



DOMESTIC & GENERAL

**Domestic & General
Insurance PLC
Annual Report
2002**

Contents

Highlights *one*

Directors and Advisers *two*

Report of the Directors *three*

Statement of Directors' Responsibilities *four*

Profit and Loss Account *five*

Balance Sheet *seven*

Statement
of Recognised Gains and Losses *nine*

Consolidated Statement
of Historical Cost Profits and Losses *nine*

Reconciliation of Movement in
Shareholders' Funds *nine*

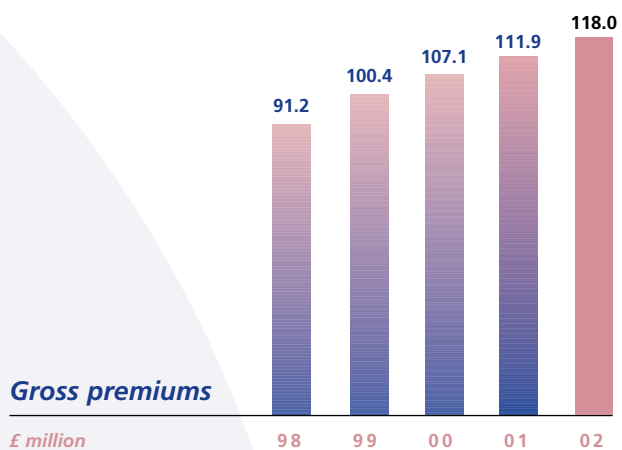
Accounting Policies *ten*

Notes forming part of the
Financial Statements *twelve*

Auditors' Report *nineteen*

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Highlights



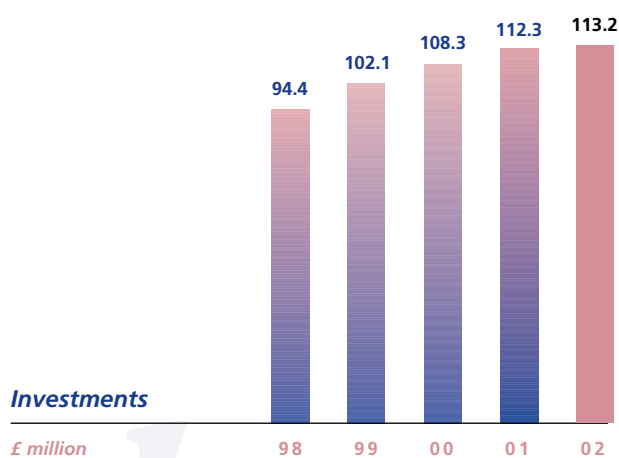
Gross premiums up 5.5% to £118.0 million.

Operating profits down 17.3% to £16.2 million.

Investment returns reflect decline in equity market.

Profit before tax down 24.0% to £13.3 million.

Investments up 0.8% to £113.2 million.



Directors and Advisers

Directors

Timothy Jolyon Reeve Scrivener
BA (Chairman)

Kenneth Spark Wilson
ACII (Managing Director)

Nigel Roy Alexander

Peter Charles Griffiths
ACA, ACII, BA (Finance Director)

Richard Charles Lawson

John Scott Ritchie
FCA

Secretary and Registered Office

A. Philip White
LLB

Swan Court,
2A Mansel Road,
Wimbledon,
London SW19 4AA.

Auditors

KPMG Audit Plc
8 Salisbury Square, London EC4Y 8BB.

Principal Bankers

National Westminster Bank PLC
1 Princes Street, London EC2R 8PH.

Registered Number

485850

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Report of the Directors

The directors present their report and the financial statements for the year ended 30 June 2002.

Principal activity

The principal activity of the Company is the provision of domestic appliance breakdown insurance. The Company is an authorised United Kingdom insurance company and has branches in Denmark, France, Germany and Spain.

Results and Dividends

The results are set out in the Profit and Loss Account on pages 5 and 6. The Balance Sheet is set out on pages 7 and 8.

An ordinary interim dividend of £2,000,000 was paid on 9 May 2002. The directors propose to recommend the payment of a final dividend of £4,500,000 payable on 14 October 2002. The total dividends in respect of the year ended 30 June 2002 amounted to £6,500,000 (2001: £6,650,000).

Directors and directors' interests

The directors at 30 June 2002 were:

T. J. R. Scrivener (Managing Director),
N. R. Alexander,
R. C. Lawson,
J. E. Love,
J. S. Ritchie,
S. S. Vara
K. S. Wilson.

J. E. Love was appointed director on 30 October 2001.

J. E. Love resigned as a director on 1 July 2002.

S. S. Vara resigned as a director on 1 August 2002.

P. C. Griffiths was appointed director on 19 August 2002.

The directors' interests in the share capital of the Company or any Group company requiring disclosure in these accounts are as follows:

**Domestic & General Group PLC
Options over Ordinary Shares under the
Savings Related Share Option Schemes**

| | 2002 | 2001 |
|--------------|-------|-------|
| R. C. Lawson | 3,226 | 3,226 |
| S. S. Vara | 1,852 | 1,852 |
| J. E. Love | 370 | 370 |

**Domestic & General Group PLC
Options over Ordinary Shares under
Executive Share Option Schemes**

| | 2002 | 2001 |
|--------------|--------|--------|
| R. C. Lawson | 28,828 | 18,828 |
| S. S. Vara | 17,710 | 7,710 |
| J. E. Love | 12,805 | 10,285 |

The interests of N. R. Alexander, J. S. Ritchie, T. J. R. Scrivener, and K. S. Wilson are disclosed in the holding company accounts.

On 31 August 2001, the following options were granted over shares in Domestic & General Group PLC at an exercise price of £6.575 per share: R. C. Lawson 10,000 shares; J. E. Love 2,520 shares; S. S. Vara 10,000 shares.

Payment of Suppliers

The Company's policy is to pay all of its creditors promptly. The internally developed code of practice, which is communicated to suppliers when appropriate, is to pay on agreed terms, within the period set out in the supplier's invoice or within 30 days from the date of the invoice, whichever is applicable.

The amount owed to creditors at 30 June 2002 represented 30 days of average daily purchases from suppliers during the year ended on that date.

Auditors

A resolution is to be proposed at the Annual General Meeting for the reappointment of KPMG Audit Plc as auditor of the Company.

By Order of the Board



A. P. WHITE, LLB
Secretary
21 August 2002

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the auditors' report on page 19, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

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

In preparing the accounts, the directors are required to select appropriate accounting policies and then apply them consistently, make judgments and estimates that

are reasonable and prudent and state whether all accounting standards which they consider to be applicable have been followed. The directors are also required to use a going concern basis in preparing the accounts unless this is inappropriate.

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

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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Technical Account — General Business

| | Notes | Year ended 30 June 2002 | | Year ended 30 June 2001 | |
|------------------------------------------------------------------|-------|----------------------------|----------|----------------------------|----------|
| | | £'000 | £'000 | £'000 | £'000 |
| Gross premiums written | 1 | 117,979 | | 111,947 | |
| Outward reinsurance premiums | | (1,370) | | (2,408) | |
| Net premiums written | | | 116,609 | | 109,539 |
| Change in the gross provision for unearned premiums | 18 | (7,247) | | (4,778) | |
| Change in the provision for unearned premiums, reinsurers' share | 18 | (533) | | (457) | |
| Net change in the provision for unearned premiums | | | (7,780) | | (5,235) |
| Earned premiums, net of reinsurance | | | 108,829 | | 104,304 |
| Gross claims paid | | (55,737) | | (49,434) | |
| Reinsurers' share | | 1,073 | | 1,418 | |
| Net claims paid | | (54,664) | | (48,016) | |
| Change in the gross provision for claims | 18 | (1,543) | | (650) | |
| Reinsurers' share | 18 | (37) | | (76) | |
| Net change in the provision for claims | | (1,580) | | (726) | |
| Claims incurred net of reinsurance | | | (56,244) | | (48,742) |
| Net operating expenses | 2 | | (44,466) | | (43,748) |
| Balance on the technical account for general business | | | 8,119 | | 11,814 |

All income and expenditure relates to continuing operations.

Non-Technical Account

| | Notes | Year ended 30 June 2002 £'000 | Year ended 30 June 2001 £'000 |
|----------------------------------------------------------------|--------------|----------------------------------------------|----------------------------------------------|
| Balance on the general business technical account | | 8,119 | 11,814 |
| Investment income | 3 | 6,752 | 6,808 |
| Unrealised losses on investments | 4 | (1,568) | (1,104) |
| Variance from longer term return on equities | 5 | 2,905 | 2,067 |
| | | <u>8,089</u> | <u>7,771</u> |
| Operating profit including longer term investment return | | 16,208 | 19,585 |
| Short-term variance in investment return | 5 | (2,905) | (2,067) |
| Profit on ordinary activities before tax | 6 | 13,303 | 17,518 |
| Tax on profit on ordinary activities | 8 | (3,984) | (5,165) |
| Profit on ordinary activities after tax | | 9,319 | 12,353 |
| Dividends | 9 | (6,500) | (6,650) |
| Retained profit for the financial year transferred to reserves | 17 | <u>2,819</u> | <u>5,703</u> |

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Assets

| | Notes | 30 June 2002 | | 30 June 2001 | |
|----------------------------------------------------|-------|--------------|----------------|--------------|----------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Investments: | | | | | |
| Freehold land and buildings | 10 | 5,650 | | 5,234 | |
| Investments in group undertakings | 11 | 2,105 | | 2,105 | |
| Other financial investments | 12 | 105,408 | | 104,927 | |
| | | | 113,163 | | 112,266 |
| Reinsurers' share of technical provisions: | | | | | |
| Provision for unearned premiums | 18 | 534 | | 1,067 | |
| Claims outstanding | 18 | 130 | | 167 | |
| | | | 664 | | 1,234 |
| Debtors: | | | | | |
| Debtors arising out of direct insurance operations | 13 | 30,771 | | 25,987 | |
| Debtors arising out of reinsurance operations | 13 | 43 | | 25 | |
| Other debtors | 13 | 18,197 | | 13,159 | |
| | | | 49,011 | | 39,171 |
| Other assets: | | | | | |
| Tangible assets | 14 | 4,903 | | 4,553 | |
| Cash at bank and in hand | | 301 | | 194 | |
| | | | 5,204 | | 4,747 |
| Prepayments and accrued income: | | | | | |
| Accrued interest and rent | | 426 | | 942 | |
| Deferred acquisition costs | 15 | 27,751 | | 27,634 | |
| Other prepayments and accrued income | | 1,735 | | 1,792 | |
| | | | 29,912 | | 30,368 |
| Total Assets | | | 197,954 | | 187,786 |

Liabilities

| | Notes | 30 June 2002 | | 30 June 2001 | |
|--------------------------------------------------------|-------|--------------|---------|--------------|---------|
| | | £'000 | £'000 | £'000 | £'000 |
| Capital and reserves: | | | | | |
| Called up share capital | 16 | 4,700 | | 4,700 | |
| Profit and loss account | 17 | 58,059 | | 55,240 | |
| <hr/> | | | | | |
| Shareholders' funds attributable to equity interests | | | 62,759 | | 59,940 |
| Technical provisions: | | | | | |
| Provision for unearned premiums | 18 | 111,355 | | 103,846 | |
| Claims outstanding | 18 | 6,397 | | 4,847 | |
| <hr/> | | | | | |
| | | | 117,752 | | 108,693 |
| Provision for other risks and charges | 19 | | (37) | | (462) |
| Creditors: | | | | | |
| Creditors arising out of direct insurance operations | | | | | |
| | 20 | 6,134 | | 7,366 | |
| Creditors arising out of reinsurance operations | | | | | |
| | 20 | 127 | | 279 | |
| Amounts owed to credit institutions | | | | | |
| | 20 | 2,654 | | 905 | |
| Proposed dividend | | | | | |
| | | 4,500 | | 4,650 | |
| Other creditors including taxation and social security | | | | | |
| | 20 | 2,888 | | 5,213 | |
| <hr/> | | | | | |
| | | | 16,303 | | 18,413 |
| Accruals and deferred income | | | | | |
| | | | 1,177 | | 1,202 |
| <hr/> | | | | | |
| Total Liabilities | | | 197,954 | | 187,786 |

These financial statements were approved by the Board of Directors on 21 August 2002 and were signed on its behalf by:

T. J. R. SCRIVENER



Directors

J. S. RITCHIE



Statement of recognised gains and losses

For the year ended 30 June

| | 2002 £'000 | 2001 £'000 |
|----------------------------------------------------------|-----------------------------|-----------------------------|
| Profit and total recognised gains for the financial year | 9,319 | 12,353 |

Consolidated statement of historical cost profits and losses

In accordance with the amendment to FRS3 published in June 1999, no note of historical cost profits and losses has been prepared, as the Company's only material gains and losses on revalued assets relate to the holding and disposal of investments.

Reconciliation of movement in shareholders' funds

For the year ended 30 June

| | 2002 £'000 | 2001 £'000 |
|------------------------------------------------------------------|-----------------------------|-----------------------------|
| Total recognised gains | 9,319 | 12,353 |
| Dividends | (6,500) | (6,650) |
| Net movements in reserves | 2,819 | 5,703 |
| Shareholders' funds at beginning of year, as previously reported | 54,952 | 54,237 |
| Prior year adjustment for deferred tax | 288 | — |
| Shareholders' funds at beginning of year, as restated | 59,940 | 54,237 |
| Shareholders' funds at end of year | 62,759 | 59,940 |

Accounting Policies

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers in December 1998.

The three new accounting standards which relate to the financial statements for the year are FRS 17 Retirement Benefits, FRS 18 Accounting Policies and FRS 19 Deferred Tax.

In respect of retirement benefits, the Group only operates defined contribution pension schemes. Consequently, there is no liability for final salary based pensions and there is no impact on the financial statements.

In respect of deferred tax, the Group's accounting policy has been changed in line with FRS 19 with full provision now being made for all timing differences. The effect of this charge is to increase reserves brought forward from 30 June 2001 by £0.3m. Previous years results have been restated.

In respect of FRS 18, the Group has considered the relevant accounting policies, particularly with regard to significant estimation techniques, and made appropriate changes as necessary. The adoption of the statement has had no effect on the reported results.

2. GROUP ACCOUNTS

No Group accounts have been prepared as the Company is a wholly owned subsidiary of another company incorporated in England. Consequently, the financial statements present information about the Company and not its Group.

3. PREMIUMS

All premiums are accounted for on an annual basis and comprise the premiums due on contracts entered into during a financial year. All premiums are shown gross of commission payable to intermediaries but exclude insurance premium taxes. Insurance premium taxes payable at the balance sheet date are included as a liability.

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

4. UNEARNED PREMIUMS

The provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract. The provision is calculated on the 24ths basis for contracts up to one year. For contracts in excess of one year, the time apportionment basis is suitably modified so that the earning pattern matches the risk profile.

5. ACQUISITION COSTS

Acquisition costs comprise the commission and management expenses of acquiring insurance policies. Acquisition costs which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which correspond to the proportion of gross premiums written which are unearned at the balance sheet date.

6. CLAIMS OUTSTANDING

Outstanding claims comprise provisions for the estimated costs of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses. Estimation techniques and assumptions are periodically reviewed with any changes in estimates reflected in the respective technical accounts as they occur.

7. UNEXPIRED RISKS

An unexpired risks provision is made, where necessary, when the expected value of claims and administrative expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the provision for unearned premiums in relation to such policies after deduction of deferred acquisition costs. The provision for unexpired risks is calculated separately for each category of business but offsetting surpluses and deficits between categories that are managed together.

8. PREMIUM LEVIES

Provision is made for a potential liability payable to the Financial Services Compensation Scheme in respect of premiums recognised in these accounts to the extent it is probable that a liability will crystallise. The charge is included within administrative expenses.

9. INVESTMENT INCOME

Investment income is accounted for on a receivable basis. Dividends are recognised on the date on which the related investment goes 'ex dividend'. Interest is accrued up to the balance sheet date. Realised gains or losses represent the difference between net sales proceeds and purchase price or, if previously valued, the valuation at the last balance sheet date. Unrealised gains or losses are credited or charged to the profit and loss account.

10. LONG-TERM RATE OF RETURN

Operating profit is presented including investment return on listed equity investments determined on the longer term rate of return basis. The longer term rate of return is an estimate of the long-term trend investment return for the relevant category of investments having regard to past performance, current trends and future expectations. The objective is that over time the investment return recognised in the operating profit is not materially different from the actual returns.

11. INVESTMENTS

All investments are stated at their current value.

Land and buildings are valued at open market valuation by independent professionally qualified valuers every three years; in the intervening years, these valuations are reviewed by the directors on the basis of independent professional advice. In respect of owner-occupied property, depreciation is provided on buildings at a rate of 2% per annum.

12. FIXED ASSETS

Depreciation is provided on all fixed assets at rates estimated to write off their costs, after taking residual values into consideration, over their expected useful lives on the straight line method. The principal rates are as follows:

| | |
|-----------------------------------------|-------------------|
| Computer equipment | 25% per annum |
| Motor vehicles | 25% per annum |
| Fixtures, fittings and office machinery | 15%–25% per annum |

13. FOREIGN CURRENCIES

Transactions in foreign currencies are translated into sterling using the rate of exchange ruling at the date of the transaction. Transactions of overseas branches are translated at the rate of exchange ruling at the balance sheet date.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the technical account — general business or the non-technical account as appropriate.

14. DEFERRED TAXATION

The difference between the accounting treatment and tax treatment for depreciation in respect of accelerated capital allowances and other timing differences is provided in full. Provision is made, or recovery anticipated, where timing differences will reverse in the foreseeable future. FRS 19 'Deferred Tax' was adopted on 1 July 2001 and prior year results have been restated.

15. PENSION COSTS

The Company participates in the defined contribution pension scheme operated by Domestic & General Group PLC in whose accounts full disclosure of the pension arrangements is made.

The costs of providing pensions for employees are charged in the profit and loss account in the year to which they relate.

16. CASH FLOW STATEMENT

The Company has taken advantage of the exemption within Financial Reporting Standard 1 (Revised) not to provide a cash flow statement because it is a wholly owned subsidiary undertaking of Domestic & General Group PLC.

17. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption within Financial Reporting Standard 8 not to disclose transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties) because it is a wholly owned subsidiary undertaking of Domestic & General Group PLC.

18. OPERATING LEASES

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

1. Segmental Information

(i) Analysis of business by class

| | Gross premiums written 2002 £'000 | Gross premiums earned 2002 £'000 | Gross claims incurred 2002 £'000 | Gross operating expenses 2002 £'000 | Reinsurance balance 2002 £'000 |
|------------------------------|----------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|------------------------------------------------------------|---------------------------------------------------|
| Direct: | | | | | |
| Miscellaneous financial loss | 116,299 | 109,387 | 56,262 | 44,450 | 820 |
| Property | 1,647 | 1,322 | 1,014 | — | 47 |
| Reinsurance | 33 | 23 | 4 | 16 | — |
| | 117,979 | 110,732 | 57,280 | 44,466 | 867 |
| | 2001 £'000 | 2001 £'000 | 2001 £'000 | 2001 £'000 | 2001 £'000 |
| Direct: | | | | | |
| Miscellaneous financial loss | 110,839 | 106,387 | 49,548 | 43,748 | 1,497 |
| Property | 1,081 | 774 | 531 | — | 26 |
| Reinsurance | 27 | 8 | 5 | — | — |
| | 111,947 | 107,169 | 50,084 | 43,748 | 1,523 |

(ii) Geographical analysis

| | Gross premiums written 2002 £'000 | Profit before tax 2002 £'000 | Net assets 2002 £'000 |
|------------------------|----------------------------------------------------------|-----------------------------------------------------|------------------------------------------|
| The United Kingdom | 114,230 | 13,691 | 62,551 |
| Other EU member states | 3,749 | (388) | 208 |
| | 117,979 | 13,303 | 62,759 |
| | 2001 £'000 | 2001 £'000 | 2001 £'000 |
| The United Kingdom | 108,645 | 18,132 | 59,834 |
| Other EU member states | 3,302 | (614) | 106 |
| | 111,947 | 17,518 | 59,940 |

2. Net Operating Expenses

| | 2002 £'000 | 2001 £'000 |
|--------------------------------------|-----------------------|-----------------------|
| Acquisition costs | 26,078 | 26,178 |
| Change in deferred acquisition costs | (117) | (949) |
| Incurred acquisition costs | 25,961 | 25,229 |
| Administrative expenses | 18,505 | 18,519 |
| Net operating expenses | 44,466 | 43,748 |

Incurred acquisition costs include commission payable on direct business of £1,498,000 (2001: £4,877,000).

3. Investment Income

| | Non-technical account 2002 £'000 | Non-technical account 2001 £'000 |
|--------------------------------|-------------------------------------------------|-------------------------------------------------|
| Income from group undertakings | 810 | 832 |
| Listed investments | — | 154 |
| Other investments | 5,942 | 5,822 |
| | 6,752 | 6,808 |

4. Unrealised Losses on Investments

| | Non-technical account 2002 £'000 | Non-technical account 2001 £'000 |
|--------------------|-------------------------------------------------|-------------------------------------------------|
| Land and buildings | 507 | 180 |
| Listed investments | (2,075) | (1,284) |
| | (1,568) | (1,104) |

5. Investment return on equities

Taking a long-term view, equity investments are expected to produce total investment income and gains equal to the market longer term rate of return. The rate is kept under review and the rates applied have been 8% for the first half of the year reducing to 7% with effect from 1 January 2002. The expected annual return, using the longer term rate, is calculated on the market value of equity investments at the beginning of the year adjusted for changes in the level of investment during the year. The expected annual return is included in operating profits for the year and the variance from this expected annual return deemed to be a short-term variation which is treated as an adjustment between operating profits and profit before tax.

| (i) Current Year | 2002 £'000 | 2001 £'000 |
|------------------------------------------|-----------------------|-----------------------|
| Investment income | 322 | 154 |
| Unrealised losses | (2,075) | (1,284) |
| Actual investment loss | (1,753) | (1,130) |
| Expected longer term return | 1,152 | 937 |
| Short-term variance in investment return | (2,905) | (2,067) |

(ii) Cumulative effect since 1999

The actual return is compared to the longer term return for the period from 1999, being the year in which the equity investments were first acquired.

| | 1999–2002 £m | 1999–2001 £m |
|--------------------------------------------------|-------------------------|-------------------------|
| Actual investment return | (1.5) | 0.3 |
| Longer term return credited to operating profit | 2.8 | 1.7 |
| Deficit of actual return over longer term return | (4.3) | (1.4) |

6. Profit on Ordinary Activities before Tax

Profit on ordinary activities before tax is stated after charging the following items:

| | 2002 £'000 | 2001 £'000 |
|--------------------------------------------------|-----------------------|-----------------------|
| Depreciation on owned assets excluding buildings | 1,969 | 1,824 |
| Depreciation on buildings | 91 | 180 |
| Charges on operating leases | 459 | 444 |
| Auditors' remuneration — fees | 83 | 71 |
| — non-audit services | 17 | — |

7. *Staff Numbers and Costs*

The average monthly number of employees during the year, including executive directors, was:

| | 2002 | 2001 |
|-------------------------|-------------|-------------|
| Executive directors | 7 | 7 |
| Sales and marketing | 48 | 58 |
| Underwriting and claims | 85 | 88 |
| Customer services | 286 | 261 |
| Administration | 342 | 365 |
| | 768 | 779 |

The payroll costs in respect of these persons were:

| | 2002 £'000 | 2001 £'000 |
|----------------------------------------------------|-----------------------|-----------------------|
| Wages and salaries | 10,765 | 10,674 |
| Social security costs | 1,009 | 1,037 |
| Other pension costs — defined contribution schemes | 863 | 845 |
| | 12,637 | 12,556 |

8. *Taxation*

| | 2002 £'000 | 2001 £'000 |
|---------------------------------------------------|-----------------------|-----------------------|
| United Kingdom corporation tax at 30% (2001: 30%) | 3,559 | 5,530 |
| Adjustments to prior year provisions | 1 | (103) |
| Deferred taxation | 424 | (262) |
| | 3,984 | 5,165 |

9. *Dividends*

| | 2002 £'000 | 2001 £'000 |
|--------------------------------------------------|-----------------------|-----------------------|
| Interim dividend paid 9 May 2002 | 2,000 | 2,000 |
| Proposed final dividend payable 14 November 2002 | 4,500 | 4,650 |
| | 6,500 | 6,650 |

10. *Freehold Land and Buildings*

| | Market value £'000 | Cost £'000 |
|-----------------|-----------------------------------|-----------------------|
| At 1 July 2001 | 5,234 | 4,571 |
| Depreciation | (91) | — |
| Revaluations | 507 | — |
| At 30 June 2002 | 5,650 | 4,571 |

The freehold land and buildings, all of which are owner-occupied, were valued at 30 June 2002 by external valuers, NAI Gooch Webster, Chartered Surveyors, at their Existing Use Value (EUV) in accordance with the RICS Appraisal and Valuation Manual. Additions since that date are included at cost. The directors have reviewed the amounts at which freehold land and buildings are included in the accounts and are of the opinion that the current EUV is not materially different.

11. Subsidiary Companies

| | 2002 £'000 | 2001 £'000 |
|--------------------|-----------------------------|-----------------------------|
| Investment at cost | 2,105 | 2,105 |

The directors consider that the investments in subsidiaries are worth more than the amounts at which they are stated in the accounts. The subsidiaries, which are all wholly owned and incorporated and registered in England, are:

| | |
|---------------------------------|---------------------|
| Cop Nominees Limited | — Dormant |
| Copleys Investments Limited | — Dormant |
| Copleys Limited | — Instalment credit |
| Copleys Bank Limited | — Dormant |
| Copleys Trust Limited | — Dormant |
| Telesurance Holdings Limited | — Dormant |
| United Counties Finance Limited | — Dormant |

12. Other Financial Investments

| | Market value 2002 £'000 | Market value 2001 £'000 | Cost 2002 £'000 | Cost 2001 £'000 |
|---------------------------------------------------|--------------------------------------------|--------------------------------------------|--------------------------------|--------------------------------|
| Deposits with credit institutions | 76,152 | 89,440 | 76,152 | 89,440 |
| Shares and unit trusts | 13,595 | 15,348 | 15,000 | 15,000 |
| Cash liquidity funds | 15,652 | — | 15,324 | — |
| Debt securities and other fixed income securities | — | 130 | — | 130 |
| Other investments | 9 | 9 | 9 | 9 |
| | 105,408 | 104,927 | 106,485 | 104,579 |

13. Debtors

| | 2002 £'000 | 2001 £'000 |
|-----------------------------------------------------|-----------------------------|-----------------------------|
| Debtors arising out of direct insurance operations: | | |
| Amounts owed by policyholders | 29,799 | 24,678 |
| Amounts owed by intermediaries | 972 | 1,309 |
| | 30,771 | 25,987 |
| Debtors arising out of reinsurance operations: | | |
| Third parties | 43 | 25 |
| Other debtors: | | |
| Tax recoverable | — | 33 |
| Other debtors | 647 | 148 |
| Loan to subsidiary | 11,441 | 11,531 |
| Due from group companies | 6,109 | 1,447 |
| | 18,197 | 13,159 |

14. Tangible Assets

| | Office furniture, equipment and motor vehicles £'000 |
|---------------------------|---------------------------------------------------------------------------------|
| Cost or valuation: | |
| At 1 July 2001 | 12,488 |
| Additions during the year | 2,363 |
| Transfers within group | (29) |
| Disposals during the year | (237) |
| At 30 June 2002 | 14,585 |
| Depreciation: | |
| At 1 July 2001 | 7,935 |
| Charge for the year | 1,969 |
| Transfers within group | 1 |
| Disposals during the year | (223) |
| At 30 June 2002 | 9,682 |
| Net book amount: | |
| At 30 June 2002 | 4,903 |
| At 30 June 2001 | 4,553 |

15. Deferred Acquisition Costs

| | Commission 2002 £'000 | Other expenses 2002 £'000 | Total 2002 £'000 |
|----------------------------|--------------------------------------|----------------------------------------------|---------------------------------|
| At 1 July 2001 | 6,319 | 21,315 | 27,634 |
| Arising in year | 1,474 | 24,604 | 26,078 |
| Incurred acquisition costs | (3,306) | (22,655) | (25,961) |
| At 30 June 2002 | 4,487 | 23,264 | 27,751 |
| | 2001 £'000 | 2001 £'000 | 2001 £'000 |
| At 1 July 2000 | 5,839 | 20,846 | 26,685 |
| Arising in year | 4,877 | 21,301 | 26,178 |
| Incurred acquisition costs | (4,397) | (20,832) | (25,229) |
| At 30 June 2001 | 6,319 | 21,315 | 27,634 |

16. Called up Share Capital

| | Number of shares | 2002 £'000 | 2001 £'000 |
|---------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------|-----------------------|
| Allotted, called up and fully paid Ordinary shares of £1 each: In issue at 1 July 2001 and 30 June 2002 | 4,700,200 | 4,700 | 4,700 |
| Authorised Ordinary shares of £1 each | 10,000,000 | 10,000 | 10,000 |

17. Reserves

| | Profit and loss £'000 |
|----------------------------------------|--------------------------------------|
| At 1 July 2001 as previously reported | 54,952 |
| Prior year adjustment for deferred tax | 288 |
| At 1 July 2001 as restated | 55,240 |
| Retained profit for the year | 2,819 |
| At 30 June 2002 | 58,059 |

18. Technical Provisions

| | Provision for unearned premium £'000 | Claims outstanding £'000 | Total £'000 |
|---------------------------|---------------------------------------------------------|-----------------------------------------|------------------------|
| Gross amount: | | | |
| At 1 July 2001 | 103,846 | 4,847 | 108,693 |
| Exchange rate movements | 262 | 7 | 269 |
| Movement in the provision | 7,247 | 1,543 | 8,790 |
| At 30 June 2002 | 111,355 | 6,397 | 117,752 |
| Reinsurance amount: | | | |
| At 1 July 2001 | 1,067 | 167 | 1,234 |
| Movement in the provision | (533) | (37) | (570) |
| At 30 June 2002 | 534 | 130 | 664 |

19. Provision for Other Risks and Charges

FRS 19 has been implemented with effect from 1 July 2001. Under FRS 19, deferred tax is provided for in full on certain timing differences. As the adoption represents a change in accounting policy, prior periods have been restated.

| | 2002 £'000 | 2001 £'000 |
|-------------------------------------------------|-----------------------|-----------------------|
| Deferred taxation | (37) | (462) |
| Deferred taxation has been provided as follows: | | |
| | 2002 £'000 | 2001 £'000 |
| On revaluation of land and buildings | 362 | 209 |
| On capital allowances | (258) | (288) |
| On timing differences | (141) | (383) |
| | (37) | (462) |

20. Creditors

| | 2002 £'000 | 2001 £'000 |
|------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Creditors arising out of direct insurance operations: Third parties | 6,134 | 7,366 |
| Creditors arising out of reinsurance operations: Third parties | 127 | 279 |
| Amounts owed to credit institutions: Bank overdrafts | 2,654 | 905 |
| Other creditors including taxation and social security: Corporation tax payable | 1,314 | 3,607 |
| Other taxation and social security | 836 | 397 |
| Third parties | 609 | 1,209 |
| Group companies | 129 | — |
| | 2,888 | 5,213 |

21. Commitments

(i) Capital commitments

There was no capital expenditure contracted for but not provided in the accounts.

(ii) Operating leases

The commitment during the following year in respect of non-cancellable leases on properties is:

| | 2002 £'000 | 2001 £'000 |
|----------------------|-----------------------------|-----------------------------|
| Leases which expire: | | |
| Within one year | — | 229 |
| Within 2–5 years | 19 | 18 |
| After 5 years | 552 | 217 |
| | 571 | 464 |

22. Directors' Emoluments

The aggregate emoluments of the directors of the Company were:

| | 2002 £'000 | 2001 £'000 |
|-----------------------------------------------|-----------------------------|-----------------------------|
| Salaries | 962 | 1,150 |
| Bonuses | 33 | 23 |
| Pension charge — defined contribution schemes | 139 | 145 |
| | 1,134 | 1,318 |

The highest paid director's emoluments were £268,816 (2001: £270,407) and the pension contributions were £42,500 (2001: £39,950).

The number of directors accruing retirement benefits during the year was 7.

23. Ultimate Holding Company

The ultimate holding company is Domestic & General Group PLC which is incorporated and registered in England. The Group accounts can be obtained from Swan Court, Mansel Road, London, SW19 4AA.

Auditors' Report



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Tel +44 (0) 20 7311 1000
Fax +44 (0) 20 7311 5832
Telex 8811541 KPMGLO G
DX 38050 Blackfriars

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DOMESTIC & GENERAL INSURANCE PLC

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 June 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

LONDON
21 August 2002

KPMG Audit Plc
Chartered Accountants
Registered Auditor



Member firm of
KPMG International

KPMG Audit Plc is
registered to carry on audit
work by the Institute of
Chartered Accountants
in England and Wales

Registered in England
Number 3110745
Registered office
8 Salisbury Square,
London EC4Y 8BB





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*Scientific
General*



DOMESTIC & GENERAL

Domestic & General Insurance PLC
Swan Court, 2A Mansel Road,
Wimbledon, SW19 4AA

Telephone: (020) 8946 7777