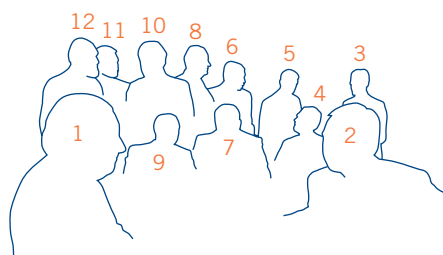


# Statutory report and accounts

## OUR CONSISTENCY DRIVES BUSINESS CONTINUITY

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# Board of directors



## 1 ROGER TAYLOR, CHAIRMAN ♦

Aged 62. Chairman of the Nomination Committee. Appointed a non-executive Director and Chairman in 1998. He was a member of the Remuneration Committee until 31 December 2003. He is non-executive President of Yura International Holding B.V., non-executive Deputy Chairman of Helphire Group plc and a non-executive director of White Ensign Association Limited. He was formerly Chief Executive of Sun Alliance Group plc and, until 1998, Deputy Chairman of Royal & Sun Alliance Insurance Group plc. He was Chairman of the Association of British Insurers from 1997 to 1998.

## 2 CHARLES PHILIPPS, CHIEF EXECUTIVE ♦

Aged 45. Appointed Group Chief Executive in July 1999, having joined the Board as Group Finance Director in 1997. Chartered Accountant. He has represented Amlin Corporate Member Limited on the Council of Lloyd's since its election with effect from February 2001. He was a member of the Lloyd's Market Board for 2001

and 2002. He has been a director of the Lloyd's Market Association since June 2003 and Chairman of its Capital Committee since 2002. He was previously a director of NatWest Markets Corporate Finance Limited until 1997, having been employed there from 1983.

## 3 RICHARD HEXTALL, FINANCE DIRECTOR

Aged 35. Appointed Group Finance Director in November 1999 on joining from Deloitte & Touche, where he was a director specialising in the insurance and financial services sector. Chartered Accountant. He has been a member of the Finance Committee of the Lloyd's Market Association since 2002 and of the Lloyd's Investment Committee from 2003.

## 4 TONY HOLT, UNDERWRITING DIRECTOR

Aged 52. Appointed a Director in January 2000. He has been a director of underwriting of Syndicate 2001 since 1999. In 2000, he was appointed head of Syndicate 2001's Reinsurance & non-marine division. He joined the Group in 1980 and was active underwriter of marine Syndicate 40 (now part of Syndicate 2001) from 1995 to 2000.

## 5 ROGER JOSLIN, NON-EXECUTIVE \* ♦

Aged 67. Appointed a Director in September 2001. Appointed to the Audit Committee from 1 January 2004. He has been a non-executive director of Archer Daniels Midland Company since 2001. Until he retired in December 2002 he was Vice Chairman of State Farm Mutual Automobile Insurance Company and a director

of State Farm Fire and Casualty Company and State Farm Life Insurance Company, serving on the executive and investment committees of these three principal companies in the State Farm Insurance Group. He is a US citizen.

## 6 RAMANAM MYLVAGANAM, NON-EXECUTIVE \* ♦

Aged 54. Appointed a Director in 1998, having previously served as an independent non-executive director of Amlin Underwriting Limited. He is principal partner of CMS Ltd, a management consultancy firm specialising in marketing and strategic business planning and development, and a director of ProZone Holdings Limited and Sports Info Services Limited.

## 7 BRIAN CARPENTER, UNDERWRITER

Aged 46. Appointed a Director in January 2000. He is head of the UK Commercial division of Syndicate 2001. He was a member of the Lloyd's Market Board from 2000 to 2002. He is Chairman of the Finance Committee of the Lloyd's Motor Underwriters Association and of the Lloyd's Training and Advisory Group. He was a member of the Business Development Unit Board at Lloyd's from 1997 to 2000. Prior to joining the Group in 1989, he worked as a broker with Sedgwick and Marsh.

## 8 JOHN KENNEDY, NON-EXECUTIVE \* ♦

Aged 69. Chairman of the Remuneration Committee. He has been a Director of Amlin since 1993, having served as non-executive Chairman from 1996 to 1998 until its merger



with ML (Bermuda) Limited, the latter being the part of the Group from which the major part of the present business originates. He is a non-executive director of the Nuclear Generation Decommissioning Fund Limited and was formerly senior partner of City solicitors, Allen & Overy and, until 2000, Chairman of The Law Debenture Corporation p.l.c.. He is a former director of the Financial Services Authority and a past Chairman of the Lloyd's Market Association.

**9 LORD STEWARTBY, DEPUTY CHAIRMAN AND DESIGNATED SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR** \* ♦ †

Aged 68. Chairman of the Audit Committee. Appointed a non-executive Director and Deputy Chairman in October 1995. He has non-executive appointments as Chairman of the Throgmorton Trust PLC, Deputy Chairman of Standard Chartered PLC and a director of Diploma plc and companies in the Framlington group. He was an Amlin nominated alternate director of Stace Barr Angerstein PLC from July 2001 to May 2003, having previously been an Amlin nominated director. He was formerly non-executive Deputy Chairman of the Portman Building Society and a director of the Financial Services Authority. He also formerly spent more than 20 years in merchant banking and held a number of Government offices, including Economic Secretary to the Treasury.

**10 JOHN STACE, VICE CHAIRMAN**

Aged 55. Appointed Vice Chairman in September 1999, having joined the Board in

1997. He moved from a full time to a part time executive basis in November 2001 and retired from executive office on 31 December 2003, continuing as non-executive Vice Chairman until the 2004 Annual General Meeting when he will leave the Board. He was Chief Executive of Amlin from 1997 to 1998 and Deputy Chief Executive from 1998 to 1999. He was a member of the Lloyd's Regulatory Board and of the Lloyd's Business Conduct Committee from 2000 to 2002 and was Chairman of the Lloyd's Members' Services Unit (MSU) from 2001 to 2002. He has been Chairman of the Lloyd's Charities Trust since 2001. He is an Amlin-nominated non-executive director of Stace Barr Angerstein PLC and was formerly a founder and chairman of Stace Barr Limited, a Lloyd's members' agency. He is a non-executive director of Frontiers Group Limited and a trustee of The Tank Museum at Bovington. He has also previously served on the Council of Lloyd's, including as a Deputy Chairman. He is a New Zealand citizen.

**11 JOHN SANDERS, NON-EXECUTIVE** \* †

Aged 61. A Director of Amlin since 1993, including prior to its merger in 1998 with ML (Bermuda) Limited, the latter being the part of the Group from which the major part of the present business originates. He is non-executive Deputy Chairman of Austin Reed Group PLC, non-executive Chairman of Star Energy (Kakap) Limited, and a non-executive director of BoE International Holdings Limited. He is a Barclay Fellow of Templeton College, Oxford. He was a

managing director of NatWest Markets until 1998 and is a former Chairman of Orion Royal Bank and of Royal Bank of Canada Europe.

**12 THOMAS KEMP, NON-EXECUTIVE**

Aged 63. Appointed a Director in 1998. Member of the Remuneration Committee until January 2004. He has been a director of White Mountains Insurance Group Ltd, which is in the same group as One Beacon Insurance Company (a disclosable shareholder of over 3% of the Company's shares until February 2003), since 1994. He served that group as President from 2001 to June 2003, Deputy Chairman from 2000 to 2001, and President and Chief Executive Officer from 1997 to 2000, having joined the group in 1990. Since July 2002, he has been seconded in an executive capacity as a director of Montpelier Re Holdings Limited with which Syndicate 2001 has had qualifying quota share arrangements and currently has material reinsurance contracts. He is a former President and Chief Executive Officer of Resolute Reinsurance Company and former Vice President for Corporate Finance and Development at GEICO Corporation. He is a US citizen.

- \* Member of the Audit Committee
- ♦ Member of the Nomination Committee
- † Member of the Remuneration Committee

Directors are executive directors of Amlin plc unless otherwise stated.

# Directors' report

The directors of Amlin plc (the Company) present their report, the audited accounts of the Company and the consolidated accounts of the Company and its subsidiaries (the Group) for the year ended 31 December 2003.

## Principal activities, corporate and business review

The Group's principal activity is non-life insurance underwriting. A review of the Group's business, and developments during the year, is included in the Chairman's statement, the Chief Executive's strategy review and the Operating and financial review.

## Dividends

An interim dividend of 0.85p (2002: 0.75p) per ordinary share was paid on 3 November 2003. The directors propose a final dividend of 1.65p per ordinary share (2002: 1.25p), to be paid on 25 May 2004 to shareholders on the register at the close of business on 26 March 2004. This makes total dividends for the year of 2.5p per ordinary share (2002: 2.0p). A scrip dividend alternative is being offered in respect of the final dividend, as it was in respect of the 2003 interim and 2002 final dividends. Details of the shares issued during the year in respect of scrip dividends are included in note 19 to the Accounts.

## Directors

The biographical details of the present directors are set out starting on page 34. There were no changes to the composition of the Board during 2003. From 1 January 2004, Mr Stace's status altered from executive to non-executive. The current terms of office of Messrs Kennedy, Sanders and Stace end at the Annual General Meeting on 19 May 2004 and they will not be offering themselves for re-election. Mr Philipps retires at the Annual General Meeting by rotation and, being eligible, offers himself for re-election.

## Directors' interests

The interests of directors and their related parties in the ordinary shares of the Company, all of which are beneficial except as stated immediately below, were as follows:

	At 5 March 2004 and at 31 Dec 2003 No of shares	At 31 Dec 2002 No of shares
B D Carpenter	541,004	382,911
R A Hextall	18,937	18,613
A W Holt	2,463,441	2,283,958
J M Kennedy	23,818	23,411
R W Mylvaganam	3,189	3,135
C E L Philipps	103,823	102,744
J R Sanders	120,000	120,000
J L Stace	607,077	1,258,683
Lord Stewartby	46,054	46,054
R J Taylor	15,351	15,351

The interests shown above of Mr Stace at 5 March 2004 and 31 December 2003 include 5,000 shares held non-beneficially by a charity of which he is a trustee and 260,000 shares held by a trust of which he is the sole beneficiary. These interests were nil and 650,000 shares respectively at 31 December 2002.

In addition, Messrs Carpenter, Hextall, Holt, Philipps and Stace are deemed, as employees or former employees of Group companies, and therefore potential beneficiaries, to be interested in the whole of the holding of the Group's Employee Share Ownership Trust (ESOT), details of which are given immediately below. The directors' own ESOT and other share options are set out in the Directors' remuneration report starting on page 44. Details of transactions between the Group and directors who served during the year are set out in note 32 to the Accounts.

No directors have any other interests in the shares of the Group or any of its subsidiaries.

## Shares held by employee share ownership trust

The trustee of the Group's ESOT, Kleinwort Benson (Guernsey) Trustees Limited, held 5,209,922 shares in the Company on 31 December 2003 (2002: 6,098,302 shares). On 5 March 2004, the ESOT's shareholding was 5,144,490 shares. All of the changes in the ESOT's shareholding between 31 December 2002 and 5 March 2004 were as a result of exercises of options.

## Substantial shareholdings

At 5 March 2004 the Company had been notified of the following holdings of 3 per cent or more of its issued ordinary share capital:

	Number of shares held	% of shares in issue*
Fidelity International Limited and FMR Corporation	49,794,131	12.7
State Farm Mutual Automobile Insurance Company	39,445,955	10.1
Barclays PLC	16,206,764	4.1
Partners in Rostrum Investors limited partnerships**	12,945,544	3.3
Legal & General Group Plc companies	11,944,369	3.1

\* Based on the shares in issue as at 5 March 2004 of 391,409,745.

\*\* The above interest of the partners of Rostrum Investors limited partnerships is the aggregate interest of the following limited partners, whether or not such shares are held within the partnerships, all of which have disclosed interests in the same shares: Rostrum Limited, BriTel Fund Trustees Limited, British Airways Pension Trustees Limited, Kleinwort Benson (Jersey) Trustees Limited, Possfund Custodian Trustee Limited and Stargas Nominees Limited. In addition, Mr M J Wade is interested in such shares by reason of his effective shareholding in Rostrum Limited.

## Corporate governance

Corporate governance reports, including reports from the Board's Nomination and Audit Committees, immediately follow this report. The Directors' remuneration report, which includes details of the Board's Remuneration Committee and is subject to approval by shareholders at the forthcoming Annual General Meeting, starts on page 44.

## Employment policies

The Group is committed to keeping employees informed about the business. An Employee Consultative Forum, made up of representatives of the employees and of senior management, has recently been instituted, holding its first meeting later in March 2004. The Group encourages its employees to develop their full potential by providing opportunities for training and professional development.

The Group's equal opportunities policy aims to ensure that no potential or existing employee receives less favourable treatment because of his/her sex, actual or perceived sexual orientation, gender (including gender reassignment), marital or family status, age, ethnic origin, disability, race, colour, nationality, national origin, creed, political affiliation, part-time status, or any other condition, unless it can be shown to be legally justifiable.

The Group also has a comprehensive health and safety policy which is publicised to staff through its intranet and on staff notice boards. Group employees are encouraged to participate in the Group's pension arrangements, details of which are set out in the Directors' remuneration report and in note 9 to the Accounts.

The Company encourages employees to participate in its equity through direct share ownership and share option schemes, including a Sharesave scheme open to all permanent employees. Details of the schemes are set out in the Directors' remuneration report starting on page 44, as are details of the Group's remuneration policies.

## Corporate responsibility

### General

The Group recognises the potential impact of its dealings not only on shareholders and employees, but also on customers, external capital providers, suppliers, creditors, competitors and the wider community.

The Board has commissioned an independent review of its corporate social responsibility (CSR) programme to assist in the appraisal of existing initiatives and potential additional opportunities and in the assessment of benefits, risks and costs. The Board is in the process of considering the results of this review.

This section summarises some of the areas, in addition to employment policies, which are most relevant to such considerations.

### Environmental

Amlin recognises the need to manage the impact of its activities on the environment in such areas as internal processes, re-cycling, energy use and encouraging its suppliers and insureds to act responsibly regarding environmental impacts and risk. The Company adopted a Group Environmental Policy in 2001, which it has continued to implement and develop during the past two years. Targets have been set, and performance measurement commenced, in a number of key environmental areas.

Amlin is a member of Business in the Environment (part of Business in the Community), the business-led campaign for environmental responsibility which assists its members in monitoring and improving environmental performance. The Group's Environmental Committee was chaired during the year by the Company's Vice Chairman, Mr Stace.

### Ethical

The Group operates a Business Ethics Policy, which sets out the high ethical standards to which the Group is committed in carrying out its business. The policy is intended to assist the protection of the trust and confidence of those with whom the Group deals, which is considered of fundamental importance to Amlin's reputation and business.

### Community involvement

The Group encourages employee involvement in community projects, particularly in conjunction with the Lloyd's Community Programme in the London Borough of Tower Hamlets. During the year, participation by Amlin staff increased in that programme's reading partners scheme with primary school pupils. Early in 2004, a senior employee also joined a new Tower Hamlets police mentoring scheme. The Company also participates in its community of the City of London through electoral registration of employee representatives for City Corporation elections.

### Charitable activities and donations

The Group made charitable donations during the year of £29,998 (2002: £29,791). The Group's charities budget is managed by a Charities Committee which includes staff representatives. Special consideration is given to projects and fund raising in which members of staff themselves are involved, such as community projects mentioned above. Also linked to the local community was the renewal during the year of the Company's special partnership charity arrangement with Macmillan cancer relief: a new three year commitment has been given to provide financial support to a special unit at Guy's Hospital, the nearest main hospital to the Company's London operations.

### Risk management

As part of the Group's general risk management review processes, the significant risks to the Company's short and long term value arising from social, environmental and ethical matters, and the opportunities to enhance value from an appropriate response, are incorporated as a specific consideration. More details of risk management are included in the Board Corporate governance statement starting on page 39.

Copies of the Group Environmental Policy, the latest environmental progress report and the Business Ethics Policy are available in the corporate governance section of Investor relations on the Company's website [www.amlin.com](http://www.amlin.com) or from the Secretary on request.

### Political donations

The Group made no political donations during the year (2002: £nil). The Board's policy is that the Group does not make political donations, other than incidentally in circumstances where an employee might be allowed time off for public service deemed to be political. The Board does not propose to seek any discretion from shareholders regarding political donations pursuant to the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000) as any such incidental expenditure deemed to be within the scope of this legislation would be well within the applicable £5,000 annual threshold.

# Directors' report continued

## **Supplier payment policy and performance**

The Group's policy is to pay suppliers in accordance with agreed terms of business. Whenever possible, purchase orders are placed on the basis of the Group's standard terms and conditions which include provision for the payment of suppliers within 30 days of the end of the month in which the Group receives the goods or services are provided.

Average trade creditors of the Group during 2003, which excludes insurance creditors, represented approximately 28 days (2002: 28 days), based on the ratio of Group trade creditors to the amounts invoiced during the year.

## **Annual General Meeting**

The Notice of Annual General Meeting, to be held at noon on Wednesday 19 May 2004 at the offices of the Company at St Helen's, 1 Undershaft, London, EC3A 8ND, is contained in a separate circular to shareholders which is being mailed with this report.

## **Auditors**

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 Deloitte & Touche LLP as auditors to the Company and to authorise the directors to fix their remuneration. Deloitte & Touche were first appointed the Company's auditors in 2000 and were last re-appointed by shareholders at the Annual General Meeting in May 2003. Pursuant to Section 26(5) of the Companies Act 1989, the consent of the Company was given by the Board in September 2003 to treating Deloitte & Touche's appointment as extending to the newly formed Deloitte & Touche LLP (limited liability partnership).

By Order of the Board

**C C T Pender** Secretary  
9 March 2004

# Corporate governance reports

## Board corporate governance statement

### Overview, basis of reporting and the New Combined Code

The Group is committed to high standards of corporate governance. The principles and code applicable to the Company during 2003 were the June 1998 edition of The Principles of Good Governance and the Code of Best Practice (together referred to as 'the Applicable Combined Code'). The Board is satisfied that the Company complied with the Applicable Combined Code in all respects throughout the year ended 31 December 2003.

The Board and its Committees have kept corporate governance issues under review throughout 2003, as developments have flowed from the publications in January 2003 of the Higgs Report on the role and effectiveness of non-executive directors and the Smith Report on audit committees. The resultant revised Combined Code on Corporate Governance published in July 2003 (the New Combined Code) is applicable to Amlin from 1 January 2004. Whilst this and the following corporate governance statements therefore report on compliance with the Applicable Combined Code, each report also makes reference to changes made during 2003 where they relate to material new provisions in the New Combined Code.

Following the publication of the New Combined Code, new Terms of Reference of each of the Board's Audit, Nomination and Remuneration Committees were adopted prior to the year end. These fully reflect the requirement of the New Combined Code and related recommendations, both in terms of the scope, duties and powers of Committees, and in terms of their membership. Other revised policies, procedures or statements relating to areas covered in the New Combined Code have been adopted by the Board as described below.

The new Committee Terms of Reference, a revised schedule of matters reserved to the Board and a statement of the relationship between the Company and its remuneration advisers are available on request from the Secretary and on the Company's website [www.amlin.com](http://www.amlin.com), under the Corporate Governance section of Investor Relations. Revised non-executive director appointment letters are available for inspection during normal business hours at the Company's registered office, alongside executive directors' service agreements.

### Board meetings

The Board meets on a regular basis, holding seven main Board meetings in 2003 plus a planning and strategy meeting (2002: eight). One special Board meeting was held at shorter than usual notice (2002: two). The attendance record of each director during the year, out of a possible maximum of eight meetings, was as follows:

### Board attendance 2003

Director	Number of Board meetings attended
B D Carpenter	8
R A Hextall	8
A W Holt	7
R S Joslin	8
K T Kemp	6
J M Kennedy	8
R W Mylvaganam	8
C E L Philipps	8
J R Sanders	7
J L Stace	6
Lord Stewartby	8
R J Taylor	8
Average % attendance	94%

In addition, all directors other than Mr Mylvaganam attended the two day planning and strategy meeting referred to above.

### The Board's responsibilities and procedures

Both the previous schedule of matters reserved to the Board for its own, and its committees', decisions, and the revised one adopted since the year end, provide that the Board's primary obligation is to lead and control the Company and its business, with exclusive decision making powers over such matters as: overall strategy; investment strategy; remuneration policies; accounting policies; and capital expenditure, acquisitions and debt facilities over certain thresholds. Matters reserved to the Board also include certain key Group policies, appointments and categories of public announcements. The detailed implementation of all these matters, and day-to-day business, are left to management.

The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties. Further information is obtained by the Board from the executive directors and other relevant senior executives as the Board, particularly its non-executive members, considers appropriate. Procedures are in place for directors to take independent professional advice, when necessary, at the Company's expense.

There is a division of responsibilities on the Board between the Chairman, who is responsible for running the Board and related matters such as Board induction and evaluation, and the Group Chief Executive, who has executive responsibility for running the Group's business. A statement re-affirming and detailing this division of responsibilities was adopted by the Board in November 2003. The Deputy Chairman, Lord Stewartby, is the senior independent director and thus designated as an appropriate director to whom shareholders' concerns may be conveyed if contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve them or is inappropriate.

# Corporate governance reports continued

The non-executive directors met during the year without executive directors or other executive management present.

All directors are provided with written materials on their responsibilities as directors of a public company, and on other relevant matters. Update sessions on technical and/or industry matters are periodically included as part of Board meetings and Board induction is available for non-executive directors. During the year the Board agreed a more structured approach both to updating directors' knowledge and skills and to Board induction for future newly appointed directors. The Board has also agreed an outline process for formal Board evaluation to take place during 2004.

## Board membership and independence

The Articles of Association of the Company have provided for some years that no director serves in office in excess of three years before being required to submit himself or herself to shareholders for re-election.

The Board comprised throughout the year: the Chairman, the six other non-executive directors and the five executive directors as detailed on pages 34 to 35. Details regarding the directors to be submitted for re-election at the 2004 Annual General Meeting are also contained in the separate Notice of Meeting.

The Chairman was independent, in terms of both the Applicable Combined Code and the New Combined Code, on his appointment in 1998 and continued to be determined by the Board as independent during the year. In November 2003 the Board received an updated statement of his other significant commitments and is satisfied that he continues to have more than sufficient time available to devote to his duties as non-executive Chairman of Amlin. In respect of 2004, he has made a minimum time commitment to Amlin of 75 days per year.

Each of the other non-executive directors have also made minimum time commitments for 2004 as follows:

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Deputy Chairman (also Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees):	35 days
Chairman of the Remuneration Committee (also a member of the Audit Committee):	30 days
Other non-executive directors: (plus an extra 5 days if a member of both the Remuneration and Audit Committees)	20 days

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Apart from Mr Joslin, all the non-executive directors during the year were determined by the Board as being independent in character and judgement with (in the words of the New Combined Code) "no relationships or circumstances which may appear relevant" to such determination. Until 31 December 2002 Mr Joslin was Vice Chairman of State Farm Mutual Automobile Insurance Company (State Farm), which is a 10.1% shareholder in the Company and provides material Letter of Credit facilities to the Group (on commercial terms). In the light of this, he was classified as a non-independent director throughout 2003. However, with effect from 1 January 2004, Mr Joslin is now classified as independent, notwithstanding provision A.3.1 of the New Combined Code which suggests that a three year

period must elapse following such relationship. The Board considers that an exception to this provision is justified from the current year as neither State Farm nor the Board consider him as any form of conduit of information between them, he has no continuing personal interests in State Farm and, most importantly, his previous directorship of State Farm does not, in practice, affect his independent judgement as an Amlin director. On this basis, Mr Joslin has joined the Audit Committee from 1 January 2004, bringing his considerable, relevant and recent financial and insurance experience to its deliberations.

Mr Kemp was classified as independent throughout 2003. He is a director of a company in the same group as One Beacon Insurance Company, which had an interest in over 3% of the Company's shares until February 2003, but the Board maintained its previous view that the shareholding was not sufficient to impair Mr Kemp's independence. Since June 2002 Mr Kemp has held a temporary position as Chief Financial Officer of Montpelier Re Holdings Limited, with which the Group's managed syndicate already had a qualifying quota share arrangement (on commercial terms) prior to his appointment. As the position remained a temporary secondment, and the arrangement with Amlin had been put in place before it commenced, the Board also did not consider that this should alter his independent status. However, for commercial reasons as part of its 2004 reinsurance programme, the syndicate entered into more substantive reinsurance arrangements with Montpelier Re. As a result of this, the business relationship has become sufficiently material, with effect from January 2004, for it to be no longer appropriate for Mr Kemp's independent classification to continue. Accordingly, he left the Remuneration Committee in January 2004.

The Board notes that Messrs Kennedy and Sanders have both served on the Board since October 1993 and, as the Board continues to classify each of them as independent, the New Combined Code accordingly requires the Board to state its reasons for doing so notwithstanding their length of service. The Board is mindful that the merger of the Company with Murray Lawrence in September 1998 so transformed the size and scope of the Group's business as to render the earlier service of questionable relevance to such considerations. Furthermore the Board has recently reaffirmed its view that each of them remain, in practice, robustly independent in character and judgement. Notwithstanding provision A.3.1 of the New Combined Code, the Board accordingly continues to classify them as independent.

Mr Stace, who served as executive Vice Chairman throughout the year, accepted the Board's invitation to remain on the Board as non-executive Vice Chairman until the expiry of his current term of office at the 2004 AGM. He will then leave the Board. He is classified as a non-independent non-executive for these final few months of his service as a director.

## Relations with shareholders

The Company has been committed for many years to a process of continuing dialogue with its shareholders. In addition to usual briefings on financial results, the Company made appropriate contact during the year with institutional investors and their representative bodies as issues or developments arose. Directors also accepted invitations to speak at investment seminars and the Company held its own seminar for an investment audience which was attended by non-executive directors and covered details of the Group's business and the markets in which it operates.

Regular reports are given to the Board on shareholder attitudes to the Company. An independently conducted survey of institutional shareholders' investment criteria, and their perceptions of the Company, its management and its investor communications, was conducted during the year, with the results presented to the Board.

The Company also conducts a programme of briefings for private client advisers through investor relations consultants. A dedicated telephone line is provided at the Company to answer shareholder and investor enquiries.

Shareholders are encouraged to attend the Annual General Meeting, when a presentation on the Group's progress is made each year. At all its shareholder general meetings the Company announces the totals of proxy votes on each resolution after it has been dealt with on a show of hands.

### Reports from Board Committees

Details of the membership and activities of each of the Board's Nomination and Audit Committees are contained in their separate corporate governance reports immediately following this. Similar details of the Remuneration Committee, including the number of its meetings and individual directors' attendance, are contained in the Directors' remuneration report, which starts on page 44.

### Accountability and internal control

The Company has an ongoing process for identifying, evaluating and managing its significant risks. This process has been in place throughout the year and up to the date of approval of the Annual Report. The process and its findings are regularly reviewed by the Audit Committee, which reports on the matter to the Board, and accords with the guidance in the document 'Internal Control: Guidance for Directors on the Combined Code' published by the Institute of Chartered Accountants in England and Wales. This process explicitly includes the risks, and opportunities to enhance value, arising from social, environmental and ethical matters.

The directors are responsible for the Company's systems of internal control and in respect of the year ended 31 December 2003 the directors have reviewed the effectiveness of these systems which are designed to provide reasonable, but not absolute, assurance against material avoidable loss or misstatement of financial information. They are also designed to manage rather than eliminate the risk of failure to achieve business objectives.

Where areas for internal control improvements are identified, action is taken. The Board has put in place a management structure with defined lines of responsibility and delegation of authority. The Group also operates a financial performance monitoring process involving detailed reporting against budgets and the preparation of longer term projections. In addition there is reporting to the Board in the ordinary course of business on key risk management processes.

The Board receives regular reports from the Audit Committee which reviews the following main processes established by the Company to review the effectiveness of internal control:

- Regular reporting by each division and central function on the main risks to the achievement of Group objectives and on the nature and effectiveness of the controls and other management processes to manage these risks. Significant risks and the actions taken to manage those risks are regularly reviewed by the Group's Risk Committee which comprises senior executives and is chaired by the head of Audit and Compliance. The Risk Committee reports regularly to the Audit Committee.
- A self-certification process whereby senior managers report on those parts of the systems for which each of them is responsible.
- Internal audit and compliance monitoring work carried out by the Group's Audit and Compliance function, which also provides compliance advice. The head of Audit and Compliance reports to the Group Chief Executive and to the Audit Committee. The Group has established a continuous Audit and Compliance programme for reviewing and evaluating the internal controls and compliance procedures used in the management of risk.

### Going concern

The Board has satisfied itself that the Group has adequate resources to continue in operation for the foreseeable future. The Group financial statements therefore continue to be prepared on a going concern basis.

By Order of the Board

**C C T Pender** Secretary  
9 March 2004

# Corporate governance reports continued

## Report from the Nomination Committee

### Membership

The Nomination Committee (the Committee) is chaired by the Chairman of the Company, who is non-executive, and its other members during the year were the non-executive Deputy Chairman, the Group Chief Executive, Mr Stace and Mr Joslin. Its membership was unchanged during the year. On 1 January 2004, Mr Stace was replaced on the Committee by Mr Mylvaganam.

### Terms of reference

All proposals for appointment, election or re-election to the Board, whether in a non-executive or executive capacity, are considered by the Committee, which makes recommendations to the Board. Re-nomination of directors to the relevant Annual General Meeting is considered on a case by case basis before recommendations are made. The Committee's revised terms of reference, adopted for the Committee by the Board in November 2003, amplified the Committee's responsibilities to keep under review and advise the Board on such areas as the Board's structure and composition, the leadership required to ensure the continued competitiveness of the Company, succession planning and committee appointments. No director may participate in any decision regarding his or her own position.

The Committee's terms of reference are available on the Company's website and from the Secretary on request.

### Meetings

The Committee meets as frequently as is required to fulfil its duties. It met twice during 2003, when attendance was as follows:

#### Nomination Committee attendance 2003

Committee member	Number of Committee meetings attended
R S Joslin	2
C E L Philipps	2
J L Stace	2
Lord Stewartby	2
R J Taylor	2
% attendance	100%

### Activities

During the year the Committee considered re-nominations to the Board for the 2003 AGM, succession planning regarding both the executive and non-executive directors and, latterly in the year, commenced planning a recruitment process for a new non-executive director. No new appointments to the Board were made during the year.

By Order of the Board, on the recommendation of its  
Nomination Committee

**C C T Pender** Secretary  
9 March 2004

## Report from the Audit Committee

### Membership

The Audit Committee (the Committee) comprised throughout the year four non-executive directors, Lord Stewartby, Deputy Chairman, who is chairman of the Committee, and Messrs Kennedy, Mylvaganam and Sanders. On 1 January 2004, Mr Joslin joined the Committee as an additional member. The Chairman of the Company, the Group Chief Executive, the Finance Director and the head of Audit & Compliance usually attend the Committee's meetings. At least once a year the Committee meets, both on its own and with the external auditors, without any executive management present.

The Board has satisfied itself that, upon the New Combined Code coming into effect for the Company on 1 January 2004, the Committee had at least one member with recent and relevant financial experience.

### Terms of reference

The Committee's terms of reference enable it to take an independent view of the appropriateness of the Group's accounting policies and practices. It also considers the appointment and fees (both audit and non-audit) of the external auditors, who have unrestricted access to it, and monitors the Group's compliance, internal control and risk management procedures. The Committee's revised terms of reference, adopted for the Committee by the Board in November 2003, take full account of the Smith Report on the role of audit committees, for instance providing that all its members must be independent non-executives rather than just a majority.

The Committee's terms of reference are available on the Company's website and from the Secretary on request.

### Meetings

The Committee meets a minimum of four times a year. It met five times during 2003, when attendance by committee members was as follows:

#### Audit Committee attendance 2003

Committee member	Number of Committee meetings attended
J M Kennedy	5
R W Mylvaganam	5
J R Sanders	4
Lord Stewartby	5
Average % attendance	95%

### Activities

In addition to reviewing accounting policies, the Company's interim and preliminary results statements and its Annual Report, the Committee reviewed and reported to the Board on: the managed syndicate's Annual Report; the external auditors' engagement and service plan; the plans, and work undertaken during the year, of the Group's Internal Audit and Compliance Department; the external auditors' independence and the extent and reasons for them providing non-audit services (a break down of the fees for which is set out in note 10 to the Accounts); and other related matters. Reports were received from the external auditors in respect of each set of financial statements, highlighting the material judgemental areas, which were then discussed by the Committee with executive management and the auditors at the relevant Committee meeting.

During the year the Committee operated enhanced procedures for approving any appointments of the external auditors (or its associated entities) to provide non-audit services.

Details of the Committee's role regarding internal control issues are set out in the 'Accountability and internal control' section of the Board corporate governance statement starting on page 39.

The Committee also monitored the Group's compliance with Lloyd's, Financial Services Authority and other regulatory requirements and recommendations. Reports to the Committee from the Group's Audit and Compliance department included summaries of the findings of internal audit reports, enabling members of the Committee to question the head of Audit and Compliance on such reports and to monitor the measures taken by management to respond to issues raised.

The Committee was updated during the year on technical accounting developments both by the external auditors and by the Group Finance Director. A special session, to which all directors were invited, was held to consider the nature, impact and timing of the introduction of International Accounting Standards to the Group's financial reporting.

By Order of the Board, on the recommendation of its Audit Committee

**C C T Pender** Secretary  
9 March 2004

# Directors' remuneration report

## Status and shareholder approval of report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority. As required by those regulations, the sections entitled 'Remuneration received', 'Executive directors' pensions', 'Executive directors' Capital Builder Plan participations' and 'Executive directors' share options' have been audited by Deloitte & Touche LLP. The remainder of this report is unaudited.

The Notice of Annual General Meeting of the Company, to be held at noon on Wednesday 19 May 2004, which is being delivered to shareholders with this Annual Report, contains notice of the intention of the directors to move an ordinary resolution at that meeting approving this report for the year ended 31 December 2003.

## Remuneration committee membership, advisers and terms of reference

The Remuneration Committee (the Committee) in 2003 comprised of four non-executive directors: Mr Kennedy (the Committee's Chairman), Mr Kemp, Mr Sanders and Mr Taylor. On 1 January 2004 Mr Taylor, who is Chairman of the Company, was replaced on the Committee by the non-executive Deputy Chairman, Lord Stewartby. Mr Kemp also left the Committee in January 2004. All members of the Committee during and since the year under review were classified by the Board as independent throughout their periods of service on the Committee.

The Committee has appointed New Bridge Street Consultants LLP (NBS) to advise it generally on senior remuneration policy. In particular, NBS has advised the Committee since 1999 regarding its policies on the grants of executive share options and, more recently, on the design and implementation of long term incentive plans and a Group Bonus Scheme. NBS also advises executive management from time to time on other remuneration matters which may not be within the direct purview of the Committee; and advises the Board as a whole on matters relating to the remuneration and terms of appointment of non-executive Directors of the Company. A statement regarding the Company's relationship with NBS was published on the Company's website in December 2003 and is available on request from the Secretary.

Two firms of lawyers, Linklaters and Dechert, advise the Committee from time to time on specific matters. Such firms have not been appointed directly by the Committee as their work is usually a by-product of their appointments as solicitors to companies in the Group on a range of matters.

The Committee is assisted by the Group's head of Human Resources and by advice and recommendations from the Group Chief Executive, who is usually invited to attend its meetings other than when items specific to himself are being considered. Since the year end, the Chairman of the Company has also continued to assist the Committee on certain matters. The Company Secretary acts as secretary to the Committee and advises it on certain specialist matters such as aspects of share options.

The Committee's terms of reference, which are available on the Company's website, may be summarised as being to determine the terms and conditions of employment of each executive director of the Company and the remuneration of certain other senior employees (in each case including exit terms), and to recommend to the Board the policies of the Group in relation to senior executive remuneration generally. Since

November 2003 the terms of reference have also included determining the Chairman's remuneration. The Committee seeks to act in accordance with the Principles of Good Governance and Code of Best Practice (the Combined Code) and, to that end, new terms of reference for the Committee reflecting the new Combined Code on Corporate Governance, which was published in July 2003 and applies to the Company from 1 January 2004, were adopted by the Board in November 2003. These did not alter the fundamental role of the Committee but have refined and extended its duties in some areas. Details of the Group's compliance with the Combined Code, including more details of the independence of members of the Committee, are contained in the Statements on corporate governance starting on page 39.

## Remuneration committee meetings

The Committee met six times during the year, when attendance by Committee members was as follows:

### Remuneration Committee attendance 2003

Committee member	Number of Committee meetings attended
K T Kemp	5
J M Kennedy	6
J R Sanders	5
R J Taylor	6
Average % attendance	91%

Five of the meetings were substantive meetings and one was to formalise a particular approval. Excluding the latter meeting, attendance was 100%.

## Remuneration policies

### Overall remuneration levels

The Group's policy is to offer appropriate remuneration packages to attract, retain and motivate directors and other Group employees having the experience and quality required by the Group. In determining such remuneration, the Group has regard to the performance of the individual in the role and to remuneration statistics for the non-life insurance sector in which the Group operates and, where applicable for certain roles, wider remuneration statistics. A formal job evaluation process has also been used in the salary review process from 2003 onwards.

Certain aspects of remuneration are influenced by the Lloyd's sector in which the Group operates and competes for staff. Lloyd's managing agencies tend to relate a significant proportion of potential rewards, particularly those of underwriters, to the profitability of the relevant underwriting unit. Market practice is that such 'profit commission' schemes are on an uncapped basis in money terms but they are capped as a percentage of the relevant profit pool which in turn is capped by the overall regulatory capacity of the syndicate. Amlin follows such Lloyd's market practice for staff for whom such market influenced remuneration structures are appropriate. Across all categories of staff the Group's policy is to have regard to market median salaries, but with the potential for top quartile performance related remuneration if top quartile performance is achieved. This policy aims to encourage and reward superior rather than merely average performance. There are no remuneration factors specific to the Group beyond the ones described above relating to the Lloyd's insurance sector.

### Structure of Directors' and Employees' Remuneration

Remuneration of the executive directors and other senior employees consists of three principal elements: (1) base salary, benefits and pensions; (2) shorter term performance rewards; and (3) longer term performance rewards. A significant proportion of executive directors' and senior employees' remuneration is performance related. At present there are no significant changes to remuneration policy or structure currently planned in respect of (1) or (2). Material potential changes to longer term performance rewards for non-underwriters are referred to in the relevant section below.

#### *Base salary, benefits and pensions*

In addition to base salary, executive directors and other employees are generally entitled to private health insurance, cover for death in service and disability, and membership of a pension scheme. Senior staff, including executive directors, also receive a car allowance. Company cars, other than those required for substantial business use, are no longer provided.

The Company pays a percentage of base salary into either a Group occupational or personal pension plan. Executive directors participate in the relevant group pension plans on the same basis as other senior employees who are not directors, with the exception of Mr Stace whose pension arrangements from prior to the acquisition by the Group of his own company were maintained until his retirement from executive office on 31 December 2003. In all cases, pensionable salary is base salary only and the arrangements include dependants' pensions and death in service cover. The Group has both defined contribution and defined benefit schemes. The Group's policy is not to enter into new defined benefit pension commitments and thus the relevant sections of all such schemes have been closed to new entrants since 1998. In respect of defined contributions, the Group contributes a percentage of base salary depending on seniority, age and the percentage of salary (if any) that the employee chooses to contribute. In respect of those with defined benefits, the Group contributes at rates which vary according to actuarial advice in order to achieve the required level of pension in relation to final salary and years of service. All but one closed scheme, in which no current director participates, involved an element of employee contribution during the year. The Committee agreed during the year that employee contribution rates would be standardised at 5% with effect from April 2004.

In the case of those higher paid employees, including directors, in respect of whom the Group is unable to contribute the full operative percentages of base salary into the relevant group pension scheme as a result of the Inland Revenue earnings cap, the Group makes extra contributions through a Funded Unapproved Retirement Benefit Scheme set up for each such employee.

The Group's pension arrangements are currently being reviewed in order to decide what changes might be needed to take account of the Government's recent pension reform proposals.

#### *Shorter term performance rewards: annual bonus scheme for non-underwriting directors and employees (Group Bonus Scheme)*

The Group's shorter term performance incentives consist, in the case of those executive directors and other employees who are not part of an underwriting division, of a Group Bonus Scheme, which was introduced in its present form from 2002. The bonus payments to Messrs Hextall and Philipps reported below are pursuant to this scheme. The section of the scheme applicable to these executive

directors and other participating senior employees is designed to reward and incentivise them against a mixture of business performance, measured by reference to the Group's return on equity compared with target returns set by the Committee each year, and the individual's performance against agreed and stretching personal objectives. The mix of business and individual bonus elements varies by seniority, with 70% of the potential target reward at the most senior level, including participating executive directors, being rewarded on Group business performance and 30% on personal performance. The total on-target and maximum bonus levels also vary by seniority, up to a maximum of 100% of base salary for participating executive directors.

The scheme does not apply to anyone with an agreed leaving date. Mr Stace, an executive director during the year with an agreed retirement date from executive office of 31 December 2003, therefore did not participate in the scheme.

#### *Shorter term performance rewards: profit share for underwriters (Profit Commission Scheme)*

Shorter term incentives for underwriters and certain other underwriting division staff (whether or not they are executive directors of Amlin plc) consist principally of a profit share relating to syndicate profits in respect of each Lloyd's year of account. The current executive directors who participate in this are Messrs Carpenter and Holt. The scheme divides rewards between those related to the performance of the relevant participant's division and those related to the performance of the whole of the Group's managed syndicate (Syndicate 2001). Rewards are also divided between those which are purely calculated as a percentage of underwriting profit and those relating to personal performance and/or service standards. The maximum percentage of each division's underwriting profit which may be paid out under the scheme in respect of each Lloyd's year of account up to 2003 is 5.0% (4.5% from 2004) unless the division has achieved a superior result for its Lloyd's sector of business in which case a slightly higher percentage may apply. The percentage has reduced from 2004 as a result of a number of the previous participants in the scheme who are less directly responsible for underwriting results having been transferred to the Group Bonus Scheme, relating their rewards to overall Group and their own personal performance.

Generally rewards are paid at the end of 36 months when the particular Lloyd's year of account closes but the Company may flex this from time to time to take account of market conditions. In the past, rewards were phased over a period of years after the 36 months, which could act as a retention tool, but in certain profitable underwriting conditions, as at present, an element of earlier payment before the expiry of 36 months may be justified and will be a closer reflection of the Group's published results. Such early payment, representing 30% of the total payment based on current forecasts, has been agreed by the Committee in respect of the 2002 year of account. Such variations in the timings of payments mean that reported payments in respect of any particular calendar year, as included for Messrs Carpenter and Holt later in this report, do not reflect profitability in that particular year relative to others.

Whilst the precise structure and payment basis of the Profit Commission Scheme therefore varies from year to year, the underlying policy is to reward those involved in underwriting, on a year of account basis, according to the performance of both their own division and the syndicate as a whole.

# Directors' remuneration report continued

## *Longer term performance rewards: Long Term Incentive Plan for senior underwriters (Capital Builder Plan)*

The Amlin Capital Builder Long Term Incentive Plan (Plan) was adopted at the Annual General Meeting in 2001 to reward senior underwriters if they exceed long term target underwriting returns. The basis of the Plan is that participants will benefit to the extent that, in their particular class of business (or, in some cases, a blend of classes of business), target returns on capital are exceeded over a specified performance period, which is usually five years. Participants will share, at a class of business level, in up to 6% of the underwriting profits (gross premiums less net claims and reinsurance costs) which are in excess of the relevant target return over the duration of the performance period. Up to around a further 4% of such excess profits may be allocated at a divisional or whole syndicate level to the heads of each underwriting division. Underwriting profits as defined in the Plan's rules are reduced in respect of the years of account up to 2003 to take account of the Group not owning 100% of Syndicate 2001's capacity until 2004. Rewards under the Plan may be paid, at the Company's discretion, in either cash or shares in three annual tranches following the end of the performance period.

The first five year measurement period under the Plan began on 1 January 2001 and, other than for new joiners or promotions, it is not anticipated that further participations will be offered until this five year period has expired. To date one recruit has joined the Plan part way through the five years (from 2003) but this has been accommodated by an existing participant giving up part of his participation. The benchmarks for each relevant class of business set for the first measurement period on an aggregated basis and after allowing for estimated expenses and syndicate investment income but before tax, are estimated to correspond to an overall benchmark return on allocated capital of at least 15% per annum over a full insurance cycle.

The Committee believes that the Plan will act increasingly as a significant reward, retention and recruitment tool for those underwriters who are likely to be most significant in determining the Group's future underwriting profitability and development. A total of 25 underwriters participate in the Plan.

Details of the participations by the two underwriters who are directors of the Company, Messrs Carpenter and Holt, including a current estimate of their rewards in respect of the 2001 to 2003 years of account, are set out later in this report. As stated there, these estimated rewards are not current entitlements and will only be paid if the estimated performance to date is sustained over the final two years of the measurement period.

## *Longer term performance rewards: proposed Long Term Incentive Plan for senior non-underwriting management (Performance Share Plan)*

In late 2003 the Committee initiated consideration of the possible introduction of a long term incentive plan for a small number of members of senior non-underwriting management, including the non-underwriting executive directors. This would play the equivalent role in such persons' overall remuneration packages as the Capital Builder Plan described above provides for senior underwriters. Such plan would take the form of a Performance Share Plan whereby participants each year would be awarded shares (or options), vesting (or exercisable) after five years if the Company exceeds demanding financial targets over that period.

The Committee is being advised by NBS and, at the date of this report, is nearing completion of consideration of the details of the

Performance Share Plan, which would be subject to shareholders' approval in General Meeting. Further details of the proposal will be included in the letter to shareholders accompanying the relevant Notice of Meeting.

## *Longer term performance rewards: share options (Option Schemes)*

Executive share options are provided as a longer term reward to executive directors and other employees above a certain level of seniority. Any grant of executive share options is at the discretion of the Committee. The senior underwriters, including executive directors who are underwriters, who participate in the Capital Builder Plan described above are also eligible to be granted options. It has been the Committee's policy to date to grant options to such underwriters over fewer shares than would be the case if they did not participate in the Capital Builder Plan. In the event that a Performance Share Plan for senior non-underwriting management has been proposed with a view to its first measurement period commencing from 2004, this will also be taken into account in the levels of option grants to such persons from 2004's grant onwards.

Generally a grant of options is made each year within a 42 day time limit after the preliminary results announcement. At the most senior level, the present policy is that grants are made each year, subject to applicable overall limits, over shares valued at up to around one times salary. At less senior levels, annual grants are over shares representing lesser multiples of salary. This general pattern is likely to be followed again in 2004, except that participants in any new Performance Share Plan will be granted options over fewer shares than would otherwise have been the case.

All grants under the currently operated schemes are subject to performance conditions which are set by the Committee. Details of these are set out in the section entitled 'Details of share options schemes' below and have varied from grant to grant, but the intent has been to ensure that options may not be exercised (except in special circumstances such as redundancy) unless the performance of the Company over the measurement period has exceeded the median of that of comparable companies and, in addition, the Company has returned a satisfactory overall financial performance. These conditions are being tightened from the forthcoming 2004 grant onwards. First, to the extent that an individual's annual grant is over shares valued at over 50% of salary it may only be exercised if the Company is an upper quartile performer against the group of comparable companies. Second, the re-testing provisions are being significantly tightened. Instead of the previous rolling three year measurement periods with unlimited re-testing during the life of the option, all performance will be measured from the date of grant. If the conditions are not satisfied over the initial three years, any unsatisfied condition will only be re-tested once, after a further two years. If the conditions are not met after re-testing, the options will lapse. The Committee considers that continuation of this limited degree of re-testing is justified and fair in view of the potentially volatile nature of the sector in which the Company operates, non-life insurance underwriting, and the relatively modest values of shares over which options are granted.

## *Service agreements and their termination*

The general policy of the Group is not to offer service agreements with notice periods in excess of six months, except in the case of executive directors of the Company and the most senior level of management when up to a twelve month period of notice may be offered. All of the current executive directors of the Company have contracts requiring twelve months' notice of termination on either side. The Company is mindful of the need to balance the contractual advantages to the Group in some circumstances of longer periods

Table 1: Directors' remuneration received

	Executive directors' salaries £000	Non-executive directors' fees £000	Bonuses and/or profit commission £000	Benefits in kind/allowances £000	Total year to 31 Dec 2003 £000	Total year to 31 Dec 2002 £000
B D Carpenter	204.5	–	526.8	14.0	<b>745.3</b>	555.9
R A Hextall	188.7	–	183.1	14.2	<b>386.0</b>	286.7
A W Holt	247.0	–	214.9	14.0	<b>475.9</b>	353.9
K T Kemp	–	32.6	–	–	<b>32.6</b>	28.8
J M Kennedy	–	39.2	–	–	<b>39.2</b>	34.5
R Mylvaganam	–	49.4	–	–	<b>49.4</b>	44.8
C E L Philipps	278.7	–	265.5	14.0	<b>558.2</b>	456.0
J R Sanders	–	32.3	–	–	<b>32.3</b>	30.8
J L Stace	97.0	–	50.0	11.6	<b>158.6</b>	251.2
Lord Stewartby	–	48.2	–	–	<b>48.2</b>	45.3
R J Taylor	–	106.6	–	–	<b>106.6</b>	94.0
R S Joslin	–	32.6	–	–	<b>32.6</b>	28.8
	<b>1,015.9</b>	<b>340.9</b>	<b>1,240.3</b>	<b>67.8</b>	<b>2,664.9</b>	<b>2,210.7</b>

of notice against the potential cost arising from such contracts in the event of termination of employment at the Group's initiative.

In cases of early termination by the Group, the Company seeks to observe the guidance on best practice issued in December 2002 by the Association of British Insurers and the National Association of Pension Funds. In such circumstances, the Group seeks to reduce, where practicable, the compensation payable by taking account of the duty of the employee to mitigate his or her loss. In particular, consideration is given to structuring termination payments on a phased payment basis pending the executive finding new employment. The need to take a robust view in settling cases involving poor performance is also recognised.

Details of each executive director's service contract, including the arrangements regarding the retirement from executive office of Mr Stace, are set out in the section entitled 'Executive directors' service contracts' below.

#### Outside appointments

The Company allows executive directors and other appropriate senior employees to accept a maximum of one substantive non-Amlin related outside non-executive appointment, subject to permission being obtained in each case and to acceptable procedures for managing any potential conflicts of interest, recognising that such appointments can be in both the Company's and the wider public interest. Suitable outside appointments relating to Amlin's business, such as to Lloyd's bodies, are encouraged on the basis that such appointments are often directly in the Company's interest. Except for those with other than full time employment contracts, fees from outside appointments are generally payable to the Company rather than retained by the employee concerned.

#### Executive directors' service contracts

The dates of the current service or employment contracts with the Company (and/or a wholly owned subsidiary) of each current executive director, all of whom served throughout the year, are as follows:

	Date of current service or employment contract
B D Carpenter	17 February 1997
R A Hextall	26 November 1999
A W Holt	11 December 2001
C E L Philipps	20 February 1997

In each case salaries have been periodically increased since the original contract date.

In addition to the current executive directors, Mr Stace was employed throughout the year pursuant to a service contract dated 24 January 1997, as amended by a supplemental agreement dated 23 November 2001. From 1 November 2001 to 31 December 2002 Mr Stace was required to commit an average of three days per week to his duties rather than committing on the previous full time basis. This commitment was reduced to two days per week from 1 January 2003 until his voluntary termination date, agreed in 2001, of 31 December 2003. Mr Stace's base salary during 2003 was reduced to £97,000 per annum. His annual car allowance was also reduced on 1 January 2003 to £6,800. In November 2003 Mr Stace accepted the Board's invitation to remain on the Board as non-executive Vice Chairman until the Annual General Meeting to be held on 19 May 2004, when he will leave the Board.

All of the continuing executive directors' service or employment contracts are on a full time basis, provide for 12 months' notice of termination on either side and automatically terminate on the director's sixtieth birthday. There are no special provisions for compensation on termination other than that the Company has the right to pay salary (and in the case of Mr Holt also an amount equal to other contractual benefits) in lieu of any required period of notice.

Executive directors' service or employment contracts in force during the year are available for inspection at the Company's registered office, in Mr Stace's case until he leaves the Board on 19 May 2004.

#### Remuneration received

The remuneration received in respect of the year ended 31 December 2003 by each of the directors, excluding pension contributions, all of whom served throughout the year, was as shown in table 1 above.

The fees of Mr Mylvaganam in 2002 and 2003 include fees of £16,000 and £16,800 respectively paid to him by a subsidiary of the Company, Amlin Underwriting Limited, of which he is also a non-executive director. The fees of Lord Stewartby in 2002 and 2003 include fees of £5,000 and £2,500 respectively paid to him by Stace

# Directors' remuneration report continued

Table 2: Directors' pension details

Type of scheme(s)	Defined contribution		Defined benefit					Change in transfer value during year after subtraction of contributions made by director £000
	Contributions for director for the year ended 31 December 2003 £000	Contributions for director for the year ended 31 December 2002 £000	Increase in accrued pension during year ended 31 December 2003 £000	Total accrued pension at 31 December 2003 £000	Transfer value of accrued pension at 31 December 2002 £000	Transfer value of accrued pension at 31 December 2003 £000	Transfer value of the increase in accrued pension during year £000	
B D Carpenter	Defined benefit	–	2.1	34.1	225.4	298.6	18.4	68.3
R A Hextall	Defined contribution	22.7	18.4	–	–	–	–	–
A W Holt	Defined benefit	–	–	8.2	174.9	1,577.5	2,254.2	105.7
C E L Philipps	Defined contribution	56.5	50.8	–	–	–	–	–
J L Stace	Defined contribution	19.4	36.2	–	–	–	–	–

Barr Angerstein PLC, a company in which the Group has an investment and of which he was a non-executive director appointed by the Group until July 2001 and, until May 2003, an alternate director.

The bonuses and/or profit commission amounts are those paid or payable in respect of the year. Messrs Hextall and Philipps received performance bonuses under the Group Bonus Scheme described above. Mr Stace received a discretionary bonus based on the Committee's assessment of his contribution to the Group during the year. Mr Holt's profit commission comprised a final instalment of Profit Commission Scheme payments in relation to his former Coles division in respect of the 1999 year of account, his total Profit Commission Scheme payment in relation to Syndicate 2001 as a whole in respect of the 2001 year of account (his Reinsurance & non-marine participation for that year not yielding a payment) and a first instalment on his 2002 year of account Profit Commission. Mr Carpenter's profit commission comprised his total payment in relation to his Amlin Insurance Services division and Syndicate 2001 as a whole in respect of the 2001 year of account, and a first instalment of the same in respect of the 2002 year of account.

Mr Sanders waived £2,600 of his non-executive fee in respect of 2003 (2002: nil). The fee stated above does not include the waived element. He has waived future such fees of £3,200 in respect of the period from 1 January 2004 to 19 May 2004.

No payments were made during the year in respect of any director leaving the Board or ceasing to be employed by the Group.

## Executive directors' pensions

The pension details for either defined contribution (including personal pension) schemes or defined benefit schemes, as applicable for each executive director (non-executives not being eligible), all of whom served as executive directors throughout the year, are shown in table 2 above. Increases in accrued pensions during the year exclude those due to inflation. The transfer values of increases during the year are the transfer values of such pre-inflation increases. Transfer values as at 31 December 2002 and 2003 are calculated in accordance with guidance published by the Institute of Actuaries and the Faculty of Actuaries dated 6 April 2001 and 4 August 2003 respectively. The material increases in transfer values during the year, which followed decreases the previous year, not only result from increases in accrued pensions year on year, but also from revisions to mortality, inflation and equity yield assumptions during the year.

## Executive directors' Capital Builder Plan participations

An outline of the terms of the Capital Builder Plan is set out in the 'Remuneration policies' section earlier in this report. The applicable classes and divisions of the business which will determine the rewards payable to each of the directors of the Company participating in the Plan are as follows:

	Class of business/division
B D Carpenter	Fleet AIS division Whole of Syndicate 2001
A W Holt	Catastrophe Risk Excess of Loss Marine Excess of Loss Total of Excess of Loss accounts Reinsurance & non-marine division Whole of Syndicate 2001

At this stage it is still too early to estimate with any degree of accuracy the rewards that any director might receive from the Plan in two to four years' time in respect of the total measurement period to 31 December 2005. However, on the basis of the current estimated returns in respect of the 2001 to 2003 Lloyd's years of account only, the rewards of each of the directors in respect of those three years are estimated as shown in table 3 on the opposite page.

No payments have yet been made pursuant to the Plan and none of the above prospective rewards are payable until early 2006. It is emphasised that the prospective rewards set out in the above table could be reduced, as well as increased, by changes to the projected performance of the 2002 and 2003 years of account and by underwriting performance over the final two years of account of the five year measurement period.

## Details of share option schemes

### Introduction

The Group has a number of share option schemes relating to the Company's shares, in which executive directors and other senior employees participate, and a Sharesave scheme in which all eligible employees, including executive directors, may participate. Where relevant, such schemes have been approved by shareholders. An overview of each scheme in which directors participate, each of their performance conditions and, where applicable, the current position regarding the fulfillment of performance conditions, is set out below.

Table 3: Directors' estimated Capital Builder Plan rewards

Class/division		Estimated reward for 2001 to 2003 as at 31 December 2003 £000	Estimated reward for 2001 and 2002 as at 31 December 2002 £000
B D Carpenter	Class	326.6	164.8
	AIS division	217.7	112.6
	Syndicate 2001	61.4	38.5
	<b>Total</b>	<b>605.7</b>	<b>315.9</b>
A W Holt	Classes	402.3	125.2
	Reinsurance & non-marine division	496.6	277.7
	Syndicate 2001	153.4	96.3
	<b>Total</b>	<b>1,052.3</b>	<b>499.2</b>

The schemes set up by the former Murray Lawrence group prior to its merger with the Company in 1998 involve options over existing shares held by the Group's Employee Share Ownership Trust (ESOT) rather than over new shares in the Company to be issued in the future. Options granted in 1997 and 1998 under the Amlin Executive Share Option Schemes (which were set up by the Company) were made entirely over new shares to be issued in the future. In the cases of grants from 1999 to 2002, some of the options granted each year were on the basis that they would, when exercised, be satisfied out of shares held by the ESOT. The grant made in 2003 was over new shares only but use of the ESOT for future grants is likely to resume in due course.

The rules of the Amlin Executive Share Option Schemes and the Sharesave Scheme each include limits on the overall number of unissued shares over which options may be granted. These are the Company's only option schemes under which new shares may be issued. Grants over new shares under the executive schemes, after deducting any such options which have lapsed, are limited to 5% of the issued share capital in any ten year period. Grants over new shares under any scheme are also limited to 5% over five years and to 10% over ten years. At 31 December 2003, the numbers of shares, and percentages of the year end shares in issue of 390,871,916 shares, relating to each of these limits were as follows:

	Proportion of Shares utilised	Shares in issue
Executive 5% limit over 10 yrs	12,608,807	3.23%
All schemes 5% limit over 5 yrs	12,193,360	3.12%
All schemes 10% limit over 10 yrs	14,552,801	3.72%

None of the schemes require the payment of any consideration for the grant of options other than the Murray Lawrence 1997 scheme when a nominal consideration of £1 per grant of option was paid.

Adjustments to both numbers of shares under option and exercise prices were made in 2002 to the options under all schemes which were then outstanding, to take account of share issues made that year.

#### Performance Conditions of the Amlin Executive Share Option Schemes (the Amlin Schemes)

The Amlin Schemes are the only schemes operated by the Group (other than the Sharesave scheme) under which options continue to be granted to executive directors. The Amlin Schemes comprise both

an Inland Revenue approved and an unapproved executive share option scheme. Both were approved by the Company's shareholders in 1997 and options have been granted in that and each subsequent year. In April 2003, options were granted at an exercise price of 118.0p per share over a total of 2,456,000 new shares. No options were granted in 2003 out of the ESOT.

The options granted in 1997 and 1998 may only be exercised if the total shareholder return of the Company, over a three year period, exceeds that of the FTSE 100 index. Additionally, there are secondary targets based on achievement of levels of financial performance. These depend on the role of the executive concerned and are only relevant if the primary condition is fulfilled. For directors of the Company, these targets relate to average returns on capital employed.

The options granted in 1999 to 2003 inclusive may only be exercised if (a) the total shareholder return of the Company, over a three year period, exceeds that of the median member of a comparator group of insurance companies and (b) the Remuneration Committee is satisfied that the underlying financial performance of the Company has been satisfactory. The comparator groups of companies agreed by the Committee at the time of the grants in each of these years were, in addition to Amlin, as indicated by the stars in table 4 on the following page.

The changes in performance conditions set under these schemes have been made to reflect the Company's development. In 1997 and 1998 the Company was an investment trust with an investment portfolio designed to track the FTSE 100 Share Index, with the purpose of enhancing such equity returns through Lloyd's underwriting. By 1999 the Company was no longer structured as an investment trust and was suitable to be measured against its peers in the insurance sector. The criteria for inclusion in the comparator groups of companies has been refined each year since 1999, principally to exclude the shares of less comparable companies.

All of the secondary performance conditions are intended to provide a measure of absolute financial performance alongside the relative performance measures of the primary conditions.

#### Measurement of performance conditions of the Amlin Schemes to date

Performance is first measured against the relevant conditions three years after grant and, for all existing option grants, if the conditions are not fulfilled, may be re-measured over subsequent rolling three year periods. As outlined earlier in this report, future option grants will be subject to stricter re-testing provisions.

# Directors' remuneration report continued

Table 4: Comparator companies for options performance conditions

	1999	2000	2001	2002	2003
Allied Zurich	*	*			
Atrium Underwriting	*		*	*	*
Beazley					*
BRIT Insurance Holdings	*	*	*	*	*
CGU/CGNU/Aviva	*				
Chaucer Holdings			*	*	*
CLM Insurance Fund	*				
Cox Insurance Holdings	*	*	*	*	*
Domestic & General Group	*	*	*	*	*
Goshawk Insurance Holdings	*		*	*	*
Hardy Underwriting Group				*	*
Highway Insurance Holdings		*	*	*	*
Hiscox	*	*	*	*	*
Independent Insurance Group	*	*	*		
Jardine Lloyd Thompson	*	*			
Kiln	*		*	*	*
Lambert Fenchurch Group	*				
LIMIT	*	*			
Royal & Sun Alliance Insurance Group	*	*	*	*	*
SVB Holdings	*	*	*	*	*
Wellington Underwriting	*		*	*	*

With regard to the options granted in May 1997 and September 1998, the Company's total shareholder return exceeded that of the FTSE 100 index over the three years to May 2002 and September 2002 respectively and accordingly all of such options have met their primary performance conditions.

The secondary condition in respect of the 1997 and 1998 grants for holding company executives, including two directors of the Company, Messrs Philipps and Stace, was related to returns on capital employed, adjusted for certain factors relevant to the then structure of the Group. To date the Committee has determined that this condition has not been satisfied and therefore the options granted to holding company executives under the Amlin Schemes in 1997 or 1998 are not yet ordinarily exercisable. The secondary performance conditions in respect of these options will be considered again by the Committee after the relevant anniversaries later in 2004.

The performance against the primary conditions of those grants from 1999 which have reached the end of their first three measurement periods, have been as follows:

	Total shareholder return after 3 years	Ranking against performance
1999 grants	16%	4 <sup>th</sup> out of 18
2000 grants	47%	2 <sup>nd</sup> out of 12
2001 grants	36%	3 <sup>rd</sup> out of 14

Accordingly, the Committee has confirmed that the primary conditions of each of the 1999, 2000 and 2001 grants of options have been satisfied.

The Committee concluded during 2002 in respect of the 1999 grants that the underlying financial performance of the Company had not been sufficiently satisfactory over the three years to 30 June 2002 for the secondary condition to have been fulfilled at that date. The Committee considered this condition again shortly after 30 June 2003 and concluded that it had been satisfied on second testing. It also concluded that the similar secondary condition in respect of the 2000 grant, measured over the three year period to 31 December 2002, had been satisfied on first testing.

The secondary condition of the 2001 grant was assessed immediately prior to the publication of the Company's results to the end of the performance period, 31 December 2003, and the Committee concluded that the secondary condition of satisfactory financial performance had also been satisfied for that grant. These options will therefore be exercisable from the third anniversary of grant on 4 May 2004.

## The Murray Lawrence Discretionary Share Option Scheme 1997 (ML 1997 scheme)

The ML 1997 scheme is not an Inland Revenue approved scheme. Options were granted to selected employees and directors of the Murray Lawrence group in 1997. The options became options over the Company's shares following the merger of the Company with ML (Bermuda) Limited in September 1998. No further options will be granted under the scheme. The grant was divided into three equal tranches, of which the first was exercisable from 2000, the second from 2001 and the third from 2002.

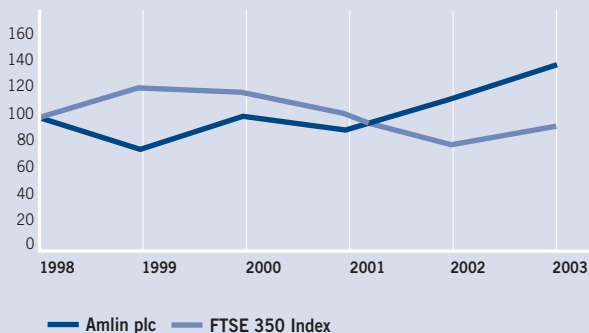
## Measurement of performance conditions of the ML 1997 Scheme to date

Except in permitted cases of early exercise, the exercise of each tranche of an option is conditional on Amlin's share price attaining a specified price per share. The target prices of the first and second tranches, of 69.11p and 103.67p respectively, had already been attained by the relevant first exercise dates in 2000 and 2001. Following each of the two share issues in 2002, the target price for the third tranche was adjusted by the same percentage as the exercise prices and is now 132.56p. This price was attained during 2003, and hence the final tranche is now also exercisable. The final expiry date for exercise of outstanding options under this scheme is 17 April 2004.

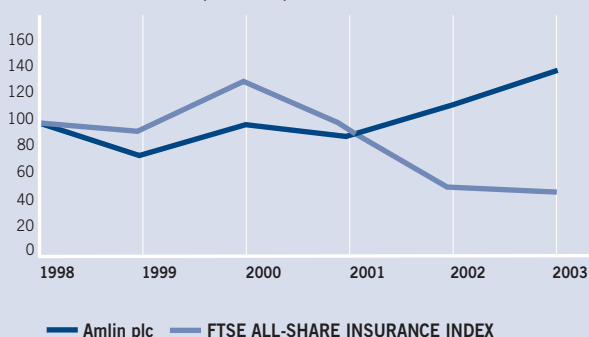
## The Murray Lawrence Discretionary Share Option Scheme 1998 (ML 1998 scheme)

The details of the structure of the ML 1998 scheme are almost identical to those described above for the ML 1997 scheme except, in this case, options were granted in 1998 (but prior to the merger with the Company).

**GRAPH 1 TOTAL SHAREHOLDER RETURN COMPARED WITH FTSE 350 AT 31 DECEMBER (VALUE £)**



**GRAPH 2 TOTAL SHAREHOLDER RETURN COMPARED WITH FTSE ALL-SHARE INSURANCE INDEX AT 31 DECEMBER (VALUE £)**



#### Measurement of performance conditions of the ML 1998 Scheme to date

Exercise is, as with the ML 1997 scheme, conditional on Amlin's share price attaining specified prices per share. Such prices were adjusted during 2002, on the same basis as the ML 1997 scheme, to take account of each of the two share issues. For those participants who had also been granted options under the ML 1997 scheme the target prices are now 169.44p for half of the grant and 201.30p for the other half. In the case of those who had not been granted options under the 1997 scheme, such prices are now 155.44p and 184.68p respectively. None of these target prices had been attained by the end of the year and accordingly in usual circumstances none of the ML 1998 options were then exercisable. These options have until 2008 to meet their performance conditions. Since the year end the 155.44p per share target has been attained and accordingly certain participants, none of whom are directors of the Company, may now exercise half their ML 1998 options.

#### Amlin Savings-Related Share Option Scheme 1998 (Sharesave scheme)

A Sharesave option scheme was adopted by the Company in September 1998 and grants of options under this scheme, in each case entirely over new shares to be issued in the future, were made in October 1999, June 2001 and October 2002. This scheme is open to all Group employees, including executive directors, who have been employed for more than a number of months which is specified at each grant. Exercises of options under the Sharesave scheme are not subject to any performance condition. No offer under this scheme was made in 2003 but further offers are likely to be made periodically in the future.

#### Total shareholder return performance

As background to the position regarding options performance conditions, and in accordance with legal requirements, graphs 1 and 2 opposite illustrate the total shareholder return performance of the Company's ordinary shares relative to two indices of which Amlin's shares are a constituent, the FTSE 350 index and the FTSE All Share Insurance index, over the five years to 31 December 2003. Comparisons are shown with both these indices (as they were in last year's report) as the performance of Amlin's shares is affected both by the general UK stock market in companies of its size and by its insurance sector.

The graphs show the values, at each year end from 1999 to 2003 inclusive, of £100 invested in the Company's shares on 31 December 1998 compared with the values of £100 invested in the relevant index on the same date. To produce a 'fair value', each point on the graphs is the average of the relevant return index over the 30 days preceding the relevant year end.

# Directors' remuneration report continued

## Executive directors' share options

Options held over shares in the Company as at 31 December 2003 by executive directors serving at the year end (non-executive directors not being eligible), and changes during the year, are set out in the following two tables:

Table 5: Options held

	Scheme (see descriptions above)	Over new or ESOT shares	Shares under option on 1 January 2003	Grants during the year	Shares under option on 31 December 2003	Exercise price per share	Dates options exercisable (if performance conditions met)	Potential profit (£) on 31 December 2003
B D Carpenter	ML 1997	ESOT	56,234	–	–	19.10p	May 2000 – May 2004	n/a
		ESOT	56,234	–	–	19.10p	May 2001 – May 2004	n/a
		ESOT	40,921	–	–	19.10p	May 2002 – May 2004	n/a
		ESOT	15,312	–	–	39.77p	May 2002 – May 2004	n/a
	ML 1998	ESOT	37,716	–	37,716	96.03p	Aug 2001 – Aug 2008	12,058
		ESOT	37,715	–	37,715	96.03p	Aug 2003 – Aug 2008	12,058
	Amlin	ESOT	156,406	–	156,406	85.35p	Oct 2002 – Oct 2009	66,707*
		ESOT	125,123	–	125,123	77.68p	Jun 2003 – Jun 2010	62,962*
		New	72,989	–	72,989	115.09p	May 2004 – May 2011	9,423
		New	89,888	–	89,888	81.28p	May 2005 – May 2012	41,996
		New	–	50,000	50,000	118.00p	Apr 2006 – Apr 2013	5,000
Sharesave	New	20,459	–	20,459	82.48p	Dec 2004 – Jun 2005	9,313	
<b>Total</b>			<b>708,997</b>		<b>590,296</b>		<b>219,517</b>	
R A Hextall	Amlin	New	135,552	–	135,552	81.04p	Nov 2002 – Nov 2009	63,655*
		ESOT	125,123	–	125,123	77.68p	Jun 2003 – Jun 2010	62,962*
		ESOT	72,989	–	72,989	115.09p	May 2004 – May 2011	9,423
		New	179,777	–	179,777	81.28p	May 2005 – May 2012	83,992
		New	–	100,000	100,000	118.00p	Apr 2006 – Apr 2013	10,000
	Sharesave	New	9,902	–	9,902	97.82p	Jul 2004 – Jan 2005	2,988
<b>Total</b>			<b>523,343</b>		<b>623,343</b>		<b>233,020</b>	
A W Holt	ML 1997	ESOT	112,054	–	–	19.10p	May 2002 – May 2004	n/a
		ESOT	41,978	–	–	39.77p	May 2002 – May 2004	n/a
	Amlin	ESOT	182,474	–	182,474	85.35p	Oct 2002 – Oct 2009	77,825*
		ESOT	125,123	–	125,123	77.68p	Jun 2003 – Jun 2010	62,962*
		New	72,989	–	72,989	115.09p	May 2004 – May 2011	9,423
		New	89,888	–	89,888	81.28p	May 2005 – May 2012	41,996
		New	–	50,000	50,000	118.00p	Apr 2006 – Apr 2013	5,000
	Sharesave	New	20,459	–	20,459	82.48p	Dec 2004 – Jun 2005	9,313
<b>Total</b>			<b>644,965</b>		<b>540,933</b>		<b>206,519</b>	
C E L Philipps	Amlin	New	222,799	–	222,799	112.21p	May 2000 – May 2007	35,180
		New	69,823	–	69,823	115.57p	Sep 2001 – Sep 2008	8,679
		ESOT	218,968	–	218,968	85.35p	Oct 2002 – Oct 2009	93,390*
		ESOT	229,396	–	229,396	77.68p	Jun 2003 – Jun 2010	115,432*
		ESOT	72,989	–	72,989	115.09p	May 2004 – May 2011	9,423
		ESOT	256,825	–	256,825	81.28p	May 2005 – May 2012	119,989
		New	–	100,000	100,000	118.00p	Apr 2006 – Apr 2013	10,000
	Sharesave	New	11,250	–	11,250	84.00p	Dec 2005 – Jun 2006	4,950
<b>Total</b>			<b>1,082,050</b>		<b>1,182,050</b>		<b>397,043</b>	
J L Stace	Amlin	New	311,919	–	311,919	112.21p	May 2000 – May 2007	49,252
		New	97,753	–	97,753	115.57p	Sep 2001 – Sep 2008	12,151
		ESOT	198,114	–	198,114	85.35p	Oct 2002 – Oct 2009	84,496*
		ESOT	125,125	–	125,125	77.68p	Jun 2003 – Jun 2010	62,963*
		ESOT	72,989	–	72,989	115.09p	May 2004 – May 2011	9,423
	Sharesave	New	11,744	–	–	82.48p	Dec 2002 – Jun 2003	n/a
<b>Total</b>			<b>817,644</b>		<b>805,900</b>		<b>218,285</b>	

\*Only these potential profits are on options exercisable at 31 December 2003.

Table 6: Options exercised during 2003

	Scheme	Shares exercised	Exercise price per share	Date of exercise	Share price on exercise	Profit (£) on exercise
B D Carpenter	ML 1997	112,468	19.10p	27 Mar 2003	116.5p	109,544
	ML 1997	40,921	19.10p	25 Jun 2003	132.0p	46,200
	ML 1997	15,312	39.77p	25 Jun 2003	132.5p	14,199
A W Holt	ML 1997	112,054	19.10p	2 Jul 2003	126.0p	119,786
	ML 1997	41,978	39.77p	2 Jul 2003	126.0p	36,198
J L Stace	Sharesave	11,744	82.48p	27 May 2003	131.5p	5,757

The calculations in table 5 of potential profit on exercise as at 31 December 2003 are based on the year end share price of 128p (2002: 119p). The high and low during the year were 147p and 109p respectively. These calculations are before tax and are theoretical as in many cases the relevant options were not exercisable at that date, either because they had not reached the relevant earliest exercise date or because performance conditions had not yet been fully met. The performance conditions applying to each grant of options, and more details of their current status, are summarised above in 'Details of share option schemes'.

Other than grants of options, the other directors' changes during the year reflected in table 5 resulted from the exercises of options set out in table 6. No directors' options lapsed during the year.

#### Non-executive directors' fees, appointment and removal

In line with the recommendations of the Combined Code, the fees paid to non-executive directors of the Company, other than the Chairman since November 2003, are determined by the full Board. The Board receives recommendations in this respect from a special committee of the Chairman, the Chief Executive and two other directors (one executive and one non-executive). Recommendations and decisions are made taking account of professional advice and other information on the level of such fees paid by comparable companies for comparable services. The Chairman's remuneration is determined by similar criteria, but since November 2003 by the Committee. The minimum time commitments given by each director, as detailed in the Board corporate governance statement starting on page 39, have also been taken into account since such commitments have been made in respect of 2004.

Each non-executive director is paid a basic fee and may be paid further for additional services, including for acting as Deputy Chairman of the Company, or serving as chairman of a committee or as members of more than one committee or of certain subsidiary boards.

Non-executive directors have contracts for services rather than employment contracts. Their terms of appointment are formalised in letters of appointment which are updated from time to time. The latest letters of appointment of the Chairman and the other non-executive directors who served during the year, and of Mr Stace who became non-executive from 1 January 2004, are dated 11 February 2004. Non-executive directors, as is the case with executive directors, are appointed on the recommendation of the Nomination Committee, usually for a three year term. Non-executive directors may

be removed, or not nominated for re-election at the end of their term, in each case in accordance with the Articles of Association of the Company. All of the non-executive Directors are currently serving three year terms except for Mr Stace, who was re-elected at the 2003 Annual General Meeting for one year only. The commencement and expected year of expiry of each of the non-executive directors' current terms are as follows:

	Current term commenced	Date of expiry of current term
R S Joslin	12 June 2002	AGM in 2005
K T Kemp	12 June 2002	AGM in 2005
J M Kennedy	13 June 2001	19 May 2004
R W Mylvaganam	12 June 2002	AGM in 2005
J R Sanders	13 June 2001	19 May 2004
J L Stace	22 May 2003	19 May 2004
Lord Stewartby	12 June 2002	AGM in 2005
R J Taylor	12 June 2002	AGM in 2005

If a non-executive director is not nominated or re-elected at the end of a term of office, the director is not entitled to any extra payment on termination. In other circumstances three months' notice of termination may be given by either side.

Mr Stace is serving as non-executive Vice Chairman from 1 January 2004 to 19 May 2004 on the same contract for services basis as the other non-executive directors.

Copies of the letters of appointment of non-executive directors are available for inspection at the Company's registered office.

By Order of the Board, on the recommendation of its Remuneration Committee

**C C T Pender** Secretary  
9 March 2004

# Statement of directors' responsibilities

United Kingdom 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 the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Report of the independent auditors to the members of Amlin plc

We have audited the financial statements of Amlin plc for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of accounting policies and the related notes numbered 1 to 33. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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 auditors' 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

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been 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 and other members of the Group is not disclosed.

We review whether the corporate governance statements reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and 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 United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. 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 circumstances of the Company and the Group, 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

## Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London

9 March 2004

# Consolidated profit and loss account

for the year ended 31 December 2003

	Notes	2003 £m	2002 £m
<b>TECHNICAL ACCOUNT</b>			
Gross premiums written	1	937.4	717.1
Outward reinsurance premiums		(149.8)	(144.1)
<b>Net premiums written</b>		<b>787.6</b>	573.0
Change in the provision for unearned premiums:			
– gross amount		(100.0)	(99.9)
– reinsurers' share		(2.9)	21.0
<b>Earned premiums, net of reinsurance</b>		<b>684.7</b>	494.1
<b>Allocated investment return transferred from the non-technical account</b>	2	<b>36.1</b>	31.1
Claims paid:			
– gross amount		(327.2)	(348.6)
– reinsurers' share		114.3	101.7
Claims paid, net of reinsurance		(212.9)	(246.9)
Change in the provision for claims:			
– gross amount		(86.2)	7.8
– reinsurers' share		(54.0)	(69.4)
<b>Claims incurred, net of reinsurance</b>		<b>(353.1)</b>	(308.5)
<b>Net operating expenses</b>	4	<b>(212.2)</b>	(158.6)
<b>Balance on the technical account for general business</b>		<b>155.5</b>	58.1
<b>NON-TECHNICAL ACCOUNT</b>			
<b>Balance on the technical account for general business</b>		<b>155.5</b>	58.1
Investment income	2	36.6	40.5
Unrealised (losses) gains on investments	2	(3.1)	3.2
Investment expenses and charges	2	(1.5)	(1.2)
Allocated investment return transferred to the technical account	2	(36.1)	(31.1)
		151.4	69.5
Other income	5	4.1	2.0
Other charges	6	(35.2)	(16.1)
<b>Operating profit</b>		<b>120.3</b>	55.4
Comprising:			
Operating profit based on longer term investment return		124.4	45.6
Short term fluctuations in investment return		(4.1)	9.8
<b>Profit on ordinary activities before taxation</b>	10	<b>120.3</b>	55.4
Tax on profit on ordinary activities	11	(37.0)	(11.2)
<b>Profit on ordinary activities after taxation</b>		<b>83.3</b>	44.2
Equity dividends	12	(9.7)	(7.6)
<b>Retained profit for the financial year</b>	21	<b>73.6</b>	36.6
<b>Earnings per ordinary share</b>	13		
Basic		21.6p	14.1p
Diluted		21.4p	14.1p

All of the operations of the Group are continuing.

## Statement of total recognised gains and losses

There were no recognised gains or losses in the current or preceding year other than those included in the profit and loss account and therefore no statement of total recognised gains and losses has been presented.

# Consolidated balance sheet

at 31 December 2003

	Notes	2003 £m	Restated 2002 £m
<b>ASSETS</b>			
<b>Intangible assets</b>	14	<b>57.0</b>	60.1
<b>Investments</b>			
Other financial investments	15	<b>1,048.4</b>	773.9
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	23	<b>29.3</b>	34.0
Claims outstanding	23	<b>265.4</b>	337.4
		<b>294.7</b>	371.4
<b>Debtors</b>			
Debtors arising out of direct insurance operations	17	<b>134.1</b>	235.2
Debtors arising out of reinsurance operations		<b>223.9</b>	113.5
Other debtors		<b>52.6</b>	71.3
Deferred tax asset	24	<b>-</b>	18.4
		<b>410.6</b>	438.4
<b>Other assets</b>			
Tangible assets	18	<b>6.4</b>	9.0
Cash at bank and in hand		<b>26.5</b>	31.6
		<b>32.9</b>	40.6
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		<b>88.8</b>	69.6
Other prepayments and accrued income		<b>19.0</b>	12.7
		<b>107.8</b>	82.3
<b>Total assets</b>		<b>1,951.4</b>	1,766.7
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	19	<b>97.7</b>	97.1
Share premium account	21	<b>150.2</b>	148.2
Own shares	21	<b>(2.4)</b>	(2.8)
Merger reserve	21	<b>41.9</b>	41.9
Capital redemption reserve	21	<b>2.7</b>	2.7
Profit and loss account	21	<b>93.2</b>	19.7
<b>Equity shareholders' funds</b>	22	<b>383.3</b>	306.8
<b>Technical provisions</b>			
Provision for unearned premiums	23	<b>429.6</b>	354.8
Claims outstanding	23	<b>999.5</b>	957.4
		<b>1,429.1</b>	1,312.2
<b>Provisions for other risks and charges</b>	24	<b>19.9</b>	2.9
<b>Creditors</b>			
Creditors arising out of direct insurance operations		<b>15.5</b>	5.6
Creditors arising out of reinsurance operations		<b>39.8</b>	109.4
Other creditors including taxation and social security	25	<b>32.1</b>	20.4
		<b>87.4</b>	135.4
<b>Creditors: amounts falling due after more than one year</b>	26	<b>19.8</b>	3.8
<b>Accruals and deferred income</b>		<b>11.9</b>	5.6
<b>Total liabilities</b>		<b>1,951.4</b>	1,766.7
<b>Net assets per ordinary share</b>	13	<b>99.3p</b>	80.3p
<b>Net tangible assets per ordinary share</b>	13	<b>84.6p</b>	64.5p

The financial statements were approved by the Board of Directors on 9 March 2004 and were signed on its behalf by:

Roger Taylor Chairman

Richard Hextall Finance Director

# Parent company balance sheet

at 31 December 2003

	Notes	2003 £m	Restated 2002 £m
<b>Fixed assets</b>			
Tangible fixed assets	18	1.8	1.8
Other investments	16	205.4	205.4
		<b>207.2</b>	207.2
<b>Current assets</b>			
Amounts owed by subsidiary undertakings		177.8	184.6
Other debtors		4.1	5.9
Investments	15	12.2	3.5
Prepayments and accrued income		–	0.1
Cash at bank and in hand		0.4	1.2
		<b>194.5</b>	195.3
<b>Creditors: amounts falling due within one year</b>			
Amounts owed to subsidiary undertakings		(28.2)	(19.4)
Other creditors		(0.4)	(0.6)
Accruals and deferred income		(0.5)	–
Proposed dividend	12	(6.4)	(4.7)
		<b>(35.5)</b>	(24.7)
<b>Net current assets</b>		<b>159.0</b>	170.6
<b>Total assets less current liabilities</b>		<b>366.2</b>	377.8
<b>Creditors: amounts falling due after more than one year</b>		<b>(3.0)</b>	(0.6)
<b>Net assets</b>		<b>363.2</b>	377.2
<b>Capital and reserves</b>			
Called up share capital	19	97.7	97.1
Share premium account	21	150.2	148.2
Own shares	21	(2.4)	(2.8)
Capital redemption reserve	21	2.7	2.7
Profit and loss account	21	115.0	132.0
<b>Equity shareholders' funds</b>	22	<b>363.2</b>	377.2

The financial statements were approved by the Board of Directors on 9 March 2004 and were signed on its behalf by:

Roger Taylor Chairman

Richard Hextall Finance Director

# Consolidated cash flow

for the year ended 31 December 2003

	Notes	2003 £m	2002 £m
<b>Net cash inflow from operating activities</b>	28	<b>289.2</b>	214.2
<b>Servicing of finance</b>			
Interest paid on loan capital		(0.4)	(0.5)
Letter of credit charges		(6.2)	(5.1)
		(6.6)	(5.6)
<b>Taxation</b>			
Corporation tax received		-	0.9
<b>Capital expenditure</b>			
Purchase of tangible assets		(1.5)	(0.9)
Purchase of intangible assets		-	(46.0)
Net purchases of tangible and intangible assets		(1.5)	(46.9)
<b>Equity dividends paid</b>		<b>(6.3)</b>	(2.9)
<b>Financing</b>			
Issue of new shares net of issue costs		1.2	135.8
New loan	29	3.4	-
Repayment of borrowings	29	(3.5)	(1.1)
Net cash inflow from financing activities		1.1	134.7
<b>Net cash flows</b>	29	<b>275.9</b>	294.4
<b>Cash flows were invested as follows</b>			
(Decrease) increase in cash holdings		(5.2)	7.7
Increase in deposits		0.1	2.4
		(5.1)	10.1
<b>Net portfolio investment</b>			
Purchase of investments		2,015.5	457.3
Sale of investments		(1,734.5)	(173.0)
Net purchases of investments		281.0	284.3
<b>Net investment of cash flows</b>		<b>275.9</b>	294.4

Cash flows relating to non-aligned syndicate participations are included only to the extent that cash is transferred between the Premium Trust Funds and the Group.

# Accounting policies

## Basis of preparation and consolidation

The consolidated financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, in accordance with the provisions of Section 255A, Schedule 9A and other requirements of the Companies Act 1985. The Group has also adopted the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business, issued by the Association of British Insurers (ABI SORP) issued in December 1998.

The balance sheet of the parent company has been prepared in accordance with the provisions of Section 230 of, and Schedule 4 to, the Companies Act 1985. In accordance with the exemption permitted under this section, the profit and loss account of the Company is not presented as part of these accounts.

The financial statements consolidate the accounts of the Company, its subsidiary undertakings, and the Group's underwriting through participation on Lloyd's syndicates. The accounting information in respect of non-aligned syndicate participations has been provided by the managing agents of those syndicates through an information exchange facility operated by Lloyd's and has been audited by the respective syndicates' auditors. The actual information in respect of these non-aligned participations is included to the extent that it is available or, where this is not the case, provisions are made for the expected impact.

Goodwill arising on consolidation of acquisitions prior to 31 May 1998, representing the excess of the fair value of the consideration over the fair value of the assets acquired, has been written off against reserves.

The Urgent Issues Task Force (UITF) of the Accounting Standards Board issued UITF 38 – Accounting for ESOP trusts – in December 2003 which, in conjunction with changes to the Companies Act, requires that shares held by Employee Share Ownership Trusts should be treated as Treasury shares and shown as a part of a company's equity rather than as an asset on the balance sheet. The Group has adopted the recommendation and the balance sheet for 2002 has been restated to reflect the change.

In addition, UITF 38 requires that the gain or loss on issue of shares to option holders should not be recognised in the Group profit and loss account or statement of total recognised gains and losses. This policy has also been adopted. The restatement of the 2002 comparative does not impact the previously stated figures.

UITF 38 amended part of UITF 17 – Employee share schemes. This requires companies to recognise a charge for its share option schemes, with the exception of 'save as you earn' type schemes such as the Amlin Sharesave scheme. The charge that is required to be recognised is based on the difference between the option price and the share price on the date of grant of the option. Amlin has adopted UITF 17 in respect of its share options during the year. There is no impact on the Group results in either the current or preceding year as Amlin does not grant executive options at a discounted price.

Except as noted above, the following principal accounting policies have been applied consistently in both the current and preceding year.

## Aligned syndicate participations

The Group's aligned syndicate participations are presented on an annual accounting basis.

## Premiums

Written premiums comprise premiums on contracts incepting during the financial year. Premiums are disclosed gross of brokerage and exclude taxes and duties levied on them. Estimates are included for 'pipeline' premiums, representing amounts due to the Group but not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods.

Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance or inwards reinsurance business.

## Unearned premiums

A provision for unearned premiums represents that part of premiums written, and reinsurers' share of premiums written, which is estimated to be earned in following financial years. It is calculated separately for each insurance contract on the 24<sup>th</sup> or 365<sup>th</sup> basis, where the incidence of risk is the same throughout the contract. Where the incidence of risk varies during the term of the contract, the provision is based on the estimated risk profile of business written.

## Acquisition costs

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are spread over an equivalent period to that which the premiums on the underlying business are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

## Claims paid

Claims paid comprise claims and claims handling expenses paid during the financial year.

## Claims provisions

The change in the provision for claims represents the movement in the provision for claims outstanding, including claims incurred but not reported (IBNR) and internal and external claims settlement expenses allocated to those transactions. The gross provision for claims outstanding is included as a liability on the balance sheet.

The technical claims provision represents management's estimate of the cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. The reinsurers' share of these anticipated future claims is calculated by applying the gross provisions against the Group's reinsurance protection and is net of any provision for bad debt based on an assessment of the underlying security of the reinsurers on the policies. The reinsurers' share of technical provisions is included as an asset on the balance sheet.

## Basis of calculation of technical claims provision

Provisions for claims outstanding comprise notified claims and IBNR. Notified claims are estimates of future claims payments in respect of reported claims based on the latest information available including advices from claims assessors and lawyers. The IBNR element is calculated initially by each of the Company's divisions using statistical analysis of historical trends, balanced with interpretation of current underwriting trends and market and case loss

information, in order to calculate the ultimate loss projection of the business on risk. Where Amlin leads business it has control over the agreement of claims and where it does not lead it relies on the lead underwriter to keep it informed of the latest developments.

These claims provisions are reviewed to ensure judgements made are reasonable and supportable. This review process includes comparison of technical claims provisions, on an underwriting year basis, with independent actuarial projections produced on a best estimate basis by our in-house actuarial team. The underwriting year loss ratios are then adjusted to remove assumed future major losses. This process is repeated each quarter with the actuarial assessment reviewed at the end of the financial year by an external, independent actuary.

Although the claims provision is considered to be reasonable, having regard to previous claims experience, the statistical projections and case reviews of notified losses, the ultimate liabilities will vary as a result of subsequent developments and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made.

#### Unexpired risks provision

Provision is made for unexpired risks where, at the balance sheet date, the costs of outstanding claims and related deferred acquisition costs are expected to exceed the unearned premium provision. The unexpired risks provision is included within technical provisions in the balance sheet.

#### Non-aligned syndicate participations

The Group's non-aligned syndicate participations consist entirely of run-off syndicate years of account. These participations are reported on an extension to the three year accounting basis, not on an annual accounting basis, whereby movements in the calendar year are reported.

#### Premiums

Written premiums comprise premiums on contracts incepting during the financial year. Premiums are disclosed gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for 'pipeline' premiums, representing amounts due to the Group but not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods. Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance or inwards reinsurance business.

#### Claims

Claims incurred comprise claims and claims handling expenses paid during the financial year together with the movement in the provision for claims outstanding and settlement expenses, including claims IBNR.

#### Loss provisions on open years

Provision is made for the estimated future deterioration of any year of account of any syndicate that has gone into run-off. While the directors make every effort to ensure that adequate provision is made for losses on open years of account, their view of the ultimate loss may vary in later periods as a result of subsequent information and events. This in turn may require adjustment of the original provisions. These adjustments are reflected in the financial statements for the period in which the related adjustments are made.

#### Other accounting policies

##### Exchange rates

Income and expenditure in US dollars, Euros and Canadian dollars is translated at average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at their historical rates.

Syndicate assets and liabilities, expressed in US dollars, Euros and Canadian dollars are translated into sterling at the rates of exchange at the balance sheet date.

Differences arising on translation of foreign currency amounts on insurance transactions are included in the technical account. Other assets, liabilities, income and expenditure expressed in foreign currencies have been translated at the rates of exchange at the balance sheet date. Where contracts to sell currency for sterling have been entered into prior to the year end, the contracted rates have been used. Differences arising on translation of foreign currency amounts on such items are included in the non-technical account.

##### Investments

Listed investments are stated at market value at the close of business on the balance sheet date. Unlisted investments are valued by the directors on a prudent basis with regard to their likely realisable value.

In the Company's accounts, investments in Group undertakings are stated at cost less provisions for impairment.

##### Syndicate investments and investment income

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years of account proportionately to the funds contributed by the year of account.

##### Investment return

All dividends and any related tax credits are recognised as income on the date the related listed investments are marked ex-dividend. Other investment income, interest receivable, expenses and interest payable are recognised on an accruals basis.

Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their purchase price in the financial year or valuation at the commencement of the year.

# Accounting policies continued

## Allocation of investment return

All of the investment return arising in the year is reported initially in the non-technical account. A transfer is made from the non-technical account to the technical account representing:

- for the aligned syndicate participations, the longer term investment return on investments supporting the technical provisions and related shareholders' funds. The longer term investment return is an estimate of the expected return over time for each relevant category of investments having regard to past performance, current trends and future expectations; and
- for the non-aligned syndicate participations, the actual return on investments supporting the technical provisions and related shareholders' funds.

## Intangible fixed assets

The cost of syndicate participations which have been purchased in the Lloyd's capacity auctions is capitalised and amortised on a straight line basis over its estimated useful economic life of twenty years beginning in the underwriting year in which the purchased syndicate participation commences.

## Other income and charges

Agency fees are recognised on an accruals basis. Profit commission receivable is accrued in direct relation to underwriting income earned and is subject to the normal managing agent's terms.

## Tangible fixed assets

The cost of other fixed assets is depreciated over their expected useful lives on a straight line basis. Depreciation rates are within the following ranges:

Leasehold land and buildings	Over period of lease
Motor vehicles	25 – 33% per annum
Computer equipment	33 – 50% per annum
Furniture and office equipment	20 – 50% per annum
Internal property improvements	20 – 33% per annum

## Pensions

Pension contributions to defined benefit schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group, based on actuarial triennial valuations. Pension contributions to employees' money purchase schemes are charged to the profit and loss account when due.

Amlin contributes to a defined benefit scheme that is for the purposes of both Statement of Standard Accounting Practice 24 and Financial Reporting Standard 17 considered to be a multi-employer scheme. Consequently, contributions to the scheme are charged to the profit and loss account when due.

## Deferred tax

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## Leased assets

Assets held under finance leases and hire purchase transactions are capitalised in the balance sheet and depreciated over their useful lives. The outstanding instalments are included in creditors and the interest element is charged against profits over the period of the contract.

Payments made under operating leases are charged to the profit and loss account evenly over the period of the lease. Where there are rent free periods in property leases, the cost of the lease is spread evenly up to the period of the first rent review.

# Notes to the accounts

for the year ended 31 December 2003

## 1 Segmental information

The segmental analysis of the Group's share of the underwriting activities is reported using the divisional structure of the Group as this is how performance is monitored by management. A description of the classes of business within each of the divisions is provided in the Amlin at a glance section on page 24.

2003

	Non-marine £m	Marine £m	Aviation £m	UK commercial £m	Other technical £m	Total £m
Gross premiums written	499.3	160.4	90.2	187.5	–	<b>937.4</b>
Gross premiums earned	445.0	133.4	91.2	167.8	–	<b>837.4</b>
Gross claims incurred	(169.3)	(65.3)	(45.5)	(131.8)	(1.5)	<b>(413.4)</b>
Reinsurance balance	(82.0)	(7.3)	(17.3)	14.2	–	<b>(92.4)</b>
Gross operating expenses	(114.0)	(41.7)	(20.5)	(38.1)	2.1	<b>(212.2)</b>
Balance on the technical account excluding allocated investment return	79.7	19.1	7.9	12.1	0.6	<b>119.4</b>
Investment return						<b>32.0</b>
Net non-technical expenses						<b>(31.1)</b>
<b>Profit before tax</b>						<b>120.3</b>
Segmental net assets	61.6	21.9	24.3	28.2	–	<b>136.0</b>
Net assets not attributed to a business segment						<b>247.3</b>
<b>Net assets</b>						<b>383.3</b>

2002

	Non-marine £m	Marine £m	Aviation £m	UK commercial £m	Other technical £m	Total £m
Gross premiums written	385.1	110.5	91.2	126.0	4.3	717.1
Gross premiums earned	330.2	84.4	87.5	110.8	4.3	617.2
Gross claims incurred	(192.2)	(53.5)	(19.7)	(74.4)	(1.0)	(340.8)
Reinsurance balance	(36.4)	2.6	(42.7)	(10.0)	(4.3)	(90.8)
Gross operating expenses	(93.4)	(25.3)	(13.5)	(18.6)	(7.8)	(158.6)
Balance on the technical account excluding allocated investment return	8.2	8.2	11.6	7.8	(8.8)	27.0
Investment return						42.5
Net non-technical expenses						(14.1)
<b>Profit before tax</b>						<b>55.4</b>
Segmental net (liabilities) assets	(45.6)	2.7	8.3	20.7	–	(13.9)
Net assets not attributed to a business segment						320.7
<b>Net assets</b>						<b>306.8</b>

### Gross premiums written analysed by location of risk

	2003 £m	2002 £m
UK	<b>277.5</b>	197.8
USA	<b>349.4</b>	300.2
Europe	<b>87.1</b>	51.3
Canada, Central and South America	<b>62.8</b>	52.9
Asia	<b>62.6</b>	46.3
Other locations	<b>42.6</b>	24.4
Worldwide	<b>55.4</b>	44.2
<b>Total</b>	<b>937.4</b>	717.1

# Notes to the accounts continued

## 2 Investment return

Investment income and expenditure reported in the non-technical account is as follows:

	2003 £m	2002 £m
Income from investments	40.0	40.2
(Losses) gains on realisation of investments	(3.4)	0.3
	36.6	40.5
Unrealised (losses) gains on investments	(3.1)	3.2
Investment management fees	(1.1)	(0.4)
Interest on loan stock and bank loans	(0.4)	(0.8)
	(1.5)	(1.2)
<b>Total investment return</b>	<b>32.0</b>	<b>42.5</b>

In respect of equity investments and fixed interest securities the longer term rate of return has been determined by having regard to the Group's historical and expected returns and current portfolio strategy. The rates of return are:

	2003	2002
Equities	7.0%	7.0%
Fixed interest securities	4.5%	5.5%

These returns are applied to the average, over the year, of the investments attributable to the shareholders and insurance technical provisions of the aligned syndicate participations. The attributable shareholders' funds are based on the Funds at Lloyd's which represent the estimated risk based capital supporting the insurance business. The expected longer term rate of return has been reduced to 4.5% for 2003, as long term inflation and, consequently, interest rates are expected to remain at low levels.

The actual return on investments since 1 January 1998, compared with the aggregate longer term return over the same period, is set out below. All figures are gross of expenses.

	1 Jan 1999 to 31 Dec 2003 £m	1 Jan 1998 to 31 Dec 2002 £m
Actual return attributable to the technical account	119.4	117.8
Longer term return attributable to the technical account	140.2	136.2
Effect of short term fluctuations over the period	(20.8)	(18.4)

## 3 Prior periods' claims provisions

Material over (under) provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior periods' claims for continuing business are as follows:

	2003 £m	2002 £m
Movement in reserves	24.5	(20.3)

## 4 Net operating expenses

	2003 £m	2002 £m
Acquisition costs	177.2	137.9
Changes in deferred acquisition costs	(24.4)	(20.4)
Administrative expenses	56.8	35.8
Syndicate exchange losses	2.6	5.3
	212.2	158.6

## 5 Other income

	2003 £m	2002 £m
Managing agent's fee income	0.8	1.3
Managing agent's profit commission	3.3	0.5
Other income	–	0.2
	<b>4.1</b>	<b>2.0</b>

## 6 Other charges

	2003 £m	2002 £m
Central, management and other expenses	6.6	5.4
Amortisation of purchased syndicate participations	3.1	0.9
Financing charges	6.6	5.6
Employee incentives	18.9	4.2
	<b>35.2</b>	<b>16.1</b>

## 7 Directors' remuneration

The aggregate remuneration of the directors of the Company, including amounts received from subsidiaries, was:

	2003 £m	2002 £m
Emoluments of executive directors	2.3	1.9
Fees to non-executive directors	0.3	0.3
	<b>2.6</b>	<b>2.2</b>
Pension contributions	0.2	0.2
	<b>2.8</b>	<b>2.4</b>

Remuneration includes remuneration during the period of appointment only. Details of directors' remuneration and pension benefits, including those of the highest paid director, are included in the Directors' remuneration report on page 44.

## 8 Employee information

The average number of persons employed by the Group, including directors, was:

	2003	2002
<b>Underwriting divisions</b>		
Underwriting, claims, and reinsurance	340	305
Finance and administration	126	114
<b>Central functions</b>		
Operations	59	52
Finance	52	42
Internal audit and compliance	8	8
	<b>585</b>	<b>521</b>

The aggregate payroll costs in respect of these persons were:

	2003 £m	2002 £m
Wages and salaries	19.8	17.7
Employee incentives and related social security costs	18.9	4.3
Social security costs	2.7	2.3
Pension costs	12.3	4.7
	<b>53.7</b>	<b>29.0</b>

# Notes to the accounts continued

## 9 Pensions

The Group participates in a number of pension schemes, including defined benefit, defined contribution and personal pension schemes.

The total pension cost for the schemes operated by the Group in the year was £12.3 million (2002: £4.7 million) of which £10.8 million (2002: £3.4 million), related to the defined benefit schemes and £1.5 million (2002: £1.3 million) related to the defined contribution and personal pension schemes.

The charge to the Group profit and loss account, after accounting for the Group's share of the charges to the managed syndicate, was £9.1 million (2002: £3.2 million).

### a) The Amlin plc funded defined benefit scheme

The scheme is operated by the Lloyd's Superannuation fund. Historically the scheme has catered for a number of employers in the Lloyd's market. Because of the consolidation in the market, employers closing final salary schemes and some companies failing, there are now only 10 employers with active members in the scheme. The scheme has mutuality of liability between the active employers in the scheme.

During the year the structure of the scheme has been altered. The active employers, including Amlin, contributing to the scheme now have individual notional funds comprising the allocated assets in respect of their active employees, their deferred pensioners and pensioners. A separate notional fund is maintained for members whose former employers no longer exist (Orphan schemes).

Amlin has previously only provided information about its active members. This change has now enabled Amlin to more clearly identify the liabilities associated with its current and former employees. However, the asset allocation is notional and at the discretion of the Trustees, therefore it is not possible for Amlin to be certain of its overall surplus or deficit position at any time. For this reason, the scheme is classified as a multi-employer scheme for the purposes of Financial Reporting Standard No. 17 (FRS 17) – Retirement benefits.

It should be noted that all of the actuarial amounts quoted are at the Group and 100% Syndicate level. The profit and loss account charge in the Group accounts varies depending upon the year of account for which the charge is incurred. Amounts incurred by Syndicate 2001 will be reflected in the Group accounts to the extent that the Group owns the year of account charged. This varies between 69.65% for the 2001 year of account and 86.14% for the 2003 year of account.

This scheme is valued every three years by an independent qualified actuary. Contributions are made at the funding rates recommended by the actuary, which historically varied across different sections of the scheme. The recommended rates reflect an adjustment to amortise any small surplus or deficit over the average remaining lifetimes of the current active membership.

The latest actuarial assessment of the scheme, at 31 March 2001, used the projected unit actuarial method and was based on the principal assumption that long-term returns on investments would be, on average, 1.8% higher than increases in earnings. The valuation showed that the assets of the active members of the scheme were

£18.8 million, being £5.1 million less than the members' accrued liabilities, resulting in a deficit of 21%. To rectify this deficit, and the subsequent further deteriorations on the stock markets, payments of £2.0 million were made in 2002 and January 2003. Additionally, a further payment of £2.0 million was made in January 2004.

Following the restructuring of the scheme, the Trustees provided an interim valuation as at 31 December 2002, which indicated that the Amlin part of the scheme had between a £5.0 million deficit and £3.0 million surplus using real investment returns of between 3.6% and 4.0%. The £2.0 million payment in 2004 noted above will reduce the potential deficit.

In addition to its liabilities on its own scheme, Amlin is also liable for a proportion of the orphan scheme liabilities. The interim valuations, as at 31 December 2002, carried out as a result of the restructuring have identified that the orphan scheme currently has net liabilities of between £29.0 million and £16.0 million based upon real investment returns of between 2.5% and 3.0%. The Group and Syndicate's share of this is currently estimated to be between £21.8 million and £12.0 million respectively. On 30 December 2003, a payment of £6.8 million was made in order to reduce this deficit. Further payments over the next four years are likely to be required following a full actuarial review at 31 March 2004.

In 2003, funding rates and charges to the profit and loss account were as recommended by the 2001 valuation and ranged between 18.3% and 39.3% of pensionable salaries, and totalled £1.4 million (2002: £1.2 million), which in combination with the additional payments noted above, gives a total charge for the scheme of £10.2 million (2002: £3.2 million). The Group's share of the contributions charged to the profit and loss account was £7.5 million (2002: £2.2 million). Funding rates have been adjusted to 30.2% for all sections of the scheme in 2004.

### b) The Angerstein Underwriting Ltd funded defined benefit scheme *SSAP 24 disclosures*

The scheme consists of a closed funded defined benefit scheme for certain past employees of Angerstein Underwriting Limited. Contributions to the scheme are determined by an independent qualified actuary, based upon triennial valuations, using the attained age actuarial method. The most recent valuation was at 1 July 2001, when the market value of the scheme assets was £1.4 million representing 89% of the benefits accrued to the members, allowing for future earnings increases.

Group contributions made to this scheme in respect of the year ended 31 December 2003 were £0.1 million (2002: £0.2 million), and the agreed contribution rate for future years is 22.5% of pensionable salaries. In addition, an accrual of £0.5 million, included to partially rectify the deficit described below, was made at 31 December 2003. A 1.5% per annum differential between investment returns and salary increases is assumed.

The Group's share of the actual and accrued contributions, charged to the profit and loss account, was £0.4 million (2002: £0.1 million).

## 9 Pensions continued

### FRS 17 disclosures – Angerstein Underwriting Ltd defined benefit scheme

For the purposes of the FRS 17 disclosures, the 1 July 2001 valuation has been reviewed and updated to 31 December 2003. The disclosures are based upon the following annual financial assumptions:

	2003	2002	2001
Inflation	2.80%	2.25%	2.50%
Increase in salaries	4.80%	4.25%	4.50%
Increase in pensions in payment	2.70%	2.25%	2.50%
Increase in pensions in deferment	2.80%	2.25%	2.50%
Discount rate for scheme liabilities	5.40%	5.50%	6.00%
Return on equities	6.80%	6.50%	7.00%

Under these assumptions the valuation of the scheme at 31 December would have been:

	2003 £m	2002 £m	2001 £m
<b>Assets</b>			
Equities	1.1	0.8	1.9
<b>Liabilities</b>			
Present value of scheme liabilities	(2.3)	(1.8)	(2.2)
Scheme deficit	(1.2)	(1.0)	(0.3)
Scheme deficit attributable to the Group	(1.2)	(0.9)	(0.2)
Related deferred tax asset	0.4	0.3	0.1
Net scheme deficit	(0.8)	(0.6)	(0.1)

The members of the scheme are, or were, employed for the benefit of Syndicate 2001 or its predecessors. Because of the varying ownership of the years of account to which the contributions are charged, the following amounts which would have been recognised in the performance statements for the year ended 31 December 2003 under FRS 17, are shown on the assumption that any charges would be taken to the 2004 year of account, when Amlin owns all of the capacity and therefore would receive all charges (2002: 2003 year of account, where the Amlin share was 86.16%).

	2003 £m	2002 £m
<b>Operating profit</b>		
Current service cost	0.1	0.1
<b>Other finance income</b>		
Expected return on pension scheme assets	0.1	0.1
Interest on pension scheme liabilities	(0.1)	(0.1)
Net return	-	-
	2003 £m	2002 £m
<b>Statement of total recognised gains and losses (STRGL)</b>		
Actual return less expected return on assets	0.1	(1.3)
Experience gains on liabilities	0.1	0.6
Changes in assumptions	(0.3)	(0.1)
Actuarial loss recognised in STRGL	(0.1)	(0.8)
<b>Movement in deficit during the year</b>		
Deficit in scheme at 1 January	(1.0)	(0.3)
Current service cost	(0.1)	(0.1)
Contributions made	0.1	0.2
Other finance costs	(0.1)	-
Actuarial loss	(0.1)	(0.8)
Deficit in scheme at 31 December	(1.2)	(1.0)

# Notes to the accounts continued

## 9 Pensions continued

	2003	2002
<b>History of experience gains and losses</b>		
Difference between the expected and actual return on scheme assets		
Amount (£ million)	0.1	(0.6)
Percentage of scheme assets	12%	(88%)
Experience gains on scheme assets		
Amount (£ million)	0.1	0.1
Percentage of scheme assets	3%	3%
Total amount recognised in the STRGL		
Amount (£ million)	(0.1)	(0.7)
Percentage of scheme assets	(5%)	(43%)

### c) The defined contribution scheme

With effect from 1 February 1997 all new employees have been invited to join this scheme. Contributions made by the Group vary by age and by the level of contribution that employees voluntarily make to the scheme. Contributions range from 4% to 26% and are fully expensed to the profit and loss account when due and payable. Total contributions for the year ended 31 December 2003 were £1.4 million (2002: £1.1 million). The Group's share of the contributions charged to the profit and loss account was £1.2 million (2002: £0.9 million). Outstanding contributions at 31 December 2003 were £0.1 million (2002: £0.1 million).

### d) Other arrangements

Other pension arrangements include a small self-administered scheme, an occupational money purchase scheme and personal pension arrangements. Regular contributions, expressed as a percentage of employees' earnings, are paid into these schemes and are allocated to accounts in the names of the individual members, which are independent of the Group's finances. The contributions are charged against profits in the period in which they are payable. There were no outstanding contributions at 31 December 2003 (2002: nil).

## 10 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2003 £m	2002 £m
Depreciation		
– Owned assets	4.0	4.3
– Leased assets	0.1	0.1
Operating lease charges	1.9	1.8
Amortisation of intangible assets	3.1	0.9
Auditors' remuneration		
– Group audit fees	0.3	0.4
– Other services	0.1	0.1

Company audit fees amounted to £42,000 (2002: £50,000). Group audit fees include £131,819 (2002: £198,553) representing the Group's share of fees paid in relation to the audit of the managed syndicates. Other services comprise taxation advice fees totalling £38,905 (2002: £34,957), advice on capital issues £20,000 (2002: £nil), internal audit and controls advice £16,000 (2002: £19,000), systems testing £14,250 (2002: £nil), liquidation advice £nil (2002: £11,859) and other fees of £945 (2002: £670). A further £367,727 of costs were paid to the auditors for their work relating to the share issues in 2002, which were charged to the share premium account in that year.

## 11 Tax on profit on ordinary activities

### a) Analysis of tax charge for the year

	2003 £m	2002 £m
<b>Current taxation</b>		
UK corporation tax at 30% (2002: 30%)	–	–
Under provision in prior periods	0.3	3.0
Corporation tax	0.3	3.0
Overseas taxation recoverable	(10.0)	–
Overseas taxation suffered	11.4	0.1
Total current tax (see note 11(b))	1.7	3.1
<b>Deferred taxation</b>		
Origination and reversal of timing differences	35.2	17.0
Under (over) provision in prior years	0.1	(8.9)
Total deferred taxation (see note 24)	35.3	8.1
Taxation on profit on ordinary activities	37.0	11.2

## 11 Tax on profit on ordinary activities continued

### b) Factors affecting current period tax charge

The UK standard rate of corporation tax is 30% (2002: 30%), whereas the current tax assessed for the year ended 31 December 2003 as a percentage of profit before tax is 1.4% (2002: 5.6%). The reasons for this difference are explained below:

	2003 £m	2003 %	2002 £m	2002 %
Profit on ordinary activities before taxation	120.3		55.4	
Current taxation on profit on ordinary activities calculated at the standard rate of corporation tax in the UK	36.1	30.0%	16.6	30.0%
Expenses not deductible for tax purposes	0.4	0.3%	0.7	1.2%
Timing differences unprovided for	(1.3)	(1.1%)	(0.3)	(0.5%)
Depreciation in excess of capital allowances	0.3	0.3%	0.3	0.5%
Difference between the technical result for accounting purposes and the technical result for taxation purposes	(41.7)	(34.7%)	(19.1)	(34.4%)
Deferred tax on loss provisions	0.5	0.4%	0.5	0.9%
Unrelieved trading losses carried forward	–	–	0.5	0.8%
Other timing differences	5.7	4.7%	0.8	1.5%
Under provision for prior periods	0.3	0.3%	3.0	5.4%
UK corporation tax for the year	0.3	0.2%	3.0	5.4%
Net overseas taxation suffered	1.4	1.2%	0.1	0.2%
Current taxation charge for the year (See note 11(a))	1.7	1.4%	3.1	5.6%

### c) Factors which may affect future tax charges

Deferred tax is provided on the annually accounted technical result with reference to the forecast ultimate result of each of the years of account included in the annually accounted technical result. Where the forecast ultimate result for a year of account is a taxable profit, deferred tax is provided in full on the movement on that year of account included in this period's annually accounted technical result. Where the forecast ultimate result for a year of account is a loss, deferred tax is only provided for on the movement on that year of account included in this period's annually accounted technical result to the extent that forecasts show that the taxable loss will be utilised in the foreseeable future. Deferred tax has been provided on the annually accounted technical result for this accounting period of £110.3 million (2002: £57.7 million).

Deferred tax is provided for on actual taxable underwriting results. Where the taxable underwriting result is a loss then deferred tax is provided for on the taxable underwriting loss to the extent that forecasts show that the taxable underwriting losses will be utilised in the foreseeable future.

Deferred tax assets on non-aligned technical loss provisions are only provided for to the extent that forecasts show that it is more likely than not that the ultimate taxable underwriting losses represented by these provisions will be utilised within the foreseeable future. Deferred tax has been provided in full on non-aligned loss provisions of £3.0 million (2002: £1.5 million).

The Inland Revenue has introduced final regulations to give effect to the General Insurance Reserves provisions contained in the Finance Act 2000. The Group's Lloyd's corporate members fall within the remit of these regulations by virtue of their greater than 4% participation on aligned and non-aligned syndicates. The corporation tax charge for this period contains an estimated adjustment in respect of a notional taxable charge as calculated under these regulations of £0.7 million (2002: credit £0.4 million).

A deferred tax asset of £1.1 million (2002: £0.1 million) has been taken on existing capital losses to match against deferred tax provisions of £1.1 million (2002: £0.1 million) on unrealised capital gains arising within the Group during this accounting period. Deferred tax has not been provided on capital losses of £43.6 million (2002: £46.6 million).

The Group expects to continue to suffer depreciation in excess of capital allowances in future periods albeit at a diminishing rate.

The Group has suffered US tax on its share of syndicate deemed US underwriting profits. This US tax is recoverable against UK tax on the taxable syndicate profits for the appropriate years of account. Some US tax suffered will be irrecoverable due to the difference between UK and US tax rates and the difference between the timing of US and UK syndicate profits for tax purposes. During the period £1.4 million (2002: £0.1 million) of US tax has been written off.

# Notes to the accounts continued

## 12 Equity dividends

	2003 £m	2002 £m
Interim dividend of 0.85 pence (2002: 0.75 pence) per ordinary share	3.3	2.9
Proposed final dividend of 1.65 pence (2002: 1.25 pence) per ordinary share	6.4	4.7
	<b>9.7</b>	<b>7.6</b>

## 13 Earnings and net assets per ordinary share

Earnings per share is based on the profit attributable to shareholders for the year ended 31 December 2003 of £83.3 million (2002: £44.2 million) and the weighted average number of shares in issue during the period. Shares held by the Employee Share Ownership Trust (ESOT) are excluded from the weighted average number of shares.

Basic and diluted earnings per share are as follows:

	2003	2002
Profit for the financial year	<b>£83.3m</b>	£44.2m
Weighted average number of shares in issue	<b>384.6m</b>	312.4m
Dilutive shares	<b>4.9m</b>	1.3m
Adjusted average number of shares in issue	<b>389.5m</b>	313.7m
Basic earnings per share	<b>21.6p</b>	14.1p
Diluted earnings per share	<b>21.4p</b>	14.1p

Basic net assets per share are as follows:

	2003	2002
Net assets at 31 December	<b>£383.3m</b>	£306.8m
Adjustments for intangible assets	<b>(£57.0m)</b>	(£60.1m)
Tangible net assets at 31 December	<b>£326.3m</b>	£246.7m
Number of shares in issue at 31 December	<b>390.9m</b>	388.3m
Adjustment for ESOT shares	<b>(5.2m)</b>	(6.1m)
Basic number of shares after ESOT adjustment	<b>385.7m</b>	382.2m
Net assets per share	<b>99.3p</b>	80.3p
Tangible net asset per share	<b>84.6p</b>	64.5p

## 14 Intangible assets

	Purchased syndicate participations £m
<b>Cost</b>	
At 1 January and 31 December 2003	<b>63.2</b>
<b>Amortisation</b>	
At 1 January 2003	3.1
Charge for the year	3.1
At 31 December 2003	<b>6.2</b>
<b>Net book value</b>	
At 31 December 2003	<b>57.0</b>
At 1 January 2003	60.1

## 15 Other financial investments

Group	At valuation 2003 £m	At valuation 2002 £m	At cost 2003 £m	At cost 2002 £m
Shares and other variable yield securities	50.6	0.7	46.7	0.6
Debt and other fixed income securities	750.3	559.8	755.0	552.0
Participation in investment pools	128.3	134.3	128.6	134.0
Deposits with credit institutions	80.7	49.0	80.6	48.9
Overseas deposits	34.5	26.2	34.5	26.2
Other	4.0	3.9	4.0	3.9
	<b>1,048.4</b>	<b>773.9</b>	<b>1,049.4</b>	<b>765.6</b>
In Group owned companies	235.7	227.0	232.1	224.8
In aligned syndicates	801.1	535.3	806.1	529.6
In non-aligned syndicates	11.6	11.6	11.2	11.2
	<b>1,048.4</b>	<b>773.9</b>	<b>1,049.4</b>	<b>765.6</b>

Listed investments included in Group owned total are as follows:

Shares and other variable yield securities	50.6	0.7	46.7	0.6
Debt and other fixed income securities	92.5	124.1	92.8	122.3
	<b>143.1</b>	<b>124.8</b>	<b>139.5</b>	<b>122.9</b>

As explained in note 31, some of the Group investments are charged to Lloyd's to support the Group's underwriting activities.

### Investment duration

The table below sets out, by currency, the duration of the Group's share of the managed syndicate debt securities together with the Group's own debt portfolio at 31 December:

Syndicates	Balance 2003 £m	Balance 2002 £m	Duration 2003 years	Duration 2002 years
Sterling	212.1	124.3	2.7	1.5
US dollar	377.3	280.5	2.5	1.7
Canadian dollar	18.7	11.8	2.2	2.6
Euro	38.4	7.7	3.1	1.4
	<b>646.5</b>	<b>424.3</b>	<b>2.6</b>	<b>1.7</b>
<b>Corporate</b>				
Sterling	92.5	124.1	0.3	4.8

An indication of the potential impact on these funds of changes in the yield curve due to unexpected changes in underlying interest rates is given below:

Shift in yield (basis points)	Sterling %	Syndicate			Corporate Sterling %	Net (reduction) increase in value £m
		US\$ %	CAN\$ %	Euro %		
100	(2.4%)	(3.3%)	(2.2%)	(3.0%)	(0.3%)	(19.4)
75	(1.8%)	(1.9%)	(1.6%)	(2.2%)	(0.2%)	(12.2)
50	(1.2%)	(1.2%)	(1.1%)	(1.5%)	(0.2%)	(8.2)
25	(0.6%)	(0.6%)	(0.5%)	(0.7%)	(0.1%)	(4.1)
-25	0.6%	0.6%	0.5%	0.7%	0.1%	4.2
-50	1.2%	1.3%	1.1%	1.5%	0.2%	8.5
-75	1.8%	1.9%	1.6%	2.2%	0.2%	12.5
-100	2.5%	2.6%	2.2%	3.0%	0.3%	17.0

# Notes to the accounts continued

## 15 Other financial investments continued

Using Standard & Poor's and Moody's as ratings sources, the credit ratings of the Group's share of the debt and other fixed income securities is set out below:

	2003 £m	2002 £m
Government/Government Agency	481.0	319.4
AAA/Aaa	100.3	110.8
AA/Aa	60.5	52.3
A	88.4	56.4
BBB/Baa	8.8	9.6
	<b>739.0</b>	<b>548.5</b>
In non-aligned syndicates	11.3	11.3
	<b>750.3</b>	<b>559.8</b>

Company	At valuation 2003 £m	At valuation 2002 £m	At cost 2003 £m	At cost 2002 £m
Participations in investment pools	12.2	3.5	12.2	3.5

## 16 Other investments

	Subsidiary undertakings £m
At 1 January and 31 December 2003	<b>205.4</b>

The principal undertakings of Amlin plc at 31 December 2003 which are consolidated in these financial statements, all of which operate in the UK and are registered in England and Wales, are listed below:

Subsidiary undertakings	Principal activity
Amlin Underwriting Limited	Lloyd's managing agency
Amlin Investments Limited	Investment company
Amlin Corporate Services Limited	Group service company
Amlin Corporate Member Limited	Corporate member at Lloyd's
AUT (No 2) Limited	Corporate member at Lloyd's
AUT (No 6) Limited	Corporate member at Lloyd's
AUT (No 7) Limited	Corporate member at Lloyd's
AUT (No 8) Limited	Corporate member at Lloyd's
Delian Beta Limited	Corporate member at Lloyd's
Delian Delta Limited	Corporate member at Lloyd's

All principal subsidiary undertakings are wholly owned.

## 17 Debtors arising out of direct insurance operations

	2003 £m	2002 £m
Amounts owed by policyholders	10.5	93.9
Amounts owed by intermediaries	123.6	141.3
	<b>134.1</b>	<b>235.2</b>

## 18 Tangible assets

Group	Leasehold land and buildings £m	Motor vehicles £m	Computer equipment £m	Fixtures, fittings and leasehold improvements £m	Total £m
<b>Cost</b>					
At 1 January 2003	1.9	0.3	9.9	5.5	17.6
Additions	–	0.1	1.4	–	1.5
Disposals	–	(0.1)	–	–	(0.1)
At 31 December 2003	<b>1.9</b>	<b>0.3</b>	<b>11.3</b>	<b>5.5</b>	<b>19.0</b>
<b>Accumulated depreciation</b>					
At 1 January 2003	0.1	0.1	6.3	2.1	8.6
Charge for the year	–	0.1	2.9	1.1	4.1
Disposals	–	(0.1)	–	–	(0.1)
At 31 December 2003	<b>0.1</b>	<b>0.1</b>	<b>9.2</b>	<b>3.2</b>	<b>12.6</b>
<b>Net book value</b>					
At 31 December 2003	<b>1.8</b>	<b>0.2</b>	<b>2.1</b>	<b>2.3</b>	<b>6.4</b>
At 1 January 2003	1.8	0.2	3.6	3.4	9.0

The assets held under finance leases and hire purchase contracts included in the above had no net book value, in either the current or previous year.

Company	Leasehold land and buildings £m
<b>Cost</b>	
At 1 January and 31 December 2003	<b>1.9</b>
<b>Accumulated depreciation</b>	
At 1 January 2003	0.1
Charge for the year	–
At 31 December 2003	<b>0.1</b>
<b>Net book value</b>	
At 31 December 2003	<b>1.8</b>
At 1 January 2003	1.8

## 19 Ordinary share capital

Authorised ordinary shares of 25p each	Number	£m
At 1 January and 31 December 2003	<b>562,000,000</b>	<b>140.5</b>
<b>Allotted, called up and fully paid:</b>		
At 1 January 2003	388,323,251	97.1
Scrip dividend alternative shares issued	1,461,247	0.4
Share options exercised	1,087,418	0.2
<b>At 31 December 2003</b>	<b>390,871,916</b>	<b>97.7</b>

The scrip dividend shares were issued at a reference share price of 112.2 pence per share for the final 2002 dividend, at which 1,018,449 shares were issued, and 137.5 pence per share for the interim 2003 dividend, at which 442,798 shares were issued. The share options were issued for a total consideration of £884,282 at an average of 81.3 pence per share.

# Notes to the accounts continued

## 20 Share options

Details of the Amlin Executive Share Option Schemes are set out in the Directors' remuneration report starting on page 44. At 31 December 2003 the following options over new shares, which are potentially exercisable between three and 10 years after grant, or earlier in special circumstances such as redundancy, were outstanding under these executive schemes:

Usual first month of exercise	Option price per share	Number of shares
June 2003	77.7p	845,476
November 2002	81.0p	135,552
May 2005	81.3p	3,272,404
October 2002	85.4p	1,011,413
May 2000	112.2p	1,032,888
May 2004	115.1p	1,235,521
September 2001	115.6p	593,586
April 2006	118.0p	2,451,000
		<b>10,577,840</b>

The following changes in new shares under option pursuant to these executive schemes took place during the year:

	Number of shares
At 1 January 2003	9,077,946
Granted on 23 April 2003 (2002: 3,326,700)	2,456,000
Exercised during the year (2002: 52,134)	(797,506)
Lapsed during the year (2002: 81,507)	(158,600)
At 31 December 2003	<b>10,577,840</b>

In addition to the above executive options, the following employee Sharesave options over new shares were outstanding at 31 December 2003:

Savings period	Usual first month of exercise	Option price per share	Number of shares
5 years	December 2004	82.5p	316,274
3 years	July 2004	97.8p	305,130
5 years	July 2006	97.8p	64,833
3 years	December 2005	84.0p	589,500
5 years	December 2007	84.0p	192,786
			<b>1,468,523</b>

The following changes in new shares under option pursuant to the Sharesave scheme took place during the year:

	Number of shares
At 1 January 2003	1,840,333
Exercised during the year (2002: 143,719)	(289,912)
Lapsed during the year (2002: 216,121)	(81,898)
At 31 December 2003	<b>1,468,523</b>

The trustee of the Group's Employee Share Ownership Trust (ESOT) held 5,209,922 Amlin ordinary shares as at 31 December 2003 (2002: 6,098,302), of which 5,132,686 shares (2002: 6,095,275) were reserved to meet potential future exercises of executive options, in addition to the options over new shares detailed above. The ESOT shares are valued at the lower of cost and net realisable value. The market value of Amlin plc ordinary shares at 31 December 2003 was 128.0p per share (2002: 119.0p).

The assets, liabilities, income and costs of the ESOT are incorporated into the consolidated financial statements. The ESOT waives the right to dividends in excess of 0.01p per share per interim or final dividend in respect of its total shareholding.

## 21 Reserves

Group	Share premium account £m	Own shares £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 1 January 2003	148.2	(2.8)	41.9	2.7	19.7
Issue of share capital for scrip dividend	1.4	–	–	–	–
Issue of share capital on exercise of options over new shares	0.6	–	–	–	–
Exercise of options over shares held by ESOT	–	0.4	–	–	(0.1)
Retained profit for the financial year	–	–	–	–	73.6
At 31 December 2003	<b>150.2</b>	<b>(2.4)</b>	<b>41.9</b>	<b>2.7</b>	<b>93.2</b>

The cumulative amount of goodwill written off to reserves is £45.7 million (2002: £45.7 million).

Company	Share premium account £m	Own shares £m	Capital redemption reserve £m	Profit and loss account £m
At 1 January 2003 (restated)	148.2	(2.8)	2.7	132.0
Issue of share capital for scrip dividend	1.4	–	–	–
Issue of share capital on exercise of options over new shares	0.6	–	–	–
Exercise of options over shares held by ESOT	–	0.4	–	(0.1)
Retained loss for the financial year	–	–	–	(16.9)
At 31 December 2003	<b>150.2</b>	<b>(2.4)</b>	<b>2.7</b>	<b>115.0</b>

## 22 Reconciliation of movements in equity shareholders' funds

	Group 2003 £m	Restated Group 2002 £m	Company 2003 £m	Restated Company 2002 £m
Profit (loss) attributable to shareholders	<b>83.3</b>	44.2	<b>(7.2)</b>	(4.6)
Less dividends	<b>(9.7)</b>	(7.6)	<b>(9.7)</b>	(7.6)
Retained profit (loss) for the financial year	<b>73.6</b>	36.6	<b>(16.9)</b>	(12.2)
Issue of share capital	<b>2.6</b>	136.2	<b>2.6</b>	136.2
Movement in shares held by ESOT	<b>0.4</b>	–	<b>0.4</b>	–
Realised loss on disposal of shares by ESOT	<b>(0.1)</b>	–	<b>(0.1)</b>	–
Shares to be issued	–	(0.4)	–	(0.4)
Net increase (decrease) to shareholders' funds	<b>76.5</b>	172.4	<b>(14.0)</b>	123.6
Equity shareholders' funds at 1 January 2003 (as reported)	<b>309.6</b>	137.2	<b>380.6</b>	257.0
Adjustment for shares held by ESOT	<b>(2.8)</b>	(2.8)	<b>(2.8)</b>	(2.8)
Adjustment for ESOT reserves	–	–	<b>(0.6)</b>	(0.6)
Equity shareholders' funds at 1 January 2003 (as restated)	<b>306.8</b>	134.4	<b>377.2</b>	253.6
Equity shareholders' funds at 31 December 2003	<b>383.3</b>	306.8	<b>363.2</b>	377.2

# Notes to the accounts continued

## 23 Technical provisions

	Provision for unearned premiums £m	Claims outstanding £m	Total £m
<b>Gross</b>			
At 1 January 2003	354.8	957.4	1,312.2
Exchange adjustments	(22.3)	(56.0)	(78.3)
Movement in the provisions	97.1	98.1	195.2
At 31 December 2003	<b>429.6</b>	<b>999.5</b>	<b>1,429.1</b>
<b>Reinsurance amount</b>			
At 1 January 2003	(34.0)	(337.4)	(371.4)
Exchange adjustments	2.1	21.4	23.5
Movement in the provisions	2.6	50.6	53.2
At 31 December 2003	<b>(29.3)</b>	<b>(265.4)</b>	<b>(294.7)</b>
<b>Net</b>			
At 31 December 2003	<b>400.3</b>	<b>734.1</b>	<b>1,134.4</b>
At 1 January 2003	320.8	620.0	940.8

The claims outstanding balance is further analysed between notified outstanding claims and incurred but not reported claims (IBNR) below:

	2003 £m	2002 £m
Notified outstanding claims	<b>618.0</b>	619.2
Claims incurred but not reported	<b>381.5</b>	338.2
Claims outstanding	<b>999.5</b>	957.4

Included in the above are balances that remain outstanding as a result of the terrorist attacks of 11 September 2001. The gross loss estimate by class of business, and the net loss estimates, compared with the estimated positions at 31 December 2002, are summarised below:

Class of business	Paid US\$m	Outstanding US\$m	IBNR US\$m	Ultimate 2003 US\$m	Ultimate 2002 US\$m	Movement US\$m
Direct and facultative property	66.0	4.2	–	<b>70.2</b>	72.4	(2.2)
Property reinsurance and risk excess of loss	225.9	66.7	3.0	<b>295.6</b>	303.7	(8.1)
Direct airline operators and other aviation risks	3.4	97.0	78.8	<b>179.2</b>	179.5	(0.3)
Reinsurance of aviation risks	0.7	23.3	4.4	<b>28.4</b>	26.3	2.1
Other	13.0	15.5	0.2	<b>28.7</b>	29.8	(1.1)
Total gross loss	309.0	206.7	86.4	<b>602.1</b>	611.7	(9.6)
Reinsurance recoveries	(267.0)	(124.5)	(60.6)	<b>(452.1)</b>	(454.3)	2.2
Total net loss	42.0	82.2	25.8	<b>150.0</b>	157.4	(7.4)
Amlin Group share				<b>100.4</b>	105.6	(5.2)

In addition to the IBNR noted above, a further US\$9.0 million of general IBNR is included in the ultimate reserve. Amlin's Group share of the general IBNR is US\$6.3 million.

### 23 Technical provisions continued

The improvement in the gross and net loss positions during the year is principally due to the settlement of one large property risk excess of loss programme. Reserves for other classes impacted are reasonably stable.

Key assumptions made in estimating the losses from 11 September 2001 include:

- the terrorist attacks leading to the collapse of the World Trade Center towers in New York were one occurrence;
- the Washington and Pittsburgh losses were two further distinct occurrences;
- there will be no material failures of reinsurance security;
- all reinsurers will reinstate reinsurance cover in accordance with the relevant contract provision;
- there will be no material contractual disputes with any reinsurers;
- there will be no subrogation recoveries or financial support from third parties, including the US government or associated agencies; and
- war exclusions on policies do not apply and all of the occurrences were caused by terrorist action.

The estimates, and the assumptions and methodology from which they are derived, do not, and may not be taken to constitute an admission that the Group is liable either in respect of a particular class of business or under a particular contract of insurance or reinsurance.

A number of insurance companies and Lloyd's syndicates, including Syndicate 2001, are currently in dispute with the leaseholder of the World Trade Center, Silverstein Holdings, as to whether the terrorist attack and destruction of the buildings constitutes one or two insured occurrences. Based on legal advice received, Amlin believes the attacks on the World Trade Center are one occurrence. However, this matter is subject to court proceedings which have commenced in the United States and there is, therefore, potential for additional loss. In the event that the World Trade Center losses were judged to be two occurrences and two total losses to the excess layers underwritten, it is estimated that the Group's loss could increase by up to approximately £22 million. However, given our legal advice and the high excess point of the layer which we insured, we believe that this is unlikely.

### 24 Provisions for other risks, charges and deferred tax

#### a) Spread portfolio and other provisions

	Provisions for spread underwriting losses £m
At 1 January 2003	2.9
Utilised during the year	(1.7)
Additions	1.8
At 31 December 2003	<b>3.0</b>

Included in the provision above is £0.4 million (2002: £1.0 million) as the estimated loss attributable to the Group in respect of its underwriting through Stace Barr Angerstein PLC and its subsidiary, SBA Underwriting Limited, the accounts of which are not yet available.

#### b) The deferred tax (liability) asset is attributable to timing differences arising on the following:

	Underwriting results £m	Provisions for losses £m	Unrelieved trading losses carried forward £m	Other timing differences £m	Total £m
At 1 January 2003	5.1	0.5	11.2	1.6	18.4
Deferred tax charge for the year	(45.8)	0.5	4.0	6.0	(35.3)
At 31 December 2003	<b>(40.7)</b>	<b>1.0</b>	<b>15.2</b>	<b>7.6</b>	<b>(16.9)</b>

# Notes to the accounts continued

## 25 Other creditors including taxation and social security

	2003 £m	2002 £m
Bank loan	0.4	0.5
Corporation tax	11.9	0.1
Proposed dividend (see note 12)	6.4	4.7
Finance lease creditors (see note 26)	0.1	0.1
Loan stock	6.9	9.8
Other creditors	6.4	5.2
	<b>32.1</b>	<b>20.4</b>

A subsidiary, Amlin Underwriting Group plc (AUG), had £6.9 million of unsecured loan stock outstanding at 31 December 2003 (2002: £9.8 million). Interest on the loan stock is based on the Lloyds TSB Bank plc base rate and is payable twice yearly on 1 April and 1 October. The loan stock holder may require AUG to redeem all or part (in multiples of £100) of the loan stock on 1 April 2004 by sending a redemption notice to AUG not less than 60 days before the due date of redemption. Loan stock not redeemed on 1 April 2004 will be redeemed on 30 April 2004. Loan stock is redeemable at par.

## 26 Creditors: amounts falling due after more than one year

	2003 £m	2002 £m
Bank loan	3.0	0.6
Finance lease creditors	0.1	0.1
Performance related incentive schemes	14.4	2.6
Other creditors	2.3	0.5
	<b>19.8</b>	<b>3.8</b>

Obligations due under finance leases and hire purchase contracts are payable as follows:

	2003 £m	2002 £m
Within one year	0.1	0.1
Within two to five years	0.1	0.1
	<b>0.2</b>	<b>0.2</b>

The Group's Employee Share Ownership Trust (ESOT) had a loan from Lloyds TSB Bank plc at the year end of £3.4 million (2002: £1.1 million) secured by a fixed charge over a proportion of the Company's shares held by the ESOT. This loan is pursuant to a new facility agreed in September 2003 which replaced the ESOT's previous such facility and also enabled the repayment by the ESOT of a loan from the Company of £2.3 million. The new loan is repayable over ten years and is guaranteed by the Company. It is anticipated that it will be repaid from the proceeds of exercises of options over Amlin plc ordinary shares held by the ESOT.

## 27 Commitments

There were no capital commitments or authorised but uncontracted capital commitments at the end of the financial year.

The Group leases certain land and buildings on short-term operating leases, under which the minimum annual commitments were £2.3 million (2002: £2.2 million), expiring in over five years.

## 28 Reconciliation of profit before taxation to net cash inflow from operating activities

	2003 £m	2002 £m
Profit on ordinary activities before taxation	120.3	55.4
Net movement on Premium Trust Funds for non-aligned participations	–	3.7
Depreciation charge	4.1	4.4
Syndicate capacity amortisation charge	3.1	0.9
Realised losses (gains) on investments	3.4	(0.3)
Unrealised losses (gains) on investments	3.1	(7.6)
Decrease in debtors	3.7	15.7
Increase in prepayments and accrued income	(28.4)	(4.1)
Increase in insurance debtors, prepayments and accrued income	(8.1)	(57.3)
Increase in technical provisions	116.9	98.4
Decrease in reinsurers' share of technical provisions	76.7	54.1
Increase in provisions for other risks and charges	17.0	1.9
(Decrease) increase in insurance creditors, accruals and deferred income	(73.9)	45.5
Increase (decrease) in other creditors relating to operating activities	27.7	(5.4)
Increase in accruals and deferred income	17.0	3.3
Interest expense	0.4	0.5
Letter of credit charges	6.2	5.1
Net cash inflow	289.2	214.2

Cash flows relating to non-aligned participations are included only to the extent that cash is transferred between the Premium Trust Funds and the Group.

## 29 Movements in cash, portfolio investments and financing

	At 31 December 2002 £m	Cash flow £m	Changes to market value and currencies £m	At 31 December 2003 £m
Cash at bank and in hand	28.5	(5.1)	(0.2)	23.2
Shares and other variable yield securities	0.7	46.0	3.9	50.6
Debt and other fixed income securities	682.7	194.9	(10.3)	867.3
Deposits with credit institutions	78.8	40.1	–	118.9
	790.7	275.9	(6.6)	1,060.0
Loans due within one year	(9.8)	2.5	–	(7.3)
Loans due after one year	(0.6)	(2.4)	–	(3.0)
	(10.4)	0.1	–	(10.3)
	780.3	276.0	(6.6)	1,049.7

# Notes to the accounts continued

## 30 Group owned net assets

The assets and liabilities attributable to Group owned companies as opposed to the Group's syndicate participations, are summarised below:

	In Group owned companies 2003 £m	In syndicates 2003 £m	Total 2003 £m	In Group owned companies 2002 £m	In syndicates 2002 £m	Total 2002 £m
<b>Investments</b>						
Other financial investments	235.7	812.7	<b>1,048.4</b>	227.0	546.9	773.9
<b>Debtors</b>						
Other debtors	12.6	40.0	<b>52.6</b>	8.5	62.8	71.3
<b>Other assets</b>						
Deferred tax asset	–	–	–	18.4	–	18.4
Intangible assets	57.0	–	<b>57.0</b>	60.1	–	60.1
Tangible assets	6.4	–	<b>6.4</b>	9.0	–	9.0
Cash at bank and in hand	3.5	23.0	<b>26.5</b>	3.6	28.0	31.6
Prepayments and accrued income	9.8	9.2	<b>19.0</b>	4.0	8.7	12.7
Other syndicate assets	–	741.5	<b>741.5</b>	–	789.7	789.7
<b>Total assets</b>	<b>325.0</b>	<b>1,626.4</b>	<b>1,951.4</b>	<b>330.6</b>	<b>1,436.1</b>	<b>1,766.7</b>
Provisions for other risks and charges	(19.9)	–	<b>(19.9)</b>	(2.9)	–	(2.9)
<b>Creditors</b>						
Amounts due within one year	(14.3)	(17.8)	<b>(32.1)</b>	(12.9)	(7.5)	(20.4)
Amounts due after more than one year	(19.8)	–	<b>(19.8)</b>	(3.8)	–	(3.8)
Accruals and deferred income	(11.8)	(0.1)	<b>(11.9)</b>	(5.2)	(0.4)	(5.6)
	(45.9)	(17.9)	<b>(63.8)</b>	(21.9)	(7.9)	(29.8)
Other syndicate liabilities	–	(1,484.4)	<b>(1,484.4)</b>	–	(1,427.2)	(1,427.2)
Consolidated shareholders' funds at 31 December	259.2	124.1	<b>383.3</b>	305.8	1.0	306.8

The assets of the syndicates included above are only available to pay syndicate related expenditure.

## 31 Contingent liabilities

### a) Funds at Lloyd's – Deeds of Covenant and Letters of Credit

The Group has entered into various deeds of covenant in respect of certain corporate member subsidiaries to meet each such subsidiary's obligations to Lloyd's. At 31 December 2003, the total guarantee given by the Group under these deeds of covenant (subject to limited exceptions) amounted to approximately £209.5 million (2002: £222.8 million). The obligations under the deeds of covenant are secured by a fixed charge of the same amount over investments, and a floating charge over the investments and other assets of the Group, in favour of Lloyd's. Lloyd's has the right to retain the income on the charged investments, although it is not expected to exercise this right unless it considers there to be a risk that one or more of the covenants might need to be called and, if called, might not be honoured in full.

As liability under each deed of covenant is limited to a fixed monetary amount, the enforcement by Lloyd's of any deed of covenant in the event of a default by a corporate member, where the total value of investments has fallen below the total of all amounts covenanted, may result in the appropriation of a share of the Group's Funds at Lloyd's that is greater than the proportion which that subsidiary's overall premium limit bears to the total overall premium limit of the Group.

The Group has also entered into Lloyd's deposit trust deeds for Funds at Lloyd's by which letters of credit (LOCs) for total amounts of £130.0 million and US\$90.0 million have been deposited. The US\$ denominated LOCs were procured in 2001 by agreement with the Company's 10.1% shareholder State Farm Mutual Automobile Insurance Company and were agreed in November 2003 to be reduced from their original aggregate value of US\$130.0 million, with effect from 1 January 2004. The sterling LOCs were deposited at Lloyd's for the first time in November 2003 pursuant to a bank LOC facility agreed in September 2003 which has replaced the previous such facility under which LOCs totalling £70.0 million had been provided. The net increase in LOCs was to support increased underwriting for the 2004 year of account.

### 31 Contingent liabilities continued

#### b) Reinsurance to close on spread portfolio

A reinsurance to close (RITC) is a particular type of reinsurance contract entered into by Lloyd's syndicates whereby the members of a syndicate for a particular year of account (the closing year) agree with the members of that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge of all the known and unknown liabilities of the closing year arising out of insurance business underwritten by the syndicate in the closing year of account.

In the event that a corporate member resigns from a syndicate or reduces its participation relative to the other members of the syndicate, it will make a net payment of a RITC premium. The payment of the RITC premium does not release members from ultimate responsibility for claims payable on risks they have written and in the event that the reinsuring members were unable to pay and the other elements in the Lloyd's chain of security fail, the members would remain liable for the payment of any outstanding claims. Payment of a RITC premium is conventionally treated as settling a member's outstanding claims for the closing year and this convention has been adopted in these accounts.

There is no mechanism for the Group to account for the gross claims payments and recoveries made from the reinsuring members or to quantify the ongoing exposure in respect of closed years of account. The directors consider that the possibility of the corporate members having to assume these liabilities is remote.

#### c) Loan stock

Amlin plc has given a guarantee to Lloyds TSB Bank plc for the principal sum of £6.9 million to secure the obligations of its subsidiary, Amlin Underwriting Group plc, in respect of the issue of loan stock as detailed in note 25.

### 32 Related party transactions

During the period under review Mr B D Carpenter, a director, was a member of Syndicate 2001 managed by the Group as set out below. Under the terms of an offer made in 2002 to all external members he exercised the right to participate in the 2003 year of account for 50% of his 2002 capacity and all profit commission payable to the Group was waived. As a result of the offer, Mr Carpenter does not participate in the Syndicate for the 2004 year of account.

#### Capacity underwritten

Year of account	2001 £000	2002 £000	2003 £000	2004 £000
B D Carpenter	240	291	182	–

The aggregate of fees and profit commission paid by Mr Carpenter was £1,527 (2002: £1,635), of which none was outstanding at 31 December 2003 (2002: nil).

As detailed in note 31, State Farm Mutual Automobile Insurance Company, a major shareholder, procured for the Group unsecured letters of credit totalling US\$90 million (US\$130.0 million until 1 January 2004). This facility is provided at a rate of 5% and £4.0 million (2002: £4.4 million) was paid to State Farm in respect of the year under this arrangement.

### 33 Principal exchange rates

The principal exchange rates used in translating foreign currency assets, liabilities, income and expenditure in the production of these accounts were:

	Average rate		Year end rate	
	2003	2002	2003	2002
US dollar	1.64	1.51	1.79	1.61
Canadian dollar	2.29	2.36	2.31	2.54
Euro	1.45	1.59	1.42	1.53

The table below sets out the Group's share of the currency exposures of the Syndicate by currency at 31 December:

	Assets	Liabilities	Net	Net
	£m	£m	2003 £m	2002 £m
US dollar	921.5	836.9	84.6	29.4
Canadian dollar	42.9	32.9	10.0	7.6
Euro	61.6	56.3	5.3	2.8
	1,026.0	926.1	99.9	39.8

# Five year summary

The balance sheet assets and liabilities in the table below have been restated to take account of the change of treatment of own shares held by the ESOT that has been adopted in the 2003 Report & Accounts.

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Managed capacity (year of account)	999.6	799.7	574.5	538.0	568.0
Amlin share	861.6	578.3	400.1	310.8	216.1
<b>Continuing operations</b>					
Gross premiums written	937.4	712.8	585.0	340.7	161.4
Net premiums written	787.6	569.9	485.1	268.0	126.8
Earned premiums	684.7	491.0	341.5	215.0	106.4
Balance on the technical account for general business	155.5	58.1	(56.0)	(2.7)	1.3
Operating profit (loss) based on longer term investment return	124.4	45.6	(61.7)	(5.9)	12.5
Profit (loss) before taxation	120.3	55.4	(81.5)	(26.4)	18.3
Profit (loss) after taxation	83.3	44.2	(67.0)	(19.1)	12.1
Equity dividends	(9.7)	(7.6)	–	(7.8)	(7.8)
Retained profit (loss) for the period	73.6	36.6	(67.0)	(26.9)	4.3
Intangible assets	57.0	60.1	15.0	15.8	12.4
Other financial investments	1,048.4	773.9	510.4	440.5	426.1
Total assets*	1,951.4	1,766.7	1,521.9	993.7	801.3
Total liabilities	(1,568.1)	(1,459.9)	(1,387.5)	(795.1)	(578.3)
Equity shareholders' funds*	383.3	306.8	134.4	198.6	223.0
<b>Per-share results</b>					
Earnings per share					
– basic	21.6p	14.1p	(33.3p)	(9.6p)	5.9p
– diluted	21.4p	14.1p	(33.3p)	(9.7p)	5.6p
Dividends per share	2.5p	2.0p	–	4.0p	3.8p
Net assets per share*	99.3p	80.3p	66.4p	100.1p	108.0p
Tangible net assets per share*	84.6p	64.5p	59.0p	92.1p	102.0p
Share price (at 31 December)	128.0p	119.0p	86.5p	109.0p	85.5p

\* The indicated amounts have been restated to the current policy whereby 'Own shares' are deducted from equity, where they were previously classed as an asset. The per-share amounts have been restated taking account of this change.

The additional information consisting of the five year summary, the shareholder register information and the syndicate participations have been prepared from the accounting and/or statutory records of the Group. While it does not form part of the statutory financial statement, it should be read in conjunction with them and the responsibilities section of the auditors' report thereon.

# Shareholders & Syndicate participations

at 31 December 2003

The tables below analyse the Group's share register by type of investor and by size of investment.

By type of investor	2003				2002			
	Number of holdings	%	Number of shares	%	Number of holdings	%	Number of shares	%
Current directors*	15	0.73	3,942,694	1.01	15	0.88	4,254,860	1.10
Other individuals	1,108	53.71	22,909,288	5.86	1,044	60.87	26,686,432	6.87
Corporate and institutional+	940	45.56	364,019,934	93.13	656	38.25	357,381,959	92.03
	<b>2,063</b>	<b>100.00</b>	<b>390,871,916</b>	<b>100.00</b>	<b>1,715</b>	<b>100.00</b>	<b>388,323,251</b>	<b>100.00</b>

\* Shareholdings of directors, their dependent family members and trusts (beneficial and non-beneficial)

+ Includes the Group's Employee Share Ownership Trust

By size of investment	2003				2002			
	Number of holdings	%	Number of shares	%	Number of holdings	%	Number of shares	%
Up to 50,000	1,710	82.89	14,432,097	3.69	1,370	79.88	12,655,934	3.26
50,001 to 100,000	97	4.70	6,894,476	1.76	94	5.48	6,819,978	1.76
100,001 to 500,000	148	7.17	31,955,615	8.18	142	8.28	29,497,539	7.60
500,001 to 1,000,000	41	1.99	28,393,603	7.26	45	2.62	32,221,368	8.30
1,000,001 to 5,000,000	50	2.43	93,087,311	23.82	50	2.92	110,410,023	28.42
5,000,001 to 10,000,000	12	0.58	80,785,665	20.67	9	0.52	61,027,619	15.72
Over 10,000,000	5	0.24	135,323,149	34.62	5	0.30	135,690,790	34.94
	<b>2,063</b>	<b>100.00</b>	<b>390,871,916</b>	<b>100.00</b>	<b>1,715</b>	<b>100.00</b>	<b>388,323,251</b>	<b>100.00</b>

The Group's aligned and non-aligned participations in Lloyd's syndicates are set out below.

## Aligned syndicate participations

Year of account	2004 £m	Syndicate capacity		
		2003 £m	2002 £m	2001 £m
Syndicate 2001	1,000.0	861.6	578.3	400.1
Total managed capacity	1,000.0	999.6	799.7	574.5
Percentage owned	100.0%	86.2%	72.3%	69.6%

## Non-aligned syndicate participations

Managing agent	Syndicate	Syndicate capacity		
		1999 £m	1998 £m	1997 £m
<b>Non-marine</b>				
Jago Managing Agency Ltd	205	2.25	–	–
D P Mann Ltd	435	7.80	–	–
A E Grant (Underwriting Agencies) Ltd	991	2.93	2.35	–
Duncanson & Holt Syndicate Management Ltd	1101	–	2.50	2.50
<b>Total non-marine</b>		<b>12.98</b>	<b>4.85</b>	<b>2.50</b>
<b>Motor</b>				
Ockham Personal Insurance Agency Ltd	37	4.64	–	–
<b>Aviation</b>				
Kingsmead Underwriting Agency Ltd	271	1.50	2.45	–
St Paul Syndicate Management Ltd	340	–	–	2.25
Duncanson & Holt Syndicate Management Ltd	957	–	3.00	3.00
<b>Total aviation</b>		<b>1.50</b>	<b>5.45</b>	<b>5.25</b>
<b>Total capacity</b>		<b>19.12</b>	<b>10.30</b>	<b>7.75</b>
Capacity remaining open at 31 December 2003		9.82	7.85	5.50

During 1999 the Group sold the final part of its directly owned non-aligned capacity. The managers of Syndicates 271, 340 and 435 have stated their intention to close the years of account above with effect from 31 December 2003.

# Shareholder and investor relations information

## FINANCIAL CALENDAR

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### 2004

11 May	Closing date for acceptance of scrip dividend alternative to 2003 final dividend
19 May (noon)	Annual General Meeting to be held at the Company's registered office
25 May	Payment of 2003 final dividend, subject to shareholder approval
6 September	Announcement of interim results and declaration of interim dividend for the six months ending 30 June 2004
November	Payment of 2004 interim dividend

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### 2005

March	Announcement of results for the year ending 31 December 2004
May	Annual General Meeting
May	Payment of 2004 final dividend, subject to shareholder approval

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### Share price

The Company's ordinary shares are listed on the London Stock Exchange under 'Insurance'. Prices are given daily in newspapers including the Financial Times, Times, Daily Telegraph, Independent and Evening Standard.

### Share certificates

On 24 September 1999 all of the Company's share certificates were replaced and thus share certificates issued prior to that date, whether in the Company's present or previous name (Angerstein Underwriting Trust PLC), are no longer valid. Any shareholder holding such invalid share certificates who does not also hold the relevant replacement certificate(s) should contact the Company's Registrar, Computershare Investor Services PLC (details below).

### ISAs and PEPs

The Company's shares qualify to be held as equities in Individual Savings Accounts (ISAs) and in Personal Equity Plans (PEPs).

### Capital gains tax information

Information regarding the base costs, and apportionment factors between shares and warrants, for holdings acquired on the original flotation of the Company in 1993 or through the merger with Delian Lloyd's Investment Trust in 1995 are available on request by telephoning our Investor Relations Unit on 020 7746 1111.

### Shareholders' dealings

The Company's stockbroker, Hoare Govett Limited, offers a low-cost postal dealing service, which enables UK resident investors to buy or sell certificated holdings of the Company's shares in what may be a convenient manner. Basic commission is 1% of the transaction value, with a minimum charge of £12. Transactions are executed and settled by Pershing Securities Limited. Forms may be obtained from the Company Secretarial Department, Amlin plc, St Helen's, 1 Undershaft, London EC3A 8ND (Tel 020 7746 1006) or direct from Hoare Govett Limited, 250 Bishopsgate, London EC2M 4AA (Tel 020 7678 8300). This service is not available to non-UK residents who may, however, contact Hoare Govett Limited for details of other services that may be available. Hoare Govett Limited and Pershing Securities Limited are each authorised and regulated by the Financial Services Authority.

### Shareholder and investor enquiries, registrar and website

Please call our Investor Relations Unit on 020 7746 1111, e-mail to [investor.relations@amlin.com](mailto:investor.relations@amlin.com), or, for enquiries concerning share registration, call our Registrar, Computershare Investor Services PLC, on 0870 702 0000.

Amlin's website is at [www.amlin.com](http://www.amlin.com).

### Results presentations

In accordance with investor relations best practice, the Company's presentations to investment analysts are now usually accessible via a webcast and/or conference telephone call. Details are announced in advance through a Regulatory Information Service and placed on the Company's website, or interested parties may e-mail or telephone using the details immediately above. Please note that the availability of these services may in certain cases be restricted for regulatory reasons.

# Registered office and advisers

## Registered office

St Helen's  
1 Undershaft  
London EC3A 8ND

## Secretary

C C T Pender FCIS FSI

## Auditors

Deloitte & Touche LLP  
London

## Investment bankers

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## Stockbrokers

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## Corporate lawyers

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London EC2Y 8HQ

## Principal bankers

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## Registrar

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