248,124,543</u>

### 11. Debtors: Amounts due after one year

	2003 £	2002 £
Unrealised losses on investments	<u>455,275</u>	<u>468,501</u>
Undiscounted asset for deferred taxation at the start of the period	468,501	673,484
Deferred tax credit in investment revaluation reserve		
Deferred tax credit in profit and loss account for period (note 7)	<u>(13,226)</u>	<u>(204,983)</u>
Deferred tax asset at the end of period (note 9)	<u>455,275</u>	<u>468,501</u>

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

### 12. Called up equity share capital

	2003 £	2002 £
Authorised		
46,000,000 ordinary shares 25p each	<u>11,500,000</u>	<u>11,500,000</u>
Issued and fully paid:		
40,251,000 ordinary shares 25p each	<u>10,062,750</u>	<u>10,062,750</u>

# MASTHEAD INSURANCE UNDERWRITING LIMITED

## Notes to the Financial Statements continued

### 13. Investment revaluation reserve

	2003 £	2002 £
At 1 January	-	-
Movement in unrealised gains	5,721,642	-
At 31 December	5,721,642	-

### 14. Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Profit/(Loss) for the year	4,485,239	(4,569,768)
Movements in unrealised losses	5,721,642	-
Net increase/(decrease) in shareholders' funds	10,206,881	(4,569,768)
Shareholders' funds at 1 January	47,125,693	51,695,461
Shareholders' funds at 31 December	57,332,574	47,125,693

### 15. Financial commitments

There was no authorised future capital expenditure at either 31 December 2003 or 31 December 2002.

### 16. Controlling party

The ultimate holding company of Masthead Insurance Underwriting Limited is Brit Insurance Holdings PLC, a company incorporated in England. Copies of the accounts of Brit Insurance Holdings PLC can be obtained from 55 Bishopsgate, London, EC2N 3AS.

### 17. Related party transactions

The directors have taken advantage of the exemption under FRS8 which does not require disclosure of transactions with other group companies as it is a 100% owned subsidiary.

### 18. Contingent liabilities

The company entered into a fixed and floating charge with Lloyd's which supports the deeds of covenant of its corporate member subsidiaries, being Masthead A Limited, Masthead B Limited, Masthead C Limited, Masthead D Limited and Masthead E Limited. This is to guarantee their obligations at Lloyd's.

At end of 1999 year of account, the following corporate members of the Brit Insurance Holdings PLC Group were placed into run-off:

FUIT One Limited	HCG Alpha Limited
FUIT Two Limited	HCG Bravo Limited
FUIT Three Limited	HCG Charlie Limited
FUIT Four Limited	HCG Delta Limited
FUIT Five Limited	HCG Echo Limited
Masthead A Limited	HCG Foxtrot Limited
Masthead B Limited	
Masthead C Limited	
Masthead D Limited	
Masthead E Limited	

# **MASTHEAD INSURANCE UNDERWRITING LIMITED**

## **Notes to the Financial Statements continued**

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### **18 Contingent liabilities (continued)**

Brit UW Limited, a direct subsidiary of Masthead Insurance Underwriting Limited, is the only active underwriting corporate member for the 2000 and post years of account.

In November 1999, a deed of further charge was entered into to support the underwriting activities of Brit UW Limited and also the corporate members noted above.

Masthead Insurance Underwriting Limited entered into new deeds of covenant with Lloyd's to cover the run-off liabilities of the above corporate members. It has also entered into guarantees with respect to the interavailable funds provided by the ceasing corporate members. As at 31 December 2003, £86,807,120 (2002:£88,126,983) has been made interavailable between the ceasing corporate members and Brit UW Limited

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