

britannic group

News Release

EMBARGOED UNTIL 7AM TUESDAY 1 MARCH 2005

BRITANNIC GROUP PLC FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

Strong results and progress in core businesses. First closed fund acquisition completed. Dividends enhanced.

- Operating achieved profit £88m before tax and exceptional items (2003 comparative: £85m¹), up 3%
- Operating modified statutory basis profit £73m before tax and exceptional items (2003: £64m), up 14%
- Achieved profit shareholders' funds £1,095m, 557p per share (2003: £1,015m², 517p per share), up 8%
- Final dividend 12.4p per share, enhanced by 1.5p, total increase 19%
- Strong capital management: free asset ratio 12.5%; ICA³ ratio 210% (2003: 10.8% and 213% respectively)
- Assured Services Division and Britannic Asset Management both performing well

Paul Thompson, Group Chief Executive, said

"These are strong results with both our core businesses, assured services and asset management, performing well.

During the year the assured services division completed our first acquisition of a closed life fund and finalised arrangements for the service company. We believe our experience and our skills in operating as well as owning closed funds deliver optimum benefits to policyholders as well as shareholders. Britannic is well positioned to become a leader in this field.

In our asset management business the new senior management team has had an immediate positive impact through an improvement in the core UK equity performance and a successful repositioning of the business as a multi-specialist.

To reflect the progress made this year we have enhanced the final dividend and revised upwards our medium term dividend growth target. We continue to look for further suitable acquisitions of closed life funds, both large and small and for opportunities to capitalise on the improvements at Britannic Asset Management."

1 Adjusted to exclude a net one-off of £6m, primarily the benefit of a reduction in the risk discount margin from 1.0% to 0.5%.

2 Before reduction for own shares held in unit linked policyholder funds as required by UITF37.

3 ICA ratio refers to the amount of capital in Britannic Assurance expressed as a percentage of the internal assessment of the risk based capital requirements (ICA).

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|---|----------------------------------|
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Introduction

In 2004 Britannic Group made significant progress delivering a strong set of results and making considerable improvements in our core businesses of assured services and asset management.

At the end of the year we completed the acquisition of Cornhill Life Operations (Cornhill Life), our first closed life fund acquisition, for £110 million. Our experience of Cornhill Life to date has been positive, confirming our confidence in our operational model and our investment return criteria. This has led us to target significantly larger acquisition opportunities in 2005.

The new senior management team in our asset management business has had an immediate positive impact. The business has been successfully repositioned as a multi-specialist with several new product launches and the core UK equity performance improved significantly in the second half. Britannic Asset Management are now already managing the assets acquired through Cornhill Life and they played an active part in the Group pension scheme restructure, demonstrating their liability driven capability.

Group achieved operating profit before tax and exceptional items of £88 million (2003 comparative: £85 million¹) is 3% higher than last year continuing the improvement shown at the half year.

Operating modified statutory basis profit before tax and exceptional items of £73 million (2003: £64 million) is up 14% demonstrating the strength of cash flow from the closed life funds.

Our capital position improved in 2004 even after deploying £110 million on the purchase of Cornhill Life. Britannic Assurance's capital resources exceed the capital requirements as defined under Pillar II (the new capital adequacy framework requirements) by £381 million (2003: £331 million) giving a capital adequacy ratio of 210% (2003: 213%). The free asset ratio has increased to 12.5% (2003: 10.8%).

With the strengthened capital position and continued proactive risk management, policyholders' security continues to improve. We will be declaring reversionary bonuses for most Britannic Assurance with profits policyholders for 2004 at the same rates as in 2003.

Shareholders' funds, on an achieved profits basis and after accrual for the final dividend, total 557 pence per share (2003: 517 pence) up 8%. This is after writing off the equivalent of 25 pence per share in respect of goodwill relating to Britannic Asset Management. This strong advance reflects the benefit of the Cornhill Life acquisition and significant positive investment variances.

The Board is recommending a final dividend of 12.4 pence per share in respect of 2004. It will be paid on 6 May 2005 to shareholders registered at the close of business on 15 April 2005. Taken together with the interim dividend of 5.45 pence, total dividends for 2004 are 17.85 pence, representing an enhancement of 1.5 pence over and above that expected from the Board's medium term growth target of 9%. The Board has also adopted a revised medium term growth target to the end of 2009 of 11% from this new higher base established in 2004. These enhancements reflect the benefits of the closed fund acquisition and the Board's confidence in the business going forward. These targets remain based on the expectation that investment returns over the medium term will be broadly in line with those incorporated into embedded value assumptions. The Board also intends to continue to split dividends broadly one third / two thirds between the interim and the final dividends.

Outlook

In 2005 we expect to see the benefits of the Cornhill Life acquisition and the repositioning of Britannic Asset Management coming through into reported operating profits.

Consistent with our strategy of being the best owner and administrator of closed life funds we will seek significantly larger acquisitions in 2005, having proved our model with Cornhill Life. We remain committed to our return criteria of 12% post tax on purchase prices plus any additional risk based capital requirements. In addition we shall concentrate on delivering the expected benefits from the Cornhill Life acquisition and reducing costs in the service company.

Britannic Asset Management priorities for 2005 are to sustain the improved investment performance, continue to develop and benefit from new and existing specialisms and significantly enhance retail sales through IFAs and new partnerships.

Operational review

The business commentary refers primarily to profits on an achieved profits basis as these best reflect the underlying performance of the bng term assurance business. Details of the results on a modified statutory basis are given in the financial review section.

Assured Services

- Achieved operating profit before tax and exceptional items of £89m (2003 comparative: £90m¹)
- Gain on acquisition of Cornhill Life £64m
- Investment and other variances £66m (2003: £16m)
- Service company arrangements finalised

Achieved operating profit of £89 million before tax and exceptional items (2003 comparative: £90 million¹) is slightly ahead of expectations and compares favourably with 2003 bearing in mind the £8 million of new business profit at Britannic Retirement Solutions in that year. The favourable variance from tight expense control experienced in the first half continued into the second half and new business profits came through strongly during the second half.

The acquisition of Cornhill Life for £110 million was completed at the end of the year resulting in a pre-tax gain of £64 million. The carrying value of Cornhill Life is £159 million, comfortably ahead of our estimate at the time of the announcement of the acquisition reflecting our positive experience to date. We have allowed for the full expected cost of migration to Wythall and are targeting expense synergies of in excess of £3.5 million per annum from this business.

During 2004 equity and property markets performed positively and we benefited from our relatively high equity backing ratio compared to other closed funds with £66 million (2003: £16 million) of positive investment and other variances. The Britannic Assurance with profit fund earned for policyholders a 9.5% pre tax return in 2004.

At the end of 2004 we finalised revised service company arrangements so that from the beginning of 2005 the service company operates on arms-length commercial terms. We have entered into a long term service contract with an initial term of 10 years. The majority of services will be provided for a fixed per policy charge which will be reviewed at the end of 10 years in light of the then unit cost.

The current estimate of aggregate charges for 2005 exceeds the current cost base of the service company to reflect the transfer of risk for the run-off of the book to the service company. Over the lifetime of the contract significant re-engineering will be managed in order to keep costs in line with the run-off of the book, but we would expect to achieve a margin on revenue of approximately 5% per annum over this period.

Peter Thomas joined us at the beginning of January as Chief Executive Officer of the service company. He has over 17 years experience in the UK life and pensions industry and for the last three years was Vice President and General Manager of Unisys Insurance Services Limited.

Asset Management

- Operating profit before tax and exceptional items of £10m (2003: £9m)
- Improved investment performance
- New products launched
- Total retail sales of £178m (2003: £193m)

Britannic Asset Management achieved an operating profit of £10 million (2003: £9 million) up 10% before non-recurring items, driven primarily by tight cost control. This is a good result in a year during which we replaced the senior management team and repositioned the business as a multi-specialist. Since announcing the new investment structure at the end of June, UK performance has been ahead across the board - our flagship unit trust as an example is 2.3% ahead of median to 31 January 2005. Other asset classes continued to perform well such that 11 out of 16 of our unit trusts were above median for the second half of 2004.

We successfully launched our property unit trust and two hedge funds last year and in February of this year announced a joint venture in European higher alpha equities targeted at the retail market.

Retail sales held up relatively well at £178 million compared with £193 million last year, in a market which contracted again significantly.

Group pension scheme

In October we restructured the Group's £1 billion pension scheme to more closely align the asset mix with the liability profile of the scheme. This resulted in the vast majority of the assets being invested in gilts and corporate bonds with a residual 15% invested in property. We utilised BAM's expertise to design and execute a series of interest and inflation rate swaps to closely match the scheme's exposure to long term interest rates and inflation. The restructure was primarily driven by the maturity of the scheme where over 90% of liabilities relate to pensioners or deferred members. Consequently we now have a scheme with a surplus, on an FRS17 basis, of £109 million, equivalent to approximately 10 years' contributions in respect of existing active members as well as significantly reduced exposure to changes in investment returns and inflation rates.

Capital

Britannic Assurance's financial strength has increased significantly during 2004:

- The with profit fund realistic estate has increased by £100 million to £250 million (2003: £150 million) reflecting the economic benefits of the restructure of the Group pension scheme and favourable operational experience.
- Excess capital, defined as capital in excess of the internal capital assessment (ICA) plus an additional 25% prudential margin, has increased by £50 million to £381 million (2003: £331 million). Strong investment performance over the year and a positive capital contribution from the Cornhill Life acquisition drove the increase.

The internal capital assessment (ICA) totals £450 million (2003: £375 million) and the ICA ratio is 210% (2003: 213%). The £75 million increase reflects the combined impact of:

- the latest emerging best practice for the level of absolute stress tests and their associated correlation and diversification which in aggregate are now significantly more onerous;
- additional risk based capital associated with the Cornhill Life portfolio; and offset by;
- the benefits during the year of continued risk mitigation as illustrated by the restructuring of the Group pension scheme.

Britannic Assurance required capital margin (RCM⁴) totals £163 million and is covered 5.8 times. The free asset ratio has improved to 12.5% (2003: 10.8%).

4 RCM is consistent with the RCM defined in FSA Paper PS 04/16.

FINANCIAL REVIEW

Modified statutory basis

| | 2004 £m | 2003 £m |
|---|--------------|------------|
| Gross premiums written: | | |
| Long term business | 526.3 | 919.6 |
| Assured Services: | | |
| With profit | 13.6 | 15.4 |
| Non profit and unit linked | 21.4 | 15.3 |
| Cost of closure to new business | - | (2.7) |
| Longer term return on shareholders' retained capital | 29.5 | 28.7 |
| Longer term return on other shareholders' funds | 8.5 | 11.2 |
| General business result | 2.0 | 2.8 |
| Other income and charges | (0.6) | (2.0) |
| | 74.4 | 68.7 |
| Britannic Asset Management | 9.5 | 9.1 |
| Britannic Money | - | (1.3) |
| Group income and charges | (3.0) | (4.2) |
| Interest on loan finance | (8.3) | (8.4) |
| Operating profit before tax and exceptional items | 72.6 | 63.9 |
| Exceptional items | (54.0) | (12.6) |
| Operating profit before tax | 18.6 | 51.3 |
| Loss on disposal of Britannic Money | - | (25.1) |
| Fluctuations in investment return | 56.9 | 33.7 |
| Change in equalisation provision | 0.5 | 0.5 |
| Profit before tax | 76.0 | 60.4 |
| Taxation: | | |
| Operating profit (before exceptional items) | (16.4) | (14.2) |
| Exceptional items | 0.9 | 1.7 |
| Other | (16.4) | (0.6) |
| Profit after tax | 44.1 | 47.3 |
| | pence | pence |
| | 28.6 | |
| Operating earnings per share (before exceptional items) – basic | | 25.3 |
| Operating earnings per share – basic | 1.6 | 19.7 |
| Earnings per share – basic | 22.4 | 24.1 |
| Earnings per share – diluted | 22.2 | 23.9 |

Modified statutory operating profits, before exceptional items, total £72.6 million, an increase of 14% on 2003. Clear business focus and a culture of strong financial control and pro-active risk management underpin this result.

The with profits profit represents the shareholders' share of bonuses declared in respect of 2004.

The non profit and unit linked result includes the benefits of the favourable claims and expense variances. The expense variance is a combination of lower than expected actual 2004 expenses and lower projected operating costs under the Britannic Management Services administration contract which came into effect on 1 January 2005.

The longer term investment return reflects the expected earnings on the underlying investment portfolios, which remain invested broadly 50% in equities and property, 50% in gilts and corporate bonds.

Britannic Asset Management delivered a robust result of £9.5 million for the year; proactive management of both revenues, with continued focus on retail sales, and expenses being central to achieving this result.

Exceptional items comprise a £4.0 million restructuring provision in respect of the Cornhill portfolio and a £50.0 million write down of the Britannic Asset Management goodwill. In 2003, the exceptional items included a write down of the Blairlogie goodwill and the costs of closing Britannic Retirement Solutions to new business.

Fluctuations in investment return represent the actual returns achieved on the investment portfolios in excess of the assumed long term rate.

Achieved profits basis

| | 2004 £m | 2003 £m |
|--|--------------|------------|
| Assured Services: | | |
| New business profit | 11.8 | 20.2 |
| In-force profit | 38.2 | 38.7 |
| Cost of closure to new business | - | (3.7) |
| Longer term return on shareholders' retained capital | 29.5 | 28.7 |
| Longer term return on other shareholders' funds | 8.5 | 11.2 |
| General business result | 2.0 | 2.8 |
| Other income and charges | (0.6) | (2.0) |
| | 89.4 | 95.9 |
| Britannic Asset Management | 9.5 | 9.1 |
| Britannic Money | - | (1.3) |
| Group income and charges | (3.0) | (4.2) |
| Interest on loan finance | (8.3) | (8.4) |
| Operating profit before tax and exceptional items | 87.6 | 91.1 |
| Exceptional items | 14.5 | (20.0) |
| Operating profit before tax | 102.1 | 71.1 |
| Loss on disposal of Britannic Money | - | (25.1) |
| Fluctuations in investment return | 56.9 | 33.7 |
| Investment variance on in-force | 6.6 | 3.9 |
| Other assumption changes | 1.7 | (22.3) |
| Change in equalisation provision | 0.5 | 0.5 |
| Profit before tax | 167.8 | 61.8 |
| Taxation: | | |
| Operating profit (before exceptional items) | (19.7) | (20.9) |
| Exceptional items | (15.1) | 4.0 |
| Other | (18.4) | 3.7 |
| Profit after tax | 114.6 | 48.6 |

| | pence | pence |
|---|-------------|-------|
| Operating earnings per share (before exceptional items) – basic | 34.5 | 35.7 |
| Operating earnings per share – basic | 34.2 | 27.6 |
| Earnings per share - basic | 58.3 | 24.7 |
| Earnings per share - diluted | 57.7 | 24.6 |

Achieved operating profits, pre exceptional items total £87.6 million. The 2003 comparative of £91.1 million included a net one-off in-force benefit of £6 million, primarily the benefit of a reduction in the risk discount margin from 1% to 0.5%. Stripping out this benefit the 2004 result is £3 million higher on a like for like basis.

Although Britannic Assurance is closed to new business, continued DSS premium receipts on existing contracts and customers with maturing policies choosing to remain with Britannic at retirement are a significant source of additional revenue, contributing £11.8 million in 2004.

In-force profits exceeded expectations by £7 million. Strong expense management during 2004, combined with the lower projected unit costs under the Britannic Management Services administration contract, which includes full allowance for a 10 year pension scheme contribution holiday, accounted for £5 million. The balance consisted of favourable claims experience.

Exceptional items include a £50.0 million write down of the Britannic Asset Management goodwill and £64.5 million pre-tax profit on the Cornhill acquisition. The £64.5 million is after full allowance for the restructuring costs that will be incurred in moving the portfolio administration to Britannic Management Services' Wythall operating site.

The investment variance on in-force is the difference between actual investment returns on policyholder funds and that assumed in our achieved profits projections, and the consequential impact that this has on the shareholders' share of expected future bonuses.

Other assumption changes in 2004 reflect the combined impact of the revised economic assumptions, a reduction in the assumed corporate bond element of the fixed interest portfolio and improved tax modelling.

All other elements in the achieved profits results are identical to the modified statutory analysis.

Total equity shareholders' funds – achieved profits basis

| | 2004 £m | 2003 £m |
|--|----------------|------------|
| Shareholders' funds held in Britannic Assurance | 162.3 | 185.6 |
| Shareholders' funds in Group and Britannic Asset Management | 189.1 | 211.8 |
| Less: Group borrowings | (115.0) | (135.0) |
| | 236.4 | 262.4 |
| Present value of in-force | 441.8 | 264.4 |
| Shareholders' retained capital (excluding present value of in-force) | 416.7 | 488.4 |
| Achieved profit shareholders' funds | 1,094.9 | 1,015.2 |
| Less: own shares held | - | (3.2) |
| Total equity shareholders' funds | 1,094.9 | 1,012.0 |

The achieved profits shareholders' funds have increased by 8% from £1,015.2m, reflecting the improved performances of the businesses. This is after adjusting for dividends and the one-off impacts of the exceptional items.

At December 2003, the unit linked policyholder funds held £3.2m shares in the Group, for which UITF37 required a reduction in shareholders' funds. This holding was sold in 2004.

Achieved profits assumptions

We continue to review our economic assumptions underlying the achieved profits calculations in the light of prevailing market conditions, business developments and general trends within our sector. The table below shows the consequent adjustments to our assumptions.

| | 2004 % | 2003 % |
|--------------------------------------|-----------|-----------|
| Risk discount rate (post-tax) | 7.4 | 7.6 |
| Future investment returns (pre-tax): | | |
| Government fixed interest securities | 4.6 | 4.8 |
| Equities | 7.1 | 7.3 |
| Expense inflation | 4.0 | 3.9 |

The yield on fixed interest securities is the principal driver of economic assumptions. The assumed future pre-tax return on fixed interest securities is set by reference to redemption yields in the market at the balance sheet date. The corresponding returns on ordinary shares are set by reference to this rate. The risk discount rate is based on the assumed after tax return on ordinary shares increased by an appropriate margin for risk. The risk margin is unchanged at 0.5%.

Future bonus assumptions for our with profit contracts are set with regard to the levels supported in the longer term by the investment returns assumed on the achieved profits basis. Taxation has been assumed according to current legislation and practice. Expense assumptions are set prudently and take account of the cost of investment, but no account of the benefits that will accrue until they are realised. Lapse and surrender rates are based on recent experience and trends, and other assumptions reflect expected experience, with allowances for recent experience where appropriate.

Introduction of International Financial Reporting Standards

Britannic Group will adopt International Financial Reporting Standards (IFRS) with effect from the 2005 interim results.

Adopting IFRS is a substantial piece of work, but one which is well advanced. The Group have completed the impact and product classification analysis and are currently finalising 2004 financial restatements on the IFRS standards. The most significant items are the following:

- the technical accounting treatment for the Group's pension scheme,
- the timing concerning the recognition of dividends. Dividends declared after the balance sheet date must not be accrued at the financial year-end,
- provision for deferred tax, undiscounted, on the proportion of the shareholders' retained capital which it is anticipated will be transferred to shareholders in the foreseeable future. The marginal rate for BA under the current tax regime is 10% on such transfers.

Introduction of European Embedded Value Reporting Standards

Britannic Group will adopt European Embedded Value Reporting Standards with effect from the 2005 interim results.

The Group believe that the refinements made to the current established achieved profits methodology should in the main ensure an even more accurate presentation of a company's true underlying profitability and net asset value. The material value adjustments will be as follows:

- full allowance for all future expected DSS premium receipts. This will be included in the value of in-force,
- a deduction for the cost of capital on the shareholders' retained capital to the extent that it is required in addition to the with profits fund estate to meet the required regulatory capital requirements,
- recognition of the stochastic value of financial options and guarantees in valuing with profit business on an embedded value basis,
- valuing entities such as Britannic Management Services, which has long term contracts with the Group's life operations, on an embedded value basis.

SUMMARY FINANCIAL INFORMATION

The following financial information does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (the Act). The statutory accounts for the year ended 31 December 2004 will be delivered to the Registrar of Companies in England and Wales in accordance with Section 242 of the Act. The auditor has reported on those accounts; its report was unqualified and did not contain a statement under section 237 (2) or (3) of the Act.

Group profit and loss account

| | Year ended 31 Dec 2004 £m | Year ended 31 Dec 2003 £m |
|---|---------------------------------------|---------------------------------------|
| Shareholders' pre-tax profit arising on long term business | 66.9 | 59.8 |
| Investment income | 12.2 | 11.3 |
| Unrealised gains on investments | 1.9 | 9.0 |
| Allocated investment return transferred from the long term business technical account | 51.6 | 25.0 |
| Investment expenses and charges | (8.5) | (8.9) |
| Allocated investment return transferred to the general business operating result | (0.2) | (0.2) |
| Other income | 13.3 | 12.2 |
| Other charges: | | |
| Continuing operations | (7.2) | (8.8) |
| Discontinued operation | - | (1.3) |
| | (7.2) | (10.1) |
| Exceptional items: | | |
| Continuing operations | (54.0) | (12.6) |
| Total other charges | (61.2) | (22.7) |
| Loss on disposal of discontinued operation | - | (25.1) |
| Profit on ordinary activities before tax | 76.0 | 60.4 |
| Tax on profit on ordinary activities | (31.9) | (13.1) |
| Profit for the financial year | 44.1 | 47.3 |
| Dividends | (35.1) | (19.7) |
| Retained profit for the financial year | 9.0 | 27.6 |
| | pence | pence |
| Operating* earnings per share (before exceptional items) – basic | 28.6 | 25.3 |
| Operating* earnings per share – basic | 1.6 | 19.7 |
| Earnings per share – basic | 22.4 | 24.1 |
| Earnings per share – diluted | 22.2 | 23.9 |

Analysis of result for the financial year

| | Year ended 31 Dec 2004 £m | Year Ended 31 Dec 2003 £m |
|--|---------------------------------------|---------------------------------------|
| Operating profit* (before exceptional items): | | |
| Continuing operations | 72.6 | 65.2 |
| Discontinued operation | - | (1.3) |
| | 72.6 | 63.9 |
| Exceptional items: | | |
| Continuing operations | (54.0) | (12.6) |
| Operating profit* before tax: | | |
| Continuing operations | 18.6 | 52.6 |
| Discontinued operation | - | (1.3) |
| | 18.6 | 51.3 |
| Loss on disposal of discontinued operation | - | (25.1) |
| Short term fluctuations in investment return | 56.9 | 33.7 |
| Change in equalisation provision | 0.5 | 0.5 |
| Profit on ordinary activities before tax | 76.0 | 60.4 |
| Tax on profit/loss on ordinary activities: | | |
| Tax on operating profit (before exceptional items) | (16.4) | (14.2) |
| Tax on exceptional items | 0.9 | 1.7 |
| Tax on loss on disposal of discontinued operation | - | 8.6 |
| Tax on other profit/loss | (16.4) | (9.2) |
| | (31.9) | (13.1) |
| Profit/(loss) for the financial year: | | |
| Operating profit after tax (before exceptional items) | 56.2 | 49.7 |
| Exceptional items after tax | (53.1) | (10.9) |
| Loss on disposal of discontinued operation | - | (16.5) |
| Other profit / (loss) after tax | 41.0 | 25.0 |
| | 44.1 | 47.3 |

* Operating profit and operating earnings are stated before short term fluctuations in investment return and changes to the equalisation provision and (for 2003) before the loss on disposal of discontinued operation.

Group statement of total recognised gains and losses

| | 2004 £m | 2003 £m |
|---|------------|------------|
| Profit for the financial year | 44.1 | 47.3 |
| Total recognised profits relating to the year | 44.1 | 47.3 |
| Prior year adjustment | - | (29.0) |
| Total profits recognised since last annual report | 44.1 | 18.3 |

Group balance sheet

| | As at 31 Dec 2004 £m | As at 31 Dec 2003 £m |
|--|---|-------------------------------|
| Assets | | |
| Intangible assets | 230.0 | 167.5 |
| Investments: | | |
| Land and buildings | 385.9 | 536.5 |
| Other financial investments | 8,543.9 | 8,639.9 |
| | 8,929.8 | 9,176.4 |
| Present value of acquired in-force business | 19.8 | 21.6 |
| Assets held to cover linked liabilities | 1,886.2 | 2,303.6 |
| Reinsurers' share of technical provisions: | | |
| Long term business provision | 1,575.9 | 835.3 |
| Claims outstanding | 0.1 | 0.4 |
| | 1,576.0 | 835.7 |
| Debtors: | | |
| Debtors arising out of direct insurance operations – policyholders | 8.1 | 8.6 |
| Debtors arising out of reinsurance operations | 2.6 | - |
| Other debtors | 99.2 | 91.9 |
| | 109.9 | 100.5 |
| Other assets: | | |
| Tangible fixed assets | 6.9 | 8.3 |
| Cash at bank and in hand | 122.2 | 76.3 |
| | 129.1 | 84.6 |
| Prepayments and accrued income: | | |
| Accrued interest and rent | 78.0 | 83.9 |
| Deferred acquisition costs | 23.3 | 43.3 |
| Other prepayments and accrued income | 30.1 | 21.3 |
| | 131.4 | 148.5 |
| Total assets | 13,012.2 | 12,838.4 |

Group balance sheet (continued)

| | As at 31 Dec 2004 £m | As at 31 Dec 2003 £m |
|--|---|-------------------------------|
| Liabilities | | |
| Capital and reserves: | | |
| Called up share capital | 9.8 | 9.8 |
| Share premium account | 21.9 | 21.7 |
| Other reserves | 25.3 | 25.3 |
| Profit and loss account | 703.0 | 690.8 |
| Total equity shareholders' funds | 760.0 | 747.6 |
| Fund for future appropriations | 569.9 | 292.4 |
| Technical provisions: | | |
| Long term business provision | 9,318.5 | 9,083.0 |
| Claims outstanding | 42.0 | 50.0 |
| Equalisation provision | 0.6 | 1.1 |
| | 9,361.1 | 9,134.1 |
| Technical provisions for linked liabilities | 1,884.9 | 2,305.8 |
| Provisions for other risks and charges: | | |
| Provisions for taxation | 18.2 | - |
| Other provisions | 82.7 | 29.7 |
| | 100.9 | 29.7 |
| Deposits received from reinsurers | 29.0 | 31.9 |
| Creditors: | | |
| Creditors arising out of direct insurance operations | 12.5 | 4.6 |
| Amounts owed to credit institutions | 126.1 | 170.5 |
| Other creditors including taxation and social security | 141.2 | 97.8 |
| | 279.8 | 272.9 |
| Accruals and deferred income | 26.6 | 24.0 |
| Total liabilities | 13,012.2 | 12,838.4 |

Company balance sheet

| | As at 31 Dec 2004 £m | As at 31 Dec 2003 £m |
|--|---|-------------------------------|
| Fixed assets: | | |
| Investments in subsidiary undertakings | 215.8 | 275.8 |
| Current assets: | | |
| Debtors | 2.3 | 3.1 |
| Amounts due from subsidiary undertakings | 24.5 | 11.3 |
| Investments – short term deposits | 9.7 | 2.5 |
| Cash at bank and in hand | - | 3.3 |
| Prepayments and accrued interest | 0.8 | 1.0 |
| | 37.3 | 21.2 |
| Creditors: amounts falling due in less than one year | | |
| Amounts due to subsidiary undertakings | (1.0) | - |
| Amounts owed to credit institutions | (20.0) | (20.0) |
| Proposed dividend | (24.4) | (19.7) |
| Accruals and deferred income | (0.1) | (0.8) |
| | (45.5) | (40.5) |
| Net current liabilities | (8.2) | (19.3) |
| Creditors: amounts falling due in more than one year | (95.0) | (115.0) |
| Total assets less current liabilities | 112.6 | 141.5 |
| Capital and reserves: | | |
| Called up share capital | 9.8 | 9.8 |
| Share premium account | 21.9 | 21.7 |
| Profit and loss account | 80.9 | 110.0 |
| Equity shareholders' funds | 112.6 | 141.5 |

Group cash flow statement

| | Year ended 31 Dec 2004 £m | Year ended 31 Dec 2003 £m |
|--|---------------------------------------|---------------------------------------|
| Net cash inflow from operating activities | 67.8 | 14.5 |
| Returns on investment and servicing of finance: | | |
| Interest paid | (9.0) | (9.2) |
| Taxation | 6.6 | 4.6 |
| Capital expenditure | (2.2) | (4.5) |
| Acquisitions and disposals: | | |
| Acquisition of subsidiaries | (0.4) | (0.9) |
| Transfer of preference shares to shareholders' retained capital | - | 10.0 |
| | (0.4) | 9.1 |
| Equity dividends paid | (30.4) | - |
| Financing: | | |
| Issue of ordinary shares | 0.2 | - |
| Loan repayment | (23.0) | (55.0) |
| | (22.8) | (55.0) |
| Net cash flow | 9.6 | (40.5) |
| Cash flows were invested/(divested) as follows: | | |
| Increase/(decrease) in cash holdings | 5.7 | (17.4) |
| Net portfolio investment/(divestment): | | |
| Shares and other variable-yield securities and units in unit trusts | 18.9 | (32.8) |
| Debt securities and other fixed income securities | (1.2) | (8.6) |
| Deposits with credit institutions | (13.8) | 18.3 |
| | 3.9 | (23.1) |
| Net investment/(divestment) of cash flows | 9.6 | (40.5) |
| Movement in opening and closing portfolio investments net of financing: | | |
| Net cash inflow/(outflow) | 5.7 | (17.4) |
| Net portfolio investment/(divestment) | 3.9 | (23.1) |
| Movement arising from cash flows | 9.6 | (40.5) |
| Movement in long term business investments | (197.1) | 128.6 |
| Movement in debtors and creditors | 23.0 | 55.0 |
| Change to market values and currencies | 8.2 | 12.3 |
| Total movement in portfolio investments net of financing | (156.3) | 155.4 |
| Portfolio investments net of financing brought forward | 9,082.2 | 8,926.8 |
| Portfolio investments net of financing carried forward | 8,925.9 | 9,082.2 |

Supplementary information – achieved profits basis

Group profit and loss account

| | Year ended 31 Dec 2004 £m | Year ended 31 Dec 2003 £m |
|---|---------------------------------------|---------------------------------------|
| Long term business operating profit: | | |
| New business | 11.8 | 20.2 |
| In-force business | 38.2 | 35.0 |
| | 50.0 | 55.2 |
| Longer term investment return on shareholders' retained capital held within the long term business | 29.5 | 28.7 |
| General business operating profit | 2.0 | 2.8 |
| Longer term return on other investments | 8.5 | 11.2 |
| Other operating income and charges | (2.4) | (6.8) |
| Operating profit before exceptional items | 87.6 | 91.1 |
| Exceptional items | 14.5 | (20.0) |
| Operating profit | 102.1 | 71.1 |
| Loss on disposal of discontinued operation | - | (25.1) |
| Effect of changes in interest rates, investment variance and other assumptions | 8.3 | (18.4) |
| Short term fluctuations in investment return | 56.9 | 33.7 |
| Change in equalisation provision | 0.5 | 0.5 |
| Profit on ordinary activities before tax | 167.8 | 61.8 |
| Tax on profit/loss on ordinary activities: | | |
| Operating profit | (19.7) | (20.9) |
| Operating exceptional items | (15.1) | 4.0 |
| Non operating exceptional item | - | 8.6 |
| Other | (18.4) | (4.9) |
| Profit for the financial year | 114.6 | 48.6 |
| Dividends | (35.1) | (19.7) |
| Retained profit for the financial year | 79.5 | 28.9 |
| | pence | pence |
| Operating earnings per share (before exceptional items) – basic | 34.5 | 35.7 |
| Operating earnings per share – basic | 34.2 | 27.6 |
| Earnings per share – basic | 58.3 | 24.7 |
| Earnings per share – diluted | 57.7 | 24.6 |

Supplementary information – achieved profits basis

Group balance sheet

| | As at 31 Dec 2004 £m | As at 31 Dec 2003 £m |
|--|-------------------------------|-------------------------------|
| Assets | | |
| Intangible assets | 117.5 | 167.5 |
| Investments | 10,816.0 | 11,480.0 |
| Internally generated present value of in-force business | 441.8 | 264.4 |
| Other assets | 1,952.0 | 1,169.3 |
| Total assets | 13,327.3 | 13,081.2 |
| Liabilities | (436.3) | (358.5) |
| Total assets less liabilities | 12,891.0 | 12,722.7 |
| Less: | | |
| Fund for future appropriations | 550.1 | 270.8 |
| Technical provisions | 11,246.0 | 11,439.9 |
| | 11,796.1 | 11,710.7 |
| Net assets | 1,094.9 | 1,012.0 |
| Capital and reserves: | | |
| Called up share capital | 9.8 | 9.8 |
| Share premium account | 21.9 | 21.7 |
| Other reserves | 25.3 | 25.3 |
| Other shareholders' reserves | 1,037.9 | 955.2 |
| Total equity shareholders' funds | 1,094.9 | 1,012.0 |
| Analysis of equity shareholders' funds: | | |
| Present value of in-force | 441.8 | 264.4 |
| Shareholders' retained capital (excluding present value of in-force) | 416.7 | 488.4 |
| Other shareholders' funds | 236.4 | 259.2 |
| Total equity shareholders' funds | 1,094.9 | 1,012.0 |

The supplementary information has been prepared in accordance with the methodology and basis of preparation set out in the supplementary information to the Group's financial statements for the year ended 31 December 2004.

Britannic Group – analysis of bonus rates and maturity values

Britannic Assurance plc today announced new bonus rates for its with profits policies. The declaration, which will be applicable from April 2005, details, for the following product types, the annual bonus rates for 2004:

| Product type | 2004 annual bonus declaration |
|----------------------------------|--------------------------------------|
| Traditional business | 0.25% p.a. |
| Unitised with profits life & ISA | Nil |
| Unitised with profits pensions | 3% p.a. |

Although our with profits fund achieved a positive pre-tax return for policyholders of 9.5% for 2004, the previous three years returned 11.4%, -11.5% and -9.9% respectively and so the cumulative effect is no significant investment return over four years. Bonus rates reflect this and the likely long term investment conditions of low long term interest rates and inflation.

Annual bonus rates increase the level of the guaranteed amounts payable to the customer on the maturity of the policy or on earlier death. At present guaranteed benefits on many with profits policies remain high in comparison with the actual underlying values. We anticipate low long term interest rates and inflation will continue in the foreseeable future and have therefore maintained annual bonus rates to reflect this and the current level of guarantees.

Final bonus rates broadly reflect any excess of the actual underlying value of the policy over the amount of the guaranteed benefits. With guaranteed benefits being generally high in comparison with the actual underlying values, final bonus rates have generally been reduced.

Payouts on maturing with profits policies in 2005 will reduce by an average 5.2% compared to the corresponding figures as at the last bonus announcement in March 2004.

Sample with profits endowment

The payout on a Britannic Assurance 25 year with profits OB endowment originally effected by a male aged 30 next birthday based on £50 per month is now £55,021. This represents an annualised return of 9.2% net of tax on total premiums of £15,000.* This compares favourably with the corresponding average inflation rate of 3.4% per annum over the same period.

*past performance is not a guide to future performance