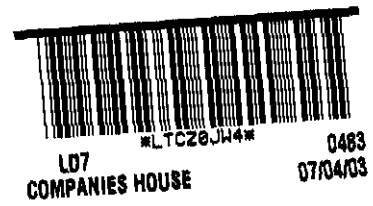


CHURCHILL INSURANCE GROUP PLC

ANNUAL REPORT & FINANCIAL STATEMENTS 2002

Registered number 2280426



CHURCHILL INSURANCE GROUP PLC

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CHURCHILL INSURANCE GROUP PLC

CHAIRMAN'S STATEMENT

A unique success story

Churchill Group has once again delivered excellent results. We continue to demonstrate a record of remarkable achievements and sustained excellence in every part of our business.

In 2002 our premium income increased by 15% to £2.14 billion (2001: £1.86 billion) and our profit before tax grew by 53% to £86.3 million (2001: £56.3 million). Our combined operating ratio (defined as claims incurred plus expenses divided by net earned premium) improved to 99.3% (2001: 100.2%). The current economic climate (with low interest rates and dramatic falls in stock market values) means that insurance companies will increasingly need to achieve combined operating ratios of under 100% if they are to make an adequate return on capital. I am particularly pleased that our endeavours have already led us to achieve this milestone; we will drive this ratio even lower over the coming years.

What is the Churchill Group?

Over time Churchill Group has evolved from a pure direct response insurer to a multi channel general insurance group offering a full range of products in the personal lines and small business sectors.

Despite our increased scale and complexity, certain elements of our strategy have remained constant throughout. These are, to:

- deliver sustained profitable growth
- deliver sustained profitable growth
 - ♦ unquestionably superior customer service
 - ♦ very strong brands

Churchill Group is now the UK's number 5 non-life insurer, based on premiums written. We employ over 8,500 people and insure over 7 million policyholders and we are able to satisfy customer needs and choice through the full range of distribution channels - 24 hours a day, 365 days a year.

An uncompromising focus on our strategy has led directly to strong positions in our chosen markets, as demonstrated by the following market rankings based on premiums written:

#5 UK Non Life	#1 Car extended warranty
#3 Private car	#6 Small business
#3 Home	#2 Pet
#2 Motorcycle	#2 Farm
#3 Legal expenses	#3 Premium finance provider
#3 Mobile phones	#1 Caravan intermediary

Quality of customer service

Churchill's success to date owes much to our belief that quality of customer service is the **only** long-term competitive advantage (with customers taking value for money as a 'given').

CHURCHILL INSURANCE GROUP PLC

CHAIRMAN'S STATEMENT

Our success in delivering consistently superior service has resulted in us winning numerous awards and accolades over the years. 2002 was no exception!

Insurance Times Awards

NIG won the award for "Best Insurer Overall" and "Best Commercial Insurer"
Finsure won runner-up in the "Best Premium Finance Company" category

Your Money Direct

Churchill Insurance was voted "Best Direct Motor Insurer" and "Best Internet Motor Insurance Provider" - both awards have been won for three years in succession

Lloyds TSB

Churchill was voted "Service Provider of the Year" by the insurance division of Lloyds TSB

Despite these successes we constantly seek to improve further by pursuing (and acting upon) feedback from our customers, staff and partners.

Churchill People

There is a simple formula to creating value. A clear strategy executed by great staff will lead to happy customers and value creation. Simple - but not easy; which is presumably why our competitors don't do this!

Making our success "happen" therefore depends entirely on our people. We work hard to create an atmosphere in which our employees can provide world-class customer service. Every employee is empowered to delight our customers - through the use of our "Say Yes Not No" policy; (permission has to be received to say 'no' to a customer).

We aim to recruit the very best staff, train them magnificently and develop them constantly. Our status as an employer of choice is recognised throughout the world. In the 2002 Sunday Times Best Employer Survey, Churchill Group was recognised as one of the top 25 companies to work for in the UK and was voted the number 1 employer for employee development. In India (where we have over 200 staff supporting our IT systems) Churchill India Limited is recognised as one of the top 65 employers in the entire sub-continent!

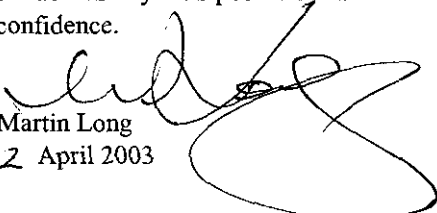
Moving forward

Churchill Group is already a highly successful business. We hold significant positions in our chosen markets, we are growing rapidly and at the same time further strengthening our profitability. We have strong brands and an excellent rapport with our customers and staff.

Moving forward into 2003, we will reinforce our position and confirm:

- ♦ an unassailable, pre-eminent position in our chosen markets
- ♦ a world-wide reputation for excellence and success
- ♦ brands out on their own for customer service

Once again, my sincere thanks go to all of our staff for the fantastic contribution they made in 2002. We are extraordinarily well positioned as a result of their endeavours and I look forward to 2003 and beyond with tremendous confidence.


Martin Long
2 April 2003

CHURCHILL INSURANCE GROUP PLC

OPERATIONAL AND FINANCIAL REVIEW

The operational and financial highlights of the Churchill Insurance Group in 2002 are set out below.

Group income

Gross written premiums for 2002 totalled £2.14 billion – an increase of 15% over 2001 (£1.86 billion), of which £1.2 billion was written by Churchill Insurance and £0.9 billion by NIG.

Our income is derived from 3 core business activities - car and home insurance for the personal market and small-to-medium enterprise (“SME”) commercial lines insurance. We also write 'special risks' insurance, such as motor warranty.

Group profits

Pre-tax profits of the Group in 2002 were £86.3 million, an increase of 53% over 2001 (£56.3 million).

The main constituents of Group profits are set out below.

	2002 £'m	2001 £'m
Churchill Insurance	45.9	29.8
NIG	36.0	22.1
Intermediary division	1.4	1.6
CSG Claims Services Limited	3.3	(0.2)
Finsure	1.9	4.4
Other	(2.2)	(1.4)
Total	86.3	56.3

The financial performance of each key business unit is discussed below.

Churchill Insurance

Premium income grew 9% in 2002 to £1.2 billion. This increase reflects healthy growth across all of the distribution channels in which Churchill operates – direct, partnership and broker.

Of this £1.2 billion of premium income, £0.5 billion relates to sales made under the Churchill brand and £0.7 billion to the sale of policies branded by our corporate partners.

Further growth in motor volumes in 2002 arose from our increasingly successful involvement in the broker market. Churchill Insurance now participates in more than 20 of the largest retail broker panels, insuring over 200,000 customers. Almost 20% of Churchill Insurance's motor business in 2002 came via this channel.

Overall, the in-force portfolio grew by 13% to 5.2 million. At 31st December 2002, there were 1.7 million motor policies and 3.5 million home policies in force.

Churchill Insurance delivered profits in 2002 of £45.9 million, a significant increase on the profit of £29.8 million achieved in 2001. The improvement arose principally from a very strong performance on the motor account.

CHURCHILL INSURANCE GROUP PLC

OPERATIONAL AND FINANCIAL REVIEW

NIG

NIG premiums also grew strongly in 2002 to £0.9 billion, an increase of 23% over 2001, and almost two and a half times the business volumes written by NIG when it was acquired by Churchill in 2000. The 2002 growth was achieved primarily in the Commercial Lines sector, where premiums grew by 63% to £288 million.

NIG's total portfolio totalled 1.4 million policies at the end of 2002, slightly ahead of 2001. The portfolio comprised 165,000 commercial lines policies, 870,000 personal motor policies, and 340,000 other personal lines policies.

In addition to growing its premium volumes, NIG also improved profitability in 2002. The combined ratio of NIG improved from 103.8% to 100.5% in 2002, reflecting, in particular, a very strong performance in the motor portfolio. The motor combined ratio was 93.9%. The Commercial Lines combined ratio, including Special Risks, was disappointing at 103.6% largely due to unusually poor results on legal expenses business within the special risks portfolio.

Intermediary division

Devitt, our specialist motorcycle and caravan intermediary, increased income by 7% to £16m, reflecting healthy growth in both of its core lines of business.

Inter Group, in its first full year within the Churchill Group, increased its income by 25% to £10m, despite difficult trading conditions for the travel insurance business in the aftermath of the World Trade Center attack.

Despite the increase in income, the division's profits of £1.4m were down on 2001 (£1.6m) due to investments in staff and infrastructure necessary to cope with the increase in business volumes.

Other operations

CSG, our in-house claims management company, generated profits of £3.3 million in 2002, compared to a loss of £0.2 million in 2001.

Finsure, our premium finance company, had a disappointing year with profits reduced to £1.9 million (2001: £4.4 million) partly due to disruption arising from a poorly executed system implementation. The problems resulting from this are now resolved and Finsure looks set to produce significantly improved results in 2003.

CHURCHILL INSURANCE GROUP PLC

OPERATIONAL AND FINANCIAL REVIEW

Corporate activity

Churchill Group has made excellent progress in 2002 in integrating the AMP Pearl and Prudential portfolios and the Inter Group business acquired in 2001.

- All AMP Pearl business has now been successfully migrated onto Churchill's administration systems
- We commenced underwriting Prudential new business on Churchill systems on 1 May 2002, and we are currently migrating the in-force portfolio
- We are successfully expanding the travel administration business operated by Inter Group.

In total, 4,000 new staff have joined the Group through corporate activity over the last three years. We have worked very hard to ensure that our unique company culture and values are fostered in all parts of the organisation, while ensuring that we retain the strengths of the units we acquire.

Churchill Group has also taken over the general insurance portfolio of Avon Insurance from 1 January 2003. The Avon portfolio is a well regarded profitable book, and will further strengthen our position in the broker market.

CHURCHILL INSURANCE GROUP PLC

CORPORATE INFORMATION

Directors:

M P Long (Chairman)
M Broska (resigned 1 March 2003)
J R Dacey
J W Timmis
J B O'Roarke

Registered office:

Churchill Court
Westmoreland Road
Bromley
Kent
BR1 1DP

Telephone 020 8313 3030

Registered number:

2280426 England

Company secretary:

P B Cassidy

Group Executive:

Martin Long, *Chairman and CEO*
John O'Roarke, *Group Managing Director*

Executive Directors:

Steve Hardy
Charles Crawford
Peter Horton
Phil Bunker
Andrew Blowers
Mike Quinton
Marie-Ange Bouchard

CHURCHILL INSURANCE GROUP PLC

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report and audited financial statements for the year ended 31 December 2002.

Principal activity

Churchill Insurance Group PLC (the Company) is a holding company for the Churchill Group of companies (the Group).

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Business review and future prospects

The Group maintained its strong growth and traded successfully during the year. A full review of the business is contained in the operational and financial review on page 4 to page 6.

Result and dividend

The result for the year is set out on page 12. The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2002 (2001: nil).

Directors and directors' interests

The names of the directors holding office during the year were as follows:

M P Long
M Broska (resigned 1 March 2003)
J R Dacey
J W Timmis
J B O'Roarke

The following directors hold an interest directly or have a beneficial interest in the £1 ordinary shares of Churchill Management Limited (a subsidiary company).

	<u>Number of shares</u>	
	2002	2001
M P Long	130,395	129,606
J B O'Roarke	35,000	25,000

Fees paid by the group for taxation and administration services, amounting to £45,100 (2001: £31,682), were paid to a firm owned by J W Timmis.

Employees

The Group has an equal opportunity policy of being fair, responsible and caring in all aspects of its business and treats everyone fairly and with dignity.

The Group has effective communication channels with its employees including extensive use of technology and regular forums where the Group's performance and plans are explained.

CHURCHILL INSURANCE GROUP PLC

REPORT OF THE DIRECTORS (Continued)

Churchill Insurance Company Ltd has accreditation from Investors in People (IIP) and ISO 9002, and all parts of the Group are working to maintain these standards.

Employment of disabled persons

The Group's employment policy encourages the recruitment, training and advancement of disabled persons.

Creditors payment policy

It is the Company and Group's policy to pay its creditors promptly and within agreed terms and conditions. At 31 December 2002, the Company's outstanding trade creditors represented nil days purchases (2001: nil) and the Group's outstanding trade creditors represented 21 days purchases (2001: 19 days).

Political and charitable contributions

The Group made no political contributions during the year (2001: nil). Donations to UK charities amounted to £110,310 (2001: £54,503).

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

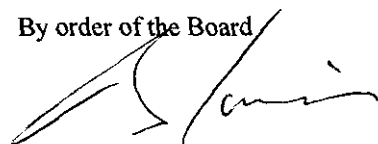
- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;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

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

Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditor of the company.

By order of the Board



P B Cassidy, Secretary
2 April 2003

CHURCHILL INSURANCE GROUP PLC

REPORT OF THE AUDITOR

Independent auditor's report to the members of Churchill Insurance Group PLC .

We have audited the financial statements on pages 11 to 40.

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 9, 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.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount 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 note 25.

Opinion

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

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8, Salisbury Square
London EC4Y 8BB
2003 April 2003

CHURCHILL INSURANCE GROUP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT - GENERAL BUSINESS for the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Earned premiums, net of reinsurance			
Gross premiums written	3	2,139.4	1,861.7
Outward reinsurance premiums		<u>(199.6)</u>	<u>(150.1)</u>
Net premiums written		1,939.8	1,711.6
Change in the provision for unearned premiums			
Gross amount		(308.7)	(447.4)
Reinsurers' share		<u>8.0</u>	<u>10.4</u>
Change in the net provision for unearned premiums		<u>(300.7)</u>	<u>(437.0)</u>
<u>1,639.1</u>			
Allocated investment income transferred from non-technical account			
	6	60.1	35.9
Other technical income, net of reinsurance			
	7	34.0	26.8
<u>1,733.2</u>			
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(1030.2)	(637.4)
Reinsurers' share		<u>58.4</u>	<u>61.9</u>
Net claims paid		<u>(971.8)</u>	<u>(575.5)</u>
Change in the provision for claims			
Gross amount		(118.6)	(383.0)
Reinsurers' share		<u>11.6</u>	<u>6.6</u>
Net change in the provision for claims		<u>(107.0)</u>	<u>(376.4)</u>
<u>(1078.8)</u>			
Net operating expenses	5/8	(560.9)	(352.6)
Other technical charges, net of reinsurance	9	(3.7)	(2.7)
Change in equalisation provision	25	(19.9)	3.0
<u>(1663.3)</u>			
Balance on the technical account - transferred to non-technical account			
		<u>69.9</u>	<u>33.1</u>

The notes on pages 17 to 40 form an integral part of these financial statements.

CHURCHILL INSURANCE GROUP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT for the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Balance on the general business technical account		69.9	33.1
Investment income	6	92.5	77.9
Net realised (loss)/gain on investments	6	(7.9)	3.8
Unrealised gains on investments	6	30.1	-
Investment expenses and charges	6	(7.6)	(3.1)
Unrealised losses on investments	6	(27.6)	(20.0)
Investment return allocated to the technical account	6	(60.1)	(35.9)
Other income	10	37.4	33.5
Other charges	11	(40.4)	(47.0)
Operating profit before exceptional items		86.3	42.3
Exceptional items	19	-	14.0
Profit on ordinary activities before tax		86.3	56.3
Tax on profit on ordinary activities	16	(24.8)	(15.2)
Profit on ordinary activities after tax		61.5	41.1
Minority interests		(0.7)	0.2
Profit retained for the financial year	23	60.8	41.3
Retained profit brought forward	23	91.5	50.2
Retained profit carried forward		152.3	91.5

The notes on pages 17 to 40 form an integral part of these financial statements.

CHURCHILL INSURANCE GROUP PLC

CONSOLIDATED BALANCE SHEET as at 31 December 2002

	Notes	2002 £m	2001 £m Restated (see note 2)
ASSETS			
Intangible assets	14	82.2	105.9
Investments			
Freehold land and buildings	15	57.7	57.2
Other financial investments	17	<u>1,638.4</u>	<u>1,397.7</u>
		1,696.1	1,454.9
Reinsurers' share of technical provisions			
Provision for unearned premiums	26	61.8	53.9
Claims outstanding	26	<u>84.8</u>	<u>73.2</u>
		146.6	127.1
Debtors			
Debtors arising out of direct insurance operations	20	425.3	309.3
Debtors arising out of reinsurance operations	20	421.6	354.4
Other debtors	20	<u>95.5</u>	<u>41.8</u>
		942.4	705.6
Tangible fixed assets	21	64.4	33.4
Work in progress		0.8	0.5
Cash at bank and in hand		49.1	12.8
Prepayments and accrued income			
Accrued interest		15.7	12.6
Deferred acquisition costs	27	467.6	280.7
Other prepayments and accrued income		<u>7.1</u>	<u>5.3</u>
		490.4	298.6
Total assets		<u><u>3,472.0</u></u>	<u><u>2,738.8</u></u>

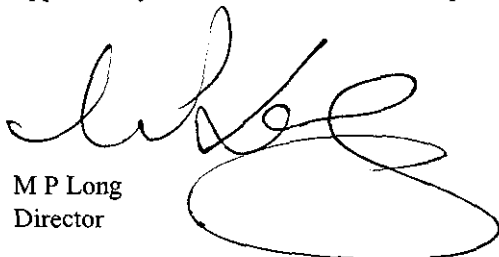
The notes on pages 17 to 40 form an integral part of these financial statements.

CHURCHILL INSURANCE GROUP PLC

CONSOLIDATED BALANCE SHEET as at 31 December 2002

	Notes	2002 £m	2001 £m
LIABILITIES			
Capital and reserves			
Called up share capital	22	400.0	159.4
Capital contribution	23	100.0	-
Profit and loss account	23	152.3	91.5
Equity shareholders' funds		<u>652.3</u>	<u>250.9</u>
Minority interests - equity		1.5	0.8
	3	<u>653.8</u>	<u>251.7</u>
Technical provisions			
Provision for unearned premiums	26	1,308.3	999.4
Claims outstanding	26	1,088.0	956.4
Equalisation provision	26	29.3	9.4
		<u>2,425.6</u>	<u>1,965.3</u>
Provision for other risks and charges			
Deferred taxation	24	3.1	0.2
Creditors			
Creditors arising out of direct insurance operations	29	25.9	15.3
Creditors arising out of reinsurance operations	29	1.7	-
Other creditors	29	334.6	498.6
		<u>362.2</u>	<u>513.9</u>
Accruals and deferred income			
		27.3	7.8
Total liabilities		<u>3,472.0</u>	<u>2,738.8</u>

Approved by the Board on 2 April 2003


M P Long
Director

The notes on pages 17 to 40 form an integral part of these financial statements.

CHURCHILL INSURANCE GROUP PLC

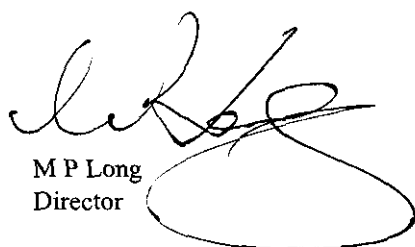
PARENT COMPANY PROFIT AND LOSS ACCOUNT for the year ended 31 December 2002

Churchill Insurance Group PLC (the parent company) recorded a loss after tax of £2.8 million during the current year.

PARENT COMPANY BALANCE SHEET as at 31 December 2002

	Notes	2002 £m	2001 £m
Fixed assets			
Investments in group undertakings and participating interests	18	<u>588.7</u>	<u>490.6</u>
Debtors			
Other debtors	20	10.2	-
Creditors			
Other creditors	29	(101.7)	(331.2)
Net current liabilities		<u>(91.5)</u>	<u>(331.2)</u>
Total assets less current liabilities		<u>497.2</u>	<u>159.4</u>
Share capital and reserves			
Called up share capital	22	400.0	159.4
Capital contribution	23	100.0	-
Profit and loss account		(2.8)	-
Equity shareholders' funds		<u>497.2</u>	<u>159.4</u>

Approved by the Board on 2 April 2003


M P Long
Director

The notes on pages 17 to 40 form an integral part of these financial statements.

CHURCHILL INSURANCE GROUP PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS as at 31 December 2002

<i>Group</i>	Notes	2002 £m	2001 £m
Profit for the financial year	23	60.8	41.3
Increase in share capital	22	240.6	77.0
Capital Contribution	23	100.0	-
Net addition to shareholders' funds		<u>401.4</u>	<u>118.3</u>
Opening shareholders' funds		250.9	132.6
Closing shareholders' funds		<u><u>652.3</u></u>	<u><u>250.9</u></u>
 <i>Company</i>			
Loss for the financial year		(2.8)	-
Increase in share capital	22	240.6	77.0
Capital Contribution	23	100.0	-
Net addition to shareholders' funds		<u>337.8</u>	<u>77.0</u>
Opening shareholders' funds		159.4	82.4
Closing shareholders' funds		<u><u>497.2</u></u>	<u><u>159.4</u></u>

The notes on pages 17 to 40 form an integral part of these financial statements.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation and consolidation

The group financial statements, which consolidate the financial statements of the company and its subsidiary undertakings, have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to the Companies Act 1985 except as noted below under investments. The Balance Sheet of the parent company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards and under the historical accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice on Accounting for Insurance Business (the SORP) issued by the Association of British Insurers.

Cash flow statement

Under Financial Reporting Standard No. 1 (revised), the group is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of a parent undertaking that prepares publicly available consolidated financial statements including a cash flow statement dealing with the cash flows of the group.

Basis of consolidation

The consolidated accounts of the group include the accounts of all the subsidiary companies, all of which (except Churchill India Limited) are made up to 31 December 2002. Churchill India Limited's statutory obligations fall annually on 31 March, however, the results based on the group accounting period have been used for consolidation purposes. In the year of acquisition or disposal, the results of subsidiary undertakings are included in the accounts from or up to the respective date of purchase or disposal.

The consolidated profit and loss account combines the results of the company with those of all of its subsidiaries for the year ended 31 December 2002 together with the results of Indemnity Insurance Limited for the 7 month period since acquisition.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements, except where stated otherwise.

(a) Basis of accounting for general insurance business

All classes of business are accounted for on an annual basis.

(b) Premiums

Written premiums comprise the premiums due (exclusive of taxes and duties levied on premiums) on contracts entered into during the financial year, regardless of whether such amounts relate in whole or in part to a later financial year.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

(c) Unearned premiums

For general business accounted for on the annual basis, the provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the 24ths or 12ths method, depending on the type of business written, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

(d) Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned.

Deferred acquisition costs represent the proportion of acquisition costs incurred, which corresponds to the proportion of premiums written which are unearned at the balance sheet date.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Accounting policies (continued)

(e) Provision for claims outstanding

Claims outstanding comprise the estimated cost of settling all claims notified based on notifications from policyholders, intermediaries and assessors and claims incurred but not reported (IBNR). For Churchill Insurance and Indemnity Insurance, these figures are based on statistical techniques of estimation applied by the company's in-house actuaries. For NIG and Hallmark, these figures are produced by external consulting actuaries and reviewed and, if necessary, amended by the in-house actuarial team. Any such amendments always result in the reserves booked being higher than that estimated by the external actuaries. Claims outstanding reflect the position as at the balance sheet date and include related internal and external claims handling costs expenses. Anticipated reinsurance recoveries and, where available, estimates of salvage and subrogation recoveries, are disclosed separately as assets.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim is generally available. Details of claims IBNR are sometimes not made apparent to the insured until many years after the event giving rise to the claim has occurred. Classes of business where the IBNR proportion of the total provision is high will usually show greater variations between initial estimates and final outcomes due to a greater difficulty in estimating these provisions. For classes of business where claims are usually notified fairly quickly after the claim event, these generally show lower levels of volatility between initial estimates and final outcomes.

A range of techniques, including claim triangulations, average claim cost, capped and excess methods, is used to determine the IBNR claims provisions, but allowance is made for changes and uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims.

The following factors and assumptions are significant to the techniques used:

- changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- the historical pattern of development of incurred claims is a good predictor of future development;
- the average cost of property damage claims is assumed to increase by 4-6 % p.a. and bodily injury claims by 12% p.a.
- no changes to the current legal environment are assumed, although the inflationary factor used for bodily injury claims is based on the historical development seen, and therefore also allows for some increases due to changes in common and statute law.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material.

The provisions, estimation techniques, and assumptions are periodically reviewed with any changes in estimates reflected in the general business technical account as they occur.

Estimation techniques

A variety of methods are used and the selected estimates are the weighted average of the results from both different methods and models within methods.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Accounting policies (continued)

Loss ratio method

Claims IBNR provisions for small, short tail classes of business such as travel are projected using the loss ratio method. The loss ratio method uses the ultimate loss ratio (ULR) to estimate the ultimate cost of claims for each class of business. The IBNR provision is then calculated as the ultimate projected cost of claims less the cost of claims notified to date.

Average claims method

Claims IBNR provisions for other short tail classes of business are projected using the average claims method.

The ultimate cost of claims is estimated by multiplying the average cost of claims by the ultimate number of claims. The IBNR provision is then calculated as the ultimate projected cost of claims less the cost of claims notified to date.

The ultimate number of claims is determined using triangulation techniques as detailed below. The average claim cost is determined using the average claims cost for accident years which are fully developed (or almost fully developed). Allowance is then made for the effect of inflation (using an appropriate index) and other factors which affect the cost of claims, such as changes in claim recording practices etc.

Triangulation methods

Claims IBNR provisions for all classes of business are projected using triangulation methods on a variety of statistics, such as numbers of claims reported, uncapped paid claim costs and uncapped incurred claim costs. In addition for the motor classes of business, the above information is split at a peril level, with the bodily injury claim costs also being examined on a capped and excess basis, (where the claims are capped at £50K for 1996 in real terms, inflated and deflated at 12% p.a.). Similarly, for liability, claims are also examined on a capped and uncapped basis. The IBNR provision is then calculated as the ultimate projected cost of claims less cumulative claims paid (in the case of projections based on cumulative claims paid) or cumulative claims incurred (in the case of projections based on cumulative claims incurred) to date.

Triangulation methods for numbers of claims reported, paid claims and incurred claims are based on the assumption that the relative change in a given accident or underwriting year's estimates from one evaluation point to the next are similar to the relative change in prior years' accident or underwriting years estimates. However these are not necessarily indicative of future experience.

For triangulation methods based on cumulative claims incurred - The method's implicit assumption is that claim estimation methods have been applied consistently over time and that there have been no material changes in the rate at which claims have been notified and incurred.

For triangulation methods based on cumulative claims paid - This method has the disadvantage over projections based on claims incurred of ignoring information provided by current outstanding claims provisions but has the advantage of avoiding distortions which could arise from changes in provisioning methods. The method's implicit assumption is that the rate of payment of claims has not changed materially over time.

The results of triangulation techniques are also very sensitive to the way in which:

- data is subdivided for analysis – the extra granularity due to the data being split at peril level for the motor classes enables a more accurate assessment to be made as it allows for changes in the proportions by claims type over time, and development patterns are more stable at this level.
- the way in which large claims, unusual claims, latent claims and catastrophe claims are dealt with – in the motor classes, the bodily injury claims are examined on a capped and excess basis, where claims are capped at £50K in 1996 in real terms and then inflated/deflated at 12% p.a.; for the large property classes, catastrophe claims are examined separately.
- the outcome of legal decisions impact on the cost of liability claims (this is provided for separately where appropriate)
- the mix and growth of business changes over time – month of accident by month of development triangles are used to minimise the effect of this.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Accounting policies (continued)

Bornhuetter-Ferguson method

For certain long tail classes of business the Bornhuetter-Ferguson method is used to determine claims IBNR provisions. The Bornhuetter Ferguson method uses the claims pattern, determined using triangulation techniques and the initial expected ultimate loss ratio. The claims pattern is used to calculate, based on the ultimate loss ratios, how much future development is expected for each year being projected. These future developments can be added to actual claims development to date in order to estimate the projected ultimate development for each year. Future claims are calculated by multiplying the expected loss ratio by the ultimate premium for the accident or underwriting year and then applying the claims pattern to apportion ultimate claims between notified and IBNR claims.

The method makes assumptions in respect of:

- the initial loss ratios selected and the accuracy of the triangulation techniques used to determine the payment/incurred claim cost pattern
- that the rate of payment of claims or claims estimation has not changed materially over time
- the way in which data is subdivided for analysis
- the way in which large claims, unusual claims, latent claims and catastrophe claims are dealt with.

(f) IBNR - exposure based analysis

In addition to the estimated techniques above, for types of business where the ultimate liability is particularly uncertain, exposure-based analysis considers the impact of an event on a contract-by-contract basis. However, for Churchill Group, this is only applicable to certain limited segments/contracts within the Special Risks business. For those contracts where this approach is required, the maximum cover provided is investigated with the aim of obtaining an indication of the upper range of the provision, which is used to identify the additional "non-specific IBNR" required to ensure that the gross estimates are not implausible.

(g) Reinsurance recoveries

Outstanding claims provisions are assessed gross and net of reinsurance (using the methods outlined above) and consistent with the reinsurance program in place to cover claims incurred to the end of 2002. The reinsurance recoveries recognised are sensitive to the accuracy of the projection of gross provisions. The reinsurance recoveries recognised are also sensitive to the potential for reinsurance bad debts. Provision is made for all anticipated reinsurance bad debts at the year-end.

(h) Provision for unexpired risks

Provision is made for unexpired risks arising from general business where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium provision in relation to such policies after the deduction of any acquisition costs deferred. The expected value is determined by reference to recent experience and allowing for changes to the rates. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together after taking account of relevant investment returns.

The calculation is particularly sensitive to the estimation of the ultimate cost of claims for the particular classes of business (which are described above with respect to outstanding claims provisions), the estimation of future claims handling costs and the rate of investment return assumed in the calculation.

(i) Salvage and subrogation recoveries

Where available, estimates of salvage and subrogation recoveries are disclosed separately as assets.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Accounting policies (continued)

(j) Stock and work in progress

Stock and work in progress is valued at the lower of cost and net realisable value.

(k) Equalisation provision

Equalisation provisions have been established and calculated in accordance with the requirements of Chapter 6 of the Integrated Prudential Sourcebook for Insurers to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

(l) Investments

Group

Deposits are shown in the balance sheet at current value.

Listed investments are stated at mid-market value on the balance sheet date, or on the last stock exchange day before the balance sheet date.

Unlisted investments, for which a market exists, are valued at the average price at which they were traded on the balance sheet date, or on the last trading day before that date. Other unlisted investments are valued by the directors on a prudent basis having regard to their likely realisable value.

Investment properties are stated at their open market value.

Other investments are stated at their current value.

Freehold land and buildings are shown on the balance sheet at open market value. Freehold land and buildings have been reclassified to Investment properties to better comply with the SORP and the EU Insurance Accounting Directive. There has been no effect on net assets or net profit. These assets are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Company

Investments in group undertakings are stated at cost.

In the company's own balance sheet, advantage has been taken of merger relief as allowed under S.132 of the Companies Act (1989), whereby shares issued as consideration for the acquisition of Churchill Management Limited and Churchill Insurance Company Limited are accounted for at nominal value.

(m) Investment return

Investment return comprises income, realised gains and losses and changes in unrealised gains and losses, net of investment expenses and charges. Dividends on equity investments are accrued on an ex-dividend basis. Interest on fixed income securities, net rental income from property investments and investment expenses are recorded on an accrual basis.

Realised gains and losses represent the difference between net sales proceeds and purchase price and are included in the profit and loss account.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Accounting policies (continued)

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price or if they have been previously valued, their valuation at the last balance sheet date. This movement in valuation is shown in the profit and loss account.

(n) Allocation of investment return

Investment return comprises investment income, unrealised and realised gains and losses, expenses and a proportion of instalment charges arising in the year. Amounts relating to investments held against technical provisions are allocated to the technical account based on the average of policyholders' funds. All other amounts are allocated to the non-technical account.

(o) Other technical income

Other technical income comprises a proportion of instalment income arising in the year, income earned on sales of products of third parties and miscellaneous income.

(p) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

(q) Group and consortium relief

Provision is made for payments or receipts arising from the acceptance or surrender of tax losses under the group and consortium relief provisions of the Taxes Acts to the extent that it is believed, based on the latest projections for the tax profile of the overall group, that capacity for group relief exists. Provision is normally made at the applicable rate of corporation tax for the year in question.

(r) Deferred taxation

Deferred tax assets and liabilities are now recognised in accordance with the provisions of FRS 19. The Group has chosen not to apply the option available under FRS 19 of recognising such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Prior year balances have not been restated as the impact on net assets and profit is not significant.

(s) Tangible fixed assets

IT development costs and software licence costs incurred in relation to the development of a new contract administration system have been disclosed as a tangible fixed asset. All relevant current and future costs relating to IT development costs and software will be depreciated over 5 years once the new contract system is operational.

All tangible fixed assets are stated at their value in use.

(t) Intangible fixed assets

Included within the intangible asset balance is an amount relating to an advance of commission paid by the company to Pearl Assurance PLC in respect of an agreement whereby the company will have the right to market insurance products to Pearl Assurance's customers for a five year period. This amount is capitalised as allowable under FRS 10 and will be amortised to the profit and loss account over 5 years.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Accounting policies (continued)

(u) Depreciation

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

Computer equipment - 3 Years
Fixtures, fittings and other equipment - 3 to 10 Years
Leasehold improvements - 3 Years
Motor vehicles - 3 Years

(v) Goodwill

Goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of the net assets acquired, is capitalised in the balance sheet and amortised on a straight line basis over the period that it is expected that benefits from the acquisitions will arise:

Insurance Intermediaries - 10 Years
Insurance Companies - 20 Years

Negative goodwill is recognised in the period of acquisition.

(w) Deferred acquisition costs

Deferred acquisition costs on acquired portfolios are capitalised in the balance sheet and are amortised on a straight line basis over the period that it is expected that benefits from the acquired policies will arise, subject to regular impairment reviews.

(x) Leases

The rental costs relating to operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

(y) Pension costs

The group operates several pension schemes, all of which are funded by the payment of contributions to separately administered funds. Contributions to defined contribution schemes are charged to the profit and loss account as they become payable in accordance with the results of the scheme.

(z) Foreign exchange

Transactions in currencies other than sterling are recorded in the financial statements at the average exchange rate prevailing for the year. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Segmental analysis

Analysis of premiums, profit before taxation and net assets by class of business

	2002 Gross premiums written /turnover £m	2002 Profit before tax £m	2002 Net assets £m	2001 Gross premiums written /turnover £m	2001 Profit before tax £m	2001 Net assets £m
<i>General Business</i>						
Direct	1,818.6	60.2	549.7	1,398.6	35.5	527.5
Reinsurance	320.8	17.4	145.1	463.1	3.2	21.9
Other	-	8.7	(41.0)	-	17.6	(297.7)
Total	<u>2,139.4</u>	<u>86.3</u>	<u>653.8</u>	<u>1,861.7</u>	<u>56.3</u>	<u>251.7</u>

All business related to risks principally underwritten in the United Kingdom.

4. Prior years' claims provision

	2002 £m	2001 £m
Material net over/(under) provisions, before adjustment for discounting, for general business claims provisions at the beginning of the year compared with payments and provisions at the end of the year in respect of prior years' claims were as follows:	<u>37.3</u>	<u>(1.8)</u>

The favourable prior year run off in 2002 was mainly generated by the motor account, with negative run-off arising in the special risks and general liability divisions.

5. Profit on ordinary activities before taxation

	2002 £m	2001 £m
Profit on ordinary activities before taxation is stated after charging:		
Remuneration of the auditor and its associates including irrecoverable VAT:		
In respect of audit fees	0.4	0.4
In respect of other services	0.7	0.1
Depreciation and other amounts written off tangible fixed assets:		
Owned	15.8	10.0
Amortisation of goodwill	3.4	1.5
Exchange losses	0.3	0.1
Hire of other assets - operating leases	9.4	5.9

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<u>6. Investment return</u>	2002 £m	2001 £m
<i>Investment Income</i>		
Income from freehold land and buildings	3.7	3.6
Income from fixed & variable interest securities	61.6	45.7
Income from equities	4.0	3.0
Income from deposits	5.4	4.0
Income from other sources	2.1	12.6
Income from instalment charges	15.7	9.0
	92.5	77.9
Investment management expenses	(7.6)	(3.1)
Net investment income	84.9	74.8
Realised gains on investments	5.1	3.8
Realised losses on investments	(13.0)	-
	(7.9)	3.8
Unrealised gains on investments	30.1	-
Unrealised losses on investments	(27.6)	(20.0)
	2.5	(20.0)
	79.5	58.6
Allocated to - technical account		
- net investment income	51.1	45.7
- total net gain/(loss) on investments	9.0	(9.8)
	60.1	35.9
- non - technical account		
- net investment income	31.5	29.1
- total net loss on investments	(12.1)	(6.4)
	19.4	22.7
	79.5	58.6

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. Other technical income

	2002 £m	2001 £m
Ancillary products income	6.2	4.9
Other income	27.8	21.8
	34.0	26.8

8. Net operating expenses

	2002 £m	2001 £m
Acquisition costs	541.7	366.4
Change in deferred acquisition costs	(168.7)	(133.5)
Administrative expenses	187.9	119.7
	560.9	352.6

9. Other technical charges

	2002 £m	2001 £m
Cost of ancillary products	3.7	3.0
Unexpired risk provision	-	(0.3)
	3.7	2.7

10. Other income

	2002 £m	2001 £m
Insurance intermediary group income	28.1	31.5
Other income	9.3	2.0
	37.4	33.5

11. Other charges

	2002 £m	2001 £m
Amortisation of goodwill (Note 14)	3.4	7.3
Insurance intermediary group expenses	25.0	39.6
Other expenses	12.0	0.1
	40.4	47.0

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Staff numbers and costs

The average number of persons employed by the group (including executive directors) during the year, analysed by category, was as follows:

	2002 Number	2001 Number
Underwriting	633	366
Claims	2,593	1,190
Sales	979	738
Accounting and administration	1,257	1,241
Broking and technical	416	625
Customer service	1,899	804
	<u>7,777</u>	<u>4,964</u>

The aggregate payroll costs of these persons were as follows:

	2002 £m	2001 £m
Wages and salaries	169.6	107.3
Social security costs	14.7	9.6
Other pension costs	8.5	5.7
Other employment costs	1.4	0.5
	<u>194.2</u>	<u>123.1</u>

13. Directors' emoluments

	2002 £	2001 £
Directors' emoluments	2,193,000	929,604
Pension contributions	122,298	113,785
	<u>2,315,298</u>	<u>1,043,389</u>

The aggregate of emoluments of the highest paid director was £1,690,000 (2001: £612,224) and company pension contributions of £107,718 (2001: £70,035) were made to a defined contribution scheme on his behalf.

	<u>Number of directors</u> 2002	<u>Number of directors</u> 2001
Retirement benefits are accruing to the following number of directors under defined contribution schemes:	2	2

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Intangible assets

	Goodwill							Pearl DAC	Total
	NIG	Inter Group	Devitt	Other	Sub-total positive goodwill	IIL	Sub-total negative goodwill		
	£m	£m	£m	£m	£m	£m	£m		
<i>Cost</i>									
At 1 January	30.1	10.2	7.9	5.7	53.9	-	-	61.8	115.7
Additions	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
At 31 December	30.1	10.2	7.9	5.7	53.9	(0.4)	(0.4)	61.8	115.3
<i>Amortisation</i>									
At 1 January	2.6	0.5	1.0	5.7	9.8	-	-	-	9.8
Charge for the year	1.6	1.0	0.8	-	3.4	-	-	-	3.4
Write off of DAC	-	-	-	-	-	-	-	19.9	19.9
At 31 December	4.2	1.5	1.8	5.7	13.2	-	-	19.9	33.1
<i>Net book value</i>									
As at 31 December 2002	25.9	8.7	6.1	-	40.7	(0.4)	(0.4)	41.9	82.2
As at 31 December 2001	27.5	9.7	6.9	-	44.1	-	-	61.8	105.9

The Pearl deferred acquisition cost asset of £41.9 million relates to an advance of commission paid by the company to Pearl Assurance PLC in respect of an agreement whereby the company will market insurance products to Pearl Assurance's customers for a five year period.

On 28 May 2002, the group acquired the whole of the issued share capital of HIH Indemnity International Limited, which has been accounted for using the acquisition method of accounting. The company name was subsequently changed to Indemnity Insurance Limited (IIL).

A summary of the cost of the investment in IIL is as follows:

	£m
Fair value of the net assets acquired	1.6
Negative goodwill on acquisition	(0.4)
	<u>1.2</u>

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Investment properties

	2002	2001
	£m	£m
		Restated
<i>Current Valuation</i>	<u>57.7</u>	<u>57.2</u>

Freehold land and buildings amounting to £37,500,000 were valued on an open market basis at 25 December 2002 by Harvey Spack Field, a RICS qualified consultant, in accordance with the Statement of Asset Valuation Practice and Guidance Notes.

Freehold land and buildings amounting to £11,000,000 were valued on 25 December 2001 and the remaining freehold land and buildings on 25 December 2000 by the same consultant using the same basis.

Prior year balances have been restated to better reflect the SORP and EU Insurance Accounting Directive. The net impact on both the prior year net assets and profits is nil.

16. Tax on profit on ordinary activities

	2002	2001
	£m	£m
UK corporation tax at 30% (2001: 30%)	30.8	15.7
Adjustments with respect to prior years - group relief	<u>(8.9)</u>	<u>0.3</u>
	21.9	16.0
Deferred taxation (see note 24)	<u>2.9</u>	<u>(0.8)</u>
	<u>24.8</u>	<u>15.2</u>
	2002	
	£m	
Current tax reconciliation		
Profit on ordinary activities before tax	86.3	
Current tax at 30%	25.9	
Effects of:		
Expenses not deductible for tax purposes	5.9	
Capital allowances for year greater than depreciation	0.1	
Tax losses carried forward	(0.9)	
Other	(0.2)	
Total current tax charge	<u>30.8</u>	

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Other financial investments

	2002 Market value £m	2002 Historical cost £m	2001 Market value £m	2001 Historical cost £m
Shares and other variable-yield securities/units in unit trusts				
Listed UK equities	79.8	105.7	147.9	143.6
Debt securities and other fixed income securities				
Listed British government securities	436.5	428.4	737.0	740.4
Listed other fixed interest securities	807.2	678.4	89.6	90.5
Floating Rate Notes	45.3	45.9	61.3	61.6
	1,289.0	1,152.7	887.9	892.5
Deposits with credit institutions	171.4	171.4	259.5	259.5
Other Loans	98.2	98.2	102.4	131.7
	1,638.4	1,528.0	1,397.7	1,427.3

18. Investments in group undertakings

	Company cost	
	2002 £m	2001 £m
Shares in group undertakings	588.7	490.6
	588.7	490.6

During the year the company increased its issued share capital in Churchill Insurance Company Limited by £50 million and The National Insurance and Guarantee Corporation Limited by £45 million.

Investments in group undertakings (all ordinary shares) are as follows:

The following companies are registered in England and Wales and are held directly by the company.

<u>Company Name</u>	<u>% Ownership</u>	<u>Activity</u>
Churchill Insurance Company Limited	100	General Insurance
The National Insurance and Guarantee Corporation Limited	100	General Insurance
Indemnity Insurance Limited	100	General Insurance
Churchill Management Limited	92	Insurance Administration and Management Services

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Investments in group undertakings (continued)

The following companies are registered in England and Wales and are held through subsidiaries of the company.

<u>Company Name</u>	<u>% Ownership</u>	<u>Activity</u>
Churchill Court Limited	92	Property ownership and management
Churchill Accident Repair Centre Limited	92	Motor Body Repairs
Weald Leasing Limited	92	Asset Management and Leasing
C.S.G Claims Services Limited	92	Employs motor engineers, home- claims specialists and in-house solicitors
Anglia Countrywide Insurance Services Limited	92	Insurance Agents
Devitt Insurance Services Ltd	92	Insurance Broker
set2print Limited	100	Printing
NIG Trading Limited	100	Holding Company
Finsure Premium Finance Limited	100	Premium Finance
NIG Hallmark Limited	100	Holding Company
Hallmark Insurance Company Limited	100	Insurance Company
Inter Group Insurance Services Limited	92	Insurance Intermediary
Medicover Insurance Services Limited	92	Insurance Intermediary
Options Insurance Services Limited	92	Insurance Intermediary
Inter Group Claims Services Limited	92	Insurance Claims Handler
Inter Group Insurance Intermediaries UK Limited	92	Insurance Intermediary
Journeywise Direct Limited	92	Insurance Intermediary

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Investments in group undertakings (continued)

<i>Company Name</i>	<i>% Ownership</i>	<i>Activity</i>
Select Insurance Intermediaries Limited	92	Insurance Intermediary
Amsport Limited	50	Insurance Intermediary
Inter Group Systems Services Limited	92	Systems Development
Inter Global Insurance Services Limited	41	Insurance Intermediary
Inter Group Assistance Services Limited	92	Insurance Claims Handler

The following company is registered in India and is held through a subsidiary of the company.

Churchill India (Private) Limited	92	Software Services
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The following companies are registered in Ireland and are held through a subsidiary of the company.

Inter Group Intermediary Services Limited	92	Insurance Intermediary
Churchill Intermediary Services Limited	92	Insurance Intermediary

19. Intermediary group sale

On 16 October 2001, the group sold part of its insurance intermediary operations.

This consisted of the following entities:-

<i>Subsidiary undertakings</i>	<i>Share class</i>	<i>% Ownership</i>
NIG Insurance Intermediary Group Limited	Ordinary Shares	100
Dial Direct Insurance Marketing Limited	Ordinary Shares	75
G F Bennett (Holdings) Limited	Ordinary Shares	75
G F Bennett and Company Limited	Ordinary Shares	75
The Careful Drivers Association Limited	Ordinary Shares	75
Pratts Insurance Office	Ordinary Shares	75
Dial Direct Finance Limited	Ordinary Shares	100

The profit on disposal of these companies was £14.0 million. This has been disclosed as an exceptional item in accordance with FRS 3 "Reporting Financial Performance".

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<u>20. Debtors</u>	2002	2001
	£m	£m
<i>Group</i>		
Debtors arising out of direct insurance operations:		
Amounts owed by policyholders	169.2	116.1
Amounts owed by intermediaries	221.8	165.8
Salvage and subrogation recoveries	34.3	27.4
	425.3	309.3
 Debtors arising out of reinsurance operations	 421.6	 354.5
 Other debtors		
Amounts owed by group undertakings	28.3	9.8
Tax recoverable	4.4	8.4
Other debtors	62.8	23.6
	95.5	41.8
	942.4	705.6

Reinsurance debtors due at 31 December 2002 relate to reinsurance contracts between Churchill Insurance Company Limited, Winterthur Atlantic Limited, Pearl Assurance PLC and United Friendly.

	2002	2001
	£m	£m
<i>Company</i>		
Amounts owed by group undertakings	9.0	-
Other debtors	1.2	-
	10.2	-

All debts are due within one year.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Tangible fixed assets

	Fixtures, fittings & other equipment £m	Computer equipment and software £m	Leasehold improvements £m	Motor vehicles £m	Total £m
<i>Cost or Market Value</i>					
At 1 January	15.8	57.8	3.6	3.6	80.8
Additions	11.6	31.7	0.1	4.7	48.1
Disposals	-	(0.4)	-	(2.0)	(2.4)
At 31 December	<u>27.4</u>	<u>89.1</u>	<u>3.7</u>	<u>6.3</u>	<u>126.5</u>
<i>Depreciation</i>					
At 1 January	7.1	38.7	0.5	1.1	47.4
Charge for the year	2.5	11.1	0.1	1.9	15.6
Disposals	-	(0.2)	-	(0.7)	(0.9)
At 31 December	<u>9.6</u>	<u>49.6</u>	<u>0.6</u>	<u>2.3</u>	<u>62.1</u>
<i>Net book value</i>					
As at 31 December 2002	<u>17.8</u>	<u>39.5</u>	<u>3.1</u>	<u>4.0</u>	<u>64.4</u>
As at 31 December 2001 (restated)	<u>8.7</u>	<u>19.1</u>	<u>3.1</u>	<u>2.5</u>	<u>33.4</u>

IT development costs and software totalling £6.9 million (2001: nil) have been included in computer equipment. All such costs relate to expenditure incurred in 2002 in respect of the development of a new contract administration system which will serve the Churchill Insurance Group, replacing its current system. All relevant current and future costs relating to IT development costs and software will be depreciated over 5 years once the new contract administration system is operational.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Share capital

	2002 £m	2001 £m
<i>Company</i>		
Authorised: 450,000,000 (2001: 200,000,000) ordinary shares of £1 each	450.0	200.0
Allotted, called up and fully paid: £400,000,000 (2001: 159,405,000) ordinary shares of £1 each	400.0	159.4

The company's authorised share capital was increased by £250 million and its issued and fully paid share capital was increased by £240.6 million during 2002. The purpose of this increase in share capital was to repay short term borrowings from a parent undertaking which had been used to increase the company's interest in insurance subsidiaries.

The company increased its issued share capital during 2002 by allotting 240,595,000 new ordinary £1 shares for cash consideration of £240,595,000.

23. Reserves

	Capital contribution reserve £m	Profit and loss account £m	Total £m
<i>Group</i>			
Profit and Loss Account			
At 1 January	-	91.5	91.5
Retained profit for the year	100.0	60.8	160.8
At 31 December	100.0	152.3	252.3

Capital Contribution

On 20 December 2002, a capital contribution of £100 million was made by Winterthur (UK) Holdings Limited. The contribution was effected by the cancellation of £100 million out of a loan balance due to Winterthur (UK) Holdings Limited from Churchill Insurance Group PLC.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Deferred taxation

	2002 £m	2001 £m
At 1 January	0.2	1.0
Difference between accumulated depreciation / amortisation and capital allowances	2.9	(0.8)
At 31 December	3.1	0.2

25. Equalisation provision

An equalisation provision has been established in accordance with the requirements of Chapter 6 of the Integrated Prudential Sourcebook for Insurers. This provision, which is in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, is required to be included within technical provisions in the balance sheet by Schedule 9A to the Companies Act 1985, notwithstanding that it does not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £29.3 million (2001: £9.5 million). The movement in equalisation provision during the year resulted in a decrease in the general business technical account and the profit before taxation of £19.9 million (2001: credit of £3.0 million).

26. Technical provisions

	Provision for unearned premiums £m	Claims outstanding £m	Equalisation provision £m	Total £m
Gross amount				
At 1 January 2002	999.4	956.4	9.4	1,965.2
Movement in the provision	308.9	131.6	19.9	460.4
At 31 December 2002	1,308.3	1,088.0	29.3	2,425.6
Reinsurance amount				
At 1 January 2002	53.9	73.2	-	127.1
Movement in the provision	7.9	11.6	-	19.5
At 31 December 2002	61.8	84.8	-	146.6
Net technical provisions				
At 31 December 2002	1,246.5	1,003.2	29.3	2,279.0
At 1 January 2002	945.5	883.2	9.4	1,838.1

27. Deferred Acquisition Costs

	2002 £m	2001 £m
At 1 January	280.7	147.3
Movement in deferred acquisition costs	186.9	133.4
At 31 December	467.6	280.7

Unearned commission paid to acquire business is included within deferred acquisition costs. Deferred acquisition costs relating to commission amounts to £122.8 million (2001: £116.8 million).

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<u>28. Unexpired risk provision</u>	2002 £m	2001 £m
At 1 January	-	0.3
Change in provision	-	(0.3)
At 31 December	<u>-</u>	<u>-</u>
<u>29. Other creditors</u>	2002 £m	2001 £m
<i>Group</i>		
<i>Amounts falling due within one year:</i>		
Creditors arising out of direct insurance operations	25.9	15.3
Creditors arising out of reinsurance operations	1.7	-
	<u>27.6</u>	<u>15.3</u>
<i>Other creditors</i>		
<i>Amounts falling due within one year:</i>		
Bank loan	35.0	-
Bank overdraft	4.5	1.7
Amounts due to group undertakings	113.4	341.8
Corporation tax payable	25.7	29.4
Other creditors	138.5	125.7
<i>Amounts falling due after one year:</i>		
Amounts due to group undertakings	17.5	-
	<u>334.6</u>	<u>498.6</u>
	<u>362.2</u>	<u>513.9</u>
<i>Company</i>		
<i>Amounts falling due within one year:</i>		
Amounts due to fellow subsidiaries	25.1	7.7
Amounts due to group undertakings	76.6	323.5
	<u>101.7</u>	<u>331.2</u>

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. Operating leases

The annual commitment under operating leases (excluding leases where full provision has been made for all costs through to lease expiry) is as follows:

	2002 £m	2001 £m
Land and buildings		
Leases expiring in less than 1 year	-	0.3
Leases expiring between 1 and 2 years	-	-
Leases expiring between 2 and 5 years	1.4	1.3
Leases expiring after 5 years	11.9	8.7
	<u>13.3</u>	<u>10.3</u>
Other		
Leases expiring in less than 1 year	-	-
Leases expiring between 1 and 2 years	0.1	-
Leases expiring between 2 and 5 years	0.5	0.2
Leases expiring after 5 years	-	7.0
	<u>0.6</u>	<u>7.2</u>

31. Pension commitments

Various group companies operate defined contribution pension schemes. In addition one group company makes contributions to personal pension funds for employees. The pension cost charged for the period represents contributions payable by the group to the schemes and employee personal pension funds and amounted to £6,954,764 (2001: £5,029,408).

At the year end contributions amounting to £1,092,985 (2001: £688,188) were payable to the schemes and are included in other creditors.

The final salary scheme formerly operated by Hallmark Insurance Company Limited is in the final stage of being wound up. No payment to or from the group will arise as a consequence of the winding up.

CHURCHILL INSURANCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. Ultimate and intermediate parent undertakings

The parent undertaking of the company which heads the smallest higher group of undertakings for which group financial statements are drawn up is Winterthur (UK) Holdings Limited, a company registered in England and Wales. Copies of this company's group financial statements can be obtained from Winterthur (UK) Holdings Limited, Durgates, Wadhurst, East Sussex, TN5 6DF.

The company which heads the largest higher group of undertakings for which group financial statements are drawn up and which is the company's ultimate parent is Credit Suisse Group, which is incorporated in Switzerland. Copies of the Annual Report and Financial Statements of the ultimate holding company are available from Credit Suisse Group, Paradeplatz 8, Postfach 1, 8070 Zurich, Switzerland.

33. Capital commitments

There are no capital commitments.

34. Related party transactions

As the company is a wholly owned subsidiary of Winterthur (UK) Holdings Limited, the company has taken advantage of the exemption allowed in FRS 8 and, therefore, has not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of the Credit Suisse Group within which the company is included can be obtained from the address provided in Note 32.