

HIGHWAY INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

31ST DECEMBER 2001

COMPANY REGISTRATION NUMBER: 3730662



DIRECTORS' REPORT

The directors are pleased to submit their report and the audited financial statements for the year ended 31st December 2001.

REVIEW OF BUSINESS

The Company is an insurance company regulated by the Financial Services Authority.

RESULTS AND DIVIDEND

The profit for the financial period amounted to £3,298,000 (2000: profit £4,092,000). The directors do not recommend the payment of a dividend.(2000: £Nil).

DIRECTORS

The following have been directors from 1st January 2001 to the date of this report, unless otherwise stated:

- * The Lord Poole (Chairman) (Resigned on 26th March 2002)
- G Avenel
- S R Davies
- P M J Fraser (Appointed on 7th February 2001)
- * A J Gibson
- C D Hill (Appointed on 7th November 2001)
- R B M Hurley (Resigned on 13th January 2002)
- Mrs J A Kellie
- N J Lee (Appointed on 7th February 2001)
- ** Q J Lovis
- D W Murray (Appointed on 7th February 2001)
- I W J Patrick
- J M Stoker

* Director of the ultimate holding company, Ockham Holdings PLC.

** Director of the holding company, Ockham Personal Insurance Holdings PLC

The interests of the directors at 31st December 2001 in the share capital of the ultimate holding company, with the exception of directors who were also directors of the ultimate holding company, whose interests are shown in the accounts of that company, were as follows:

	At 31st December 2001		At 1st January 2001 or date of appointment if later	
	Ordinary 20p shares in Ockham Holdings PLC		Ordinary 20p shares in Ockham Holdings PLC	
	Holding	Options	Holding	Options
G Avenel	-	-	-	-
S R Davies	2,511	-	2,511	-
P M J Fraser	-	-	-	-
C D Hill	-	-	-	-
R B M Hurley	-	-	-	-
J A Kellie	-	-	-	-
Q J Lovis	29,356	-	29,356	-
D W Murray	-	-	-	-
I Patrick	9,125	164,000	9,125	164,000
J M Stoker	18,250	-	18,250	-
N J Lee	-	133,500	-	133,500

Awards of 385,492, 38,549 and 96,373 incentive "C" shares of £1 each in Ockham Personal Insurance Holdings PLC were made to Mr Q J Lovis, Mr D W Murray and Mr S Davies respectively, in November 1996 under the Ockham Personal Insurance Holdings PLC Restricted Share Scheme. The awards remained outstanding at 31st December 2001.

Awards of 94,000 and 20,000 Ockham Holdings PLC ordinary shares of 20p each was made to Mr Patrick in April and December 2000.

Awards of 68,500 and 15,000 Ockham Holdings PLC ordinary shares of 20p each was made to Mr Lee in April and December 2000.

The awards remained outstanding at 31st December 2001. The Plan runs for three years from the date of the award.

This date can be extended by a further two years by the Remuneration Committee.

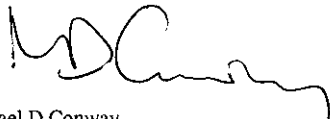
DIRECTORS' REPORT

AUDITORS

On the 28th June 2001, Ernst & Young, the Company auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28th June 2001.

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to read 'MDC', followed by a long, horizontal, wavy line.

Michael D Conway
Secretary

3rd Floor
164 Bishopsgate
London
EC2M 4NY
17th April 2002

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 4 to 12, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. These accounts have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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.

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF HIGHWAY INSURANCE COMPANY LIMITED

We have audited the company's financial statements for the year ended 31 December 2001 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

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 United Kingdom law and 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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

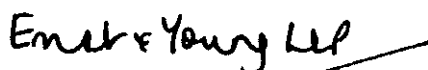
Basis of audit opinion

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31st December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London
17th April 2002

TECHNICAL ACCOUNT

	Notes	2001 £ 000's	2000 £ 000's
Premiums written, net of reinsurance:			
Gross premiums written - continuing business	2	82,863	79,681
Outward reinsurance premiums		(5,517)	(6,614)
Net premiums written		77,346	73,067
Change in gross unearned premiums		(9,513)	(31,953)
Change in outward reinsurance premiums		622	2,652
Change in net unearned premiums		(8,891)	(29,301)
Net earned premiums		68,455	43,766
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT		6,115	3,442
Total Technical income		74,570	47,208
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid		(31,533)	(8,830)
Reinsurers's share		10	5
Net paid claims		(31,523)	(8,825)
Change in the provision for claims:			
Gross amount		(21,265)	(25,700)
Reinsurers' share		(474)	3,115
Change in the net provision for claims		(21,739)	(22,585)
CLAIMS INCURRED, NET OF REINSURANCE		(53,262)	(31,410)
Net operating expenses	4	(15,268)	(10,466)
Change in the equalisation provision	11	(72)	-
TOTAL BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		5,968	5,332

NON-TECHNICAL ACCOUNT

	Notes	2001 £ 000's	2000 £ 000's
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		5,968	5,332
Investment Income	5	6,081	3,791
Unrealised gains on investments	5	-	334
Investment expenses and charges	5	(471)	-
Unrealised losses on investments	5	(395)	-
Net longer term investment return transferred to the Technical account - general business	6	(6,115)	(3,442)
Total Income		<u>5,068</u>	<u>6,015</u>
Other charges - expenses		181	170
Operating profit		<u>4,887</u>	<u>5,845</u>
Continuing operations		4,887	5,845
Operating profit		4,887	5,845
Operating profit based on longer term investment return		5,691	5,162
Short term fluctuations in investment return	6	(804)	683
Profit on ordinary activities before taxation		<u>4,887</u>	<u>5,845</u>
Taxation on profit on ordinary activities	8	(1,589)	(1,753)
Profit on ordinary activities after taxation		<u>3,298</u>	<u>4,092</u>
Retained profit for the financial year	14	<u>3,298</u>	<u>4,092</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR TO 31ST DECEMBER 2001

There were no recognised gains or losses other than the profit attributable to the shareholder of £3,298,000 (2000: £4,092,000) for the year to 31st December 2001.

BALANCE SHEET AT 31ST DECEMBER 2001

	Notes	2001 £ 000's	2000 £ 000's
ASSETS			
INVESTMENTS			
Other financial investments	9	99,955	76,356
		<hr/>	<hr/>
		99,955	76,356
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned reinsurance premiums		3,274	2,652
Claims outstanding		2,641	3,115
		<hr/>	<hr/>
		5,915	5,767
DEBTORS			
Debtors arising out of direct insurance operations - intermediaries		22,666	8,080
Debtors arising out of reinsurance operations - intermediaries		416	159
Other debtors - amounts falling due within one year	10	1,720	986
		<hr/>	<hr/>
		24,802	9,225
OTHER ASSETS			
Cash at bank and in hand		8,057	9,922
Prepayments and accrued income		82	4,135
Deferred acquisition costs		9,119	7,558
		<hr/>	<hr/>
TOTAL ASSETS		147,930	112,963
		<hr/>	<hr/>

BALANCE SHEET AT 31ST DECEMBER 2001

	Notes	2001 £ 000's	2000 £ 000's
LIABILITIES			
CAPITAL AND RESERVES			
Called-up share capital	13	45,000	45,000
Profit and loss account	14	7,382	4,084
EQUITY SHAREHOLDERS FUNDS		52,382	49,084
TECHNICAL PROVISIONS			
Provision for unearned premium		41,466	31,953
Claims outstanding		46,102	25,700
Equalisation provision	11	72	-
		87,640	57,653
CREDITORS			
Creditors arising out of direct insurance operations		333	1,011
Other creditors amounts falling due within one year	12	2,393	2,622
		2,726	3,633
ACCRUALS AND DEFERRED INCOME		5,182	2,593
TOTAL LIABILITIES		147,930	112,963

Approved by the board of directors and signed on its behalf on 17th April 2002 by:



A J Gibson
Director

NOTES TO THE FINANCIAL STATEMENTS**1. ACCOUNTING POLICIES****Accounting convention**

The audited financial statements have been prepared in accordance with the special provisions relating to insurance companies in Section 255A of, and Schedule 9A to, the Companies Act 1985. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998 have been adopted.

Cash Flow Statement

In accordance with Financial Reporting Standard Number 1, Cash Flow Statements, the company is not required to prepare a cash flow statement because more than 90% of the voting rights of the Company are held within the Group and the Group's consolidated financial statements are publicly available.

Premiums

Gross written premiums represent premiums on business incepting during the period together with adjustments to premiums written in previous periods. The provision for unearned premiums represents that part of gross premiums written which is estimated to be earned after the balance sheet date. Outward reinsurance premiums are accounted for in the same period as the premiums for the direct or inward reinsurance to which they relate.

Unearned premiums provision

The provision for unearned premiums has been calculated based on management's best estimate of the earnings profile for premiums written during the year. The company introduced a new underwriting system in November 2001, resulting in some delays in premium processing and a consequent increase in pipeline premium recorded for December 2001. The earned/written ratios within the underwriting system are therefore less robust at 31 December 2001 and cannot be used to determine an unearned premium reserve on a 365's basis.

The estimate used is a best estimate of the earned percentage, which reflects the statistical data available to November 2001 and the even spread of premiums written during 2001.

The unearned premium will be calculated on a 365's basis at 31 December 2002 once implementation of the underwriting system is complete.

Claims

Claims incurred include all losses occurring during the year, whether reported or not, related handling costs and any adjustments to claims outstanding in previous years

Technical provisions - claims outstanding

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuerrer-Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each underwriting year, based upon the observed development of earlier years and expected loss ratios.

The main assumptions underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in future, for example to reflect public attitudes to claiming or varying levels of claims inflation. The approach adopted takes into account, inter alia, the nature and materiality of the business and the type of data available.

Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

Unexpired risk provision

A provision for unexpired risks is made when it is anticipated that unearned premiums will be insufficient to meet future claims and claims settlement expenses of business in force at the end of the period.

Equalisation provision

An equalisation provision has been established and calculated in accordance with the requirements of the Insurance Companies (Reserves) Regulations 1996.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Acquisition Costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Deferred taxation

Deferred taxation is accounted for on the liability method on timing differences to the the extent that a liability is expected to crystallise within the foreseeable future or an asset is expected to be recovered out of corporation tax payable on profits of the following accounting period.

Investment Income

Net investment return comprises investment income, unrealised gains and losses on investment, investment expenses and interest payable. The longer term return on investments which support the underwriting activities, initially allocated to the non-technical account, is transferred from that account to the technical account. The actual net investment return from other activities is included within the non-technical account as part of operating profit. The difference between the longer term return allocated to the technical account and the actual return achieved on the underlying assets is recorded in the non-technical account as 'Short term fluctuations in investment return'.

Investments

Financial investments are valued at mid-market price on 31st December.

2. SEGMENTAL ANALYSIS

The Company's business has all been underwritten in the EU which has been treated as one geographical segment. Segmental information in the format required by the Companies Act 1985, so far as available, is as follows:

	Gross premiums written		Gross claims incurred	
	2001	2000	2001	2000
	£ 000's	£ 000's	£ 000's	£ 000's
Motor - third party liability	47,560	44,765	30,399	13,272
Motor - other classes	32,697	33,494	20,897	20,907
Property	2,606	1,422	1,502	351
Total	82,863	79,681	52,798	34,530
	Net operating expenses		Reinsurance balance	
	2001	2000	2001	2000
	£ 000's	£ 000's	£ 000's	£ 000's
Motor - third party liability	8,775	5,880	3,092	324
Motor - other classes	6,034	4,399	2,126	510
Property	459	187	141	8
Total	15,268	10,466	5,359	842

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. DIRECTORS AND EMPLOYEES

	2001	2000
The Company has no employees.		
	£ 000's	£ 000's
Directors fees were as follows:		
Fees	85	70

The emoluments of the highest paid director were as follows:

	£ 000's	£ 000's
Emoluments excluding pension contributions	20	20

4. NET OPERATING EXPENSES - TECHNICAL ACCOUNT

	2001	2000
	£ 000's	£ 000's
Acquisition costs	13,376	15,529
Movement in deferred acquisition costs	(1,561)	(7,558)
Administrative expenses	3,453	2,495
	15,268	10,466

5. INVESTMENT RETURN

	2001	2000
	£ 000's	£ 000's
Investment income	6,004	3,128
Unrealised (losses)/gains on investments	(395)	334
Gains on realisation of investments	77	663
	5,686	4,125
Investment expenses and charges	(471)	-
Total investment return	5,215	4,125

6. INVESTMENT INCOME - TECHNICAL ACCOUNT

	2001	2000
	£ 000's	£ 000's
Underwriting investment income on a long term rate of return basis transferred to technical account	6,115	3,442
Short term fluctuations in investments	(804)	683
Investment expenses and charges	(96)	-
	5,215	4,125

The transfer to the technical account represents the estimated long term rate of return of 6.5% (2000: 6.5%) applied to the investment assets and solvency capital held by the company's insurance business.

7. OTHER CHARGES

Auditors remuneration was borne by the ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. TAXATION

	2001 £ 000's	2000 £ 000's
UK corporation tax:		
Current year	(1,557)	(1,753)
Prior period	(32)	-
	<u>(1,589)</u>	<u>(1,753)</u>

UK corporation tax has been provided at an effective rate of 30% (2000 - 30%)

9. INVESTMENTS

	2001 £ 000's	2000 £ 000's
Debt securities and other fixed income securities	83,772	63,722
Deposits with credit institutions	16,183	12,634
	<u>99,955</u>	<u>76,356</u>
Listed investment at market value	99,955	76,356
Value of investments at 1st January	76,356	38,126
Additions at cost	284,635	194,560
Sales at cost	(260,077)	(156,823)
Unrealised (depreciation)/appreciation	<u>(959)</u>	<u>493</u>
Value of investments held at 31st December	<u>99,955</u>	<u>76,356</u>

The historical costs of investments at the 31st December 2001 was £100,732,000 (2000: £73,941,000)

10. DEBTORS - amounts falling due within one year

	2001 £ 000's	2000 £ 000's
IT Recoverable	320	-
Other Debtors	1,400	986
	<u>1,720</u>	<u>986</u>

11. Equalisation provision

An equalisation provision has been established and calculated in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within the technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. This had the effect of reducing shareholders' funds by £72,000 (2000: £nil). The movement in equalisation provision during the year resulted in a decrease in the technical account and the profit before taxation of £72,000 (2000: £nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. CREDITORS - amounts falling due within one year

	2001 £ 000's	2000 £ 000's
Insurance Premium Tax	727	869
Corporation Tax	736	1,753
Amounts due to Ockham Personal Insurance Holdings PLC	225	-
Amounts due to Ockham Personal Investment Agency Limited	78	-
Other Creditors	627	-
	<u>2,393</u>	<u>2,622</u>

13. CALLED-UP SHARE CAPITAL

	£	£
Authorised:		
Ordinary £1 shares		
On 10th March 1999	1,000	1,000
On 29th November 1999	74,999,000	74,999,000
	<u>75,000,000</u>	<u>75,000,000</u>
Allotted, issued and fully paid:		
Ordinary £1 shares		
On 10th March 1999	2	2
On 17th December 1999	39,999,998	39,999,998
On 14th August 2000	5,000,000	5,000,000
	<u>45,000,000</u>	<u>45,000,000</u>

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	Share Capital £ 000's	Profit and loss account £ 000's
At 1st January 2001	45,000	4,084
Retained profit for the financial year	-	3,298
At 31st December 2001	<u>45,000</u>	<u>7,382</u>

15. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption in Financial Reporting Standard 8(3) from disclosure of related party transactions with other entities included in the consolidated financial statements of Ockham Holdings PLC.

16. ULTIMATE AND IMMEDIATE PARENT UNDERTAKINGS

The Company's immediate parent undertaking is Ockham Personal Insurance Holdings PLC, a company registered in England and Wales and the smallest holding company for which group accounts are prepared. The ultimate holding company, and the largest holding company for which group accounts are prepared, is Ockham Holdings PLC, a company registered in England and Wales. Copies of that company's financial statements may be obtained from 3rd Floor, 164 Bishopsgate, London EC2M 4NY.