



## Brit Insurance Holdings PLC

*(incorporated in England and Wales with limited liability, registered number 3121594)*

---

# £150,000,000 6.625 per cent. Subordinated Notes due 2030

## Issue Price: 99.212 per cent.

---

Interest on the £150,000,000 6.625 per cent. Subordinated Notes due 2030 (the "Notes") of Brit Insurance Holdings PLC (the "Issuer" or "Brit") will be payable from and including 9 December 2005 to but excluding 9 December 2020 at the rate of 6.625 per cent. per annum, annually in arrear. From (and including) 9 December 2020, the Notes will bear interest at the rate per annum as described in "Terms and Conditions of the Notes — 6. Interest Payments". Interest Payments (as defined in the Terms and Conditions of the Notes) may be deferred at the option of the Issuer on any Optional Interest Payment Date as described in "Terms and Conditions of the Notes — 4. Deferral of Interest".

Payments in respect of the Notes will be made without deduction for, or on account of, taxes of the United Kingdom, unless such deduction is required by law. In the event that any such deduction is made, the Notes will be subject to grossing up by the Issuer, subject to certain exceptions as are more fully described under "Terms and Conditions of the Notes — 10. Taxation".

Subject to giving at least six months' prior written notice to the Financial Services Authority (the "FSA") (or such shorter period of notice as the FSA may accept and, in any event, provided that such notice is required to be given), the Notes will be redeemable (at the option of the Issuer) in whole but not in part at their principal amount on 9 December 2020, together with any accrued but unpaid interest to (but excluding) such date and all Arrears of Interest (as defined herein) (if any). In addition, subject to giving at least six months' prior written notice to the FSA (or such shorter period of notice as the FSA may accept and, in any event, provided that such notice is required to be given) upon the occurrence of a Tax Event or a Capital Disqualification Event (each as defined in the Terms and Conditions of the Notes), the Notes may be redeemed, at the option of the Issuer and at, in the case of a Tax Event, their principal amount or, in the case of a Capital Disqualification Event, the Make Whole Redemption Price, together in each case with any accrued but unpaid interest to (but excluding) the date of redemption and all Arrears of Interest (if any) and as otherwise more particularly described in "Terms and Conditions of the Notes — 7. Redemption or Purchase". Unless previously redeemed, purchased or cancelled, the Notes will be redeemed on 9 December 2030 (the "Maturity Date") at their principal amount, together with any accrued but unpaid interest to (but excluding) the Maturity Date and all Arrears of Interest (if any).

The Notes will be unsecured securities of the Issuer and will, in the event of the winding-up of the Issuer, be subordinated to the claims of all Senior Creditors (as defined in the Terms and Conditions of the Notes).

Prospective investors should have regard to the factors described under the section headed "Risk Factors" on page 9 of this Prospectus.

Application has been made to the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for the Notes to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market (the "Market"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Investment Services Directive 93/22/EC.

The Notes are expected to be assigned on issue a rating of "BBB" by Fitch Ratings Limited. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating organisation.

The Notes will initially be represented by a temporary global note (the "Temporary Global Note"), without interest coupons, which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 9 December 2005 (the "Closing Date"). The Temporary Global Note will be exchangeable for interests in a permanent global note (the "Permanent Global Note"), without interest coupons, not earlier than 40 days after the Closing Date upon certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances, as described under "Summary of Provisions Relating to the Notes while in Global Form".

---

*Joint Lead Managers*

**Barclays Capital**

**HSBC**

6 December 2005

This Prospectus comprises a prospectus for the purpose of Article 5 of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Issuer and its subsidiaries which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Incorporation by Reference” below).

In this Prospectus, references to “Brit” and the “Issuer” are to Brit Insurance Holdings PLC, and references to the “Brit Insurance Group” or the “Group” are to Brit and its subsidiaries.

In connection with the issue and sale of the Notes, no person is authorised to give any information or to make any representation not contained in this document and if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Managers (as defined in “Subscription and Sale” below) or the Trustee (as defined in the Terms and Conditions of the Notes).

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Managers that any recipient of this Prospectus should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial consideration and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Prospectus may only be used for the purposes for which it has been published.

No dealer, salesman or other person is authorised to give any information or to make any representations other than those contained in this Prospectus in connection with the offering or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Managers. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer or the Group since the date hereof. This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers to subscribe for or purchase, any of the Notes.

The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Neither the Issuer nor any of the Managers represents that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which would permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about, and to observe, any applicable restrictions. For a description of certain further restrictions on the offering, sale and delivery of the Notes and on the distribution of this Prospectus, see “Subscription and Sale” below.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the “Securities Act”), and the Notes are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States of America (the “United States”, “US” or “U.S.”) or to U.S. persons.

Unless otherwise specified or the context requires, references in this Prospectus to “£”, “sterling” or “Sterling” are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the “UK” or the “United Kingdom”); references to “€” are to the currency introduced at the start of the third stage of European Economic and Monetary Union, pursuant to the Treaty establishing the European

Community, as amended from time to time; and references to “US\$” and “US Dollars” are to the lawful currency of the United States of America.

IN CONNECTION WITH THIS ISSUE, BARCLAYS BANK PLC (OR PERSONS ACTING ON BEHALF OF BARCLAYS BANK PLC) MAY OVER-ALLOT NOTES (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF NOTES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT BARCLAYS BANK PLC (OR PERSONS ACTING ON BEHALF OF BARCLAYS BANK PLC) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

## TABLE OF CONTENTS

	<i>Page</i>
Incorporation by Reference.....	5
Overview.....	6
Risk Factors.....	9
Terms and Conditions of the Notes.....	19
Summary of Provisions relating to the Notes while in Global Form.....	33
Use of Proceeds .....	35
The Brit Insurance Group .....	36
Glossary of Insurance Market Terms .....	47
United Kingdom Taxation.....	49
Subscription and Sale .....	51
General Information .....	53

## INCORPORATION BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2003 and 2004 together in each case with the audit report thereon, and the unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2005, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the FSA or filed with it. Such documents shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of documents deemed to be incorporated by reference in this Prospectus may be obtained from the specified office of each of the Paying Agents (as defined in the Terms and Conditions of the Notes) as described in "General Information" below.

## OVERVIEW

The following overview refers to certain provisions of the Terms and Conditions of the Notes and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms used herein have the meaning given to them in “Terms and Conditions of the Notes”.

<b>Issuer:</b>	Brit Insurance Holdings PLC.
<b>Trustee:</b>	HSBC Trustee (C.I.) Limited.
<b>Issue Size:</b>	£150,000,000
<b>Maturity Date:</b>	9 December 2030
<b>Interest:</b>	The Notes will bear interest at a rate of 6.625 per cent. per annum, payable annually in arrear, from (and including) 9 December 2005 to (but excluding) 9 December 2020, and thereafter at the Reset Rate of Interest, as more fully described under “Terms and Conditions of the Notes — 6. Interest Payments”.
<b>Interest Payment Dates:</b>	Except as described below, interest will be payable on 9 December in each year, commencing on 9 December 2006.
<b>Ranking:</b>	<p>The Notes and the Coupons will constitute direct, unsecured and subordinated obligations of the Issuer and will rank <i>pari passu</i> and without any preference among themselves. In the event of the winding-up of the Issuer, the payment obligations of the Issuer under or arising from the Notes and the Coupons shall be subordinated to the claims of all Senior Creditors but shall rank at least <i>pari passu</i> with all other obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital and in priority to those whose claims constitute, or would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital or Tier 1 Capital and to the claims of holders of all classes of share capital of the Issuer.</p> <p>The sole remedy against the Issuer available to the Trustee or any Holder for recovery of amounts owing in respect of any sum which has become due from the Issuer in respect of the Notes will be the institution of proceedings for the winding-up of the Issuer in England and Wales and/or proving in any winding-up of the Issuer and/or claiming in the liquidation of the Issuer.</p>
<b>Interest Deferral:</b>	<p>The Issuer may on any Optional Interest Payment Date defer payment of interest on the Notes which would otherwise be payable on such date. Any interest in respect of the Notes not paid on an Optional Interest Payment Date shall, so long as the same remains unpaid, constitute “Arrears of Interest”. Any Arrears of Interest may be paid in whole or in part at any time, and in any event will automatically become immediately due and payable in whole upon the earliest of the following dates:</p> <ul style="list-style-type: none"><li>(i) the date on which the Issuer or any other person declares or pays any distribution or dividend or makes any other payment on any Junior Securities or Parity Securities, save where the Issuer or such other person is not able to defer, pass or eliminate or continue to defer, pass or eliminate a dividend or other distribution or any other payment in accordance with the terms and conditions of those Junior Securities or Parity Securities;</li><li>(ii) the date on which the Issuer notifies the Trustee that no Regulatory Intervention that has occurred is or will be</li></ul>

continuing on such date unless the Issuer is otherwise entitled to defer at such time;

- (iii) the date on which the Issuer commences and does not abandon a public offer to redeem, purchase or acquire any Junior Securities or Parity Securities;
- (iv) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than a winding-up which has been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders); or
- (v) the date fixed for any redemption of Notes or the date fixed for any purchase of Notes by or on behalf of the Issuer.

Any Arrears of Interest will not bear interest.

**Optional Redemption:** Subject to giving at least six months' prior written notice to the FSA (or such shorter period of notice as the FSA may accept and, in any event, provided that such notice is required to be given), the Notes will be redeemable on the Reset Date in whole, but not in part, at the option of the Issuer at a price equal to their principal amount together with (i) all accrued but unpaid interest to (but excluding) the date of redemption and (ii) all Arrears of Interest (if any).

**Tax Event:** Upon the occurrence of a Tax Event, the Issuer may, subject to giving at least six months' prior written notice to the FSA (or such shorter period of notice as the FSA may accept and, in any event, provided that such notice is required to be given), redeem at any time all, but not some only, of the Notes at their principal amount, together with (i) all interest accrued but unpaid to (but excluding) the date of redemption and (ii) all Arrears of Interest (if any).

A "Tax Event" is deemed to have occurred if, as a result of a Tax Law Change, in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the Notes and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it.

**Withholding Tax and Additional Amounts:** The Issuer will pay such Additional Amounts as may be necessary in order that the net payment received by each Holder in respect of the Notes, after withholding for any taxes imposed by tax authorities in the United Kingdom upon payments made by or on behalf of the Issuer in respect of the Notes, will equal the amount which would have been received in the absence of any such withholding taxes, subject to customary exceptions (see also "— Tax Event" above).

**Capital Disqualification Event:** If at any time a Capital Disqualification Event occurs and is continuing, the Issuer may, subject to giving at least six months' prior written notice to the FSA (or such shorter period of notice as the FSA may accept and, in any event, provided that such notice is required to be given), redeem at any time all, but not some only, of the Notes at their Make Whole Redemption Price together with any interest accrued but unpaid to (but excluding) the date of redemption and all Arrears of Interest (if any).

A "Capital Disqualification Event" is deemed to have occurred (1) if the Notes would not be capable of counting (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as capital resources satisfying the Regulatory Capital Requirements (if any) applicable to the Issuer and/or to all or any part of the Group as a result of any change to

the Capital Regulations or the application or official interpretation thereof; or (2) if, at any time when the Issuer or the Group is required under any Capital Regulations to have Tier 2 Capital, the Notes would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 2 Capital of the Issuer or the Group on a consolidated basis.

- Listing:** Application has been made to list the Notes on the Official List and to admit them to trading on the Market. It is expected that admission to listing will become effective and dealings are expected to commence on 12 December 2005.
- Governing Law:** The Notes will be governed by, and construed in accordance with, English law.
- Form:** Bearer. The Notes will be represented initially by the Temporary Global Note which will be deposited with a common depository for Clearstream, Luxembourg and Euroclear on or about 9 December 2005. The Temporary Global Note will be exchangeable for interests in the Permanent Global Note without interest coupons on or after a date which is expected to be 18 January 2006 upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global Note. Save in limited circumstances, Notes in definitive bearer form with coupons attached on issue will not be issued in exchange for interests in the Permanent Global Note.
- Rating:** The Notes are expected to be assigned on issue a rating of “BBB” by Fitch Ratings Limited. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.
- Yield:** 6.710 per cent. per annum for the period to the Reset Date.
- Risk Factors:** Prospective investors should carefully consider the information under “Risk Factors” in conjunction with the other information contained or incorporated by reference in this document.
- Capital Reduction:** Nothing in the Conditions shall prevent the Issuer from undertaking any reduction or cancellation of the share premium account, or any capital redemption reserve, of the Issuer which reduction or cancellation is the subject of a resolution passed by the shareholders of the Issuer at a general meeting held at any time on or prior to three years from the date of the Trust Deed and Holders shall be deemed to have given their consent to any such reduction or cancellation. In addition, the Trust Deed will provide that the Trustee shall, without the need to obtain the approval of Holders, give such approvals and/or consents on behalf of the Holders as may be required in relation to any such reduction or cancellation and the Trustee shall not have any liability to Holders or any other person for so doing.

## RISK FACTORS

### Considerations relating to the Brit Insurance Group

#### Group Risks

##### *Investment risk*

The capital value of the Group's investments may fall as well as rise and the income derived from them may fluctuate. A fall in such capital values may result in a reduction in the level of premium income which the Group may underwrite and/or a reduction in the aggregated value of such investments may require the contribution of additional shareholder funds.

##### *Underwriting risk*

The underwriting of insurance risks is a high risk business. By way of example, the catastrophe reinsurance and satellite business written by the Group's insurance operations are volatile accounts. Earnings can vary accordingly and losses may be sustained which would have the effect of reducing shareholders' funds.

Furthermore, earnings (and the adequacy of the Group's reserves in respect of known and anticipated liabilities) can be affected by unpredictable events or circumstances. These may include (but are not limited to) matters such as natural (for example, the 2004 Asian tsunami, US wind storms such as hurricanes Katrina, Rita and Wilma, earthquakes and Japanese typhoons) or "man made" disasters, the emergence of latent risks, legal developments as well as by changes in legal precedent (including in relation to the measurement of damages), public policy and fluctuations in either global insurance capacity or the investment markets. Areas of potential significant exposure to the industry include (but are not limited to) liability resulting from litigation concerning tobacco usage, toxic mould, breast implants, repetitive strain injuries and stress-related and similar claims.

##### *Key individuals*

The business of the Group may be adversely affected if certain key individuals cease to be employed by the Group or if their services otherwise cease to be available to the Group.

##### *Credit ratings*

The ability of the Group's insurance operations to write certain classes of business, particularly reinsurance and financial risks, may be affected by a change in the rating issued by an accredited rating agency.

The Brit Syndicate (as defined in "The Brit Insurance Group — Overview") benefits from the Lloyd's global credit rating, which could be affected by matters outside of the Group's influence or control.

BIL (as defined in "The Brit Insurance Group — Overview") utilises credit ratings in order to conduct its insurance business. If BIL were to experience a significant downwards re-rating from either of the rating agencies that presently rate it, then BIL may experience a material reduction in the volume and quality of its business.

##### *Capital reduction*

The Group continues to seek ways to manage its capital position and Brit is actively considering a capital reduction by way of a scheme sanctioned by the High Court in order to create distributable reserves and maximise its ability to pay dividends. In the event that a capital reduction does take place (whether by way of a court-sanctioned scheme or otherwise), the funds available to the Issuer to meet its obligations under the Notes may be reduced.

Holder shall be deemed to have given their consent to any such capital reduction. In addition, the Trust Deed will provide that the Trustee shall, without the need to obtain the approval of Holders, give such approvals and/or consents on behalf of the Holders as may be required to any such reduction and the Trustee shall not have any liability to Holders or any other person for so doing.

##### *Regulation*

The Group operates in a highly regulated industry. The principal underwriting companies within the Group are authorised and regulated either directly by the FSA and/or by the Council of Lloyd's

(pursuant to FSA requirements). The ability of BSL and Brit UW (as defined in “The Brit Insurance Group — Overview”) to operate in the Lloyd’s market is dependent on their continued authorisation by Lloyd’s and the FSA and the ability of BIL to carry on insurance business is dependent upon its continued authorisation by the FSA. These authorisations are of fundamental importance to the Group’s business as currently conducted.

The Council has wide discretionary powers to regulate members’ underwriting at Lloyd’s. It may, for instance, vary the method by which the solvency ratio is calculated, or the investment criteria applicable to funds at Lloyd’s. Either might affect the amount of the Group’s underwriting capacity and consequently the return on an investment in the Group in a given year of account.

Similarly the FSA has wide regulatory powers, particularly certain powers of intervention. These include:

- the power to compel an insurance company to establish reserves to cover future liabilities; and
- a wide residual power to require an insurance company to take such action as appears to the FSA to be appropriate to protect policyholders against the risk that such company may be unable or unwilling to meet its liabilities.

Regulatory requirements may be changed in a manner that may adversely affect the business of the Group.

#### *Reinsurance failure*

Whilst the Issuer believes that the Group has made prudent provisions in respect of the potential failure of reinsurers to pay their share of the Group’s anticipated reinsurance recoveries, there can be no guarantee that such provisions will be adequate. The financial failure of one or more reinsurers could have an adverse effect on the Group’s financial position.

Availability and cost of future reinsurance is dependent on prevailing market conditions.

#### *Exchange risks*

A substantial proportion of the Group’s business is written in currencies other than Sterling, in particular US Dollars. Whilst the Group seeks to mitigate these risks, it is nonetheless exposed to changes in exchange rates.

#### *Distribution channels*

The Group relies heavily on brokers to distribute and market its products. Brokers are independent of the Group. No broker is committed to recommend or sell the products of the Group; indeed, they may sell competing products. Therefore, the Group’s relationships with its brokers are important, and the failure, inability or unwillingness of brokers to introduce clients to the Group could have a significant effect on the Group’s financial performance.

#### *Coverage disputes can increase expenses and incurred losses*

There can be no assurance that various provisions of the Group’s insurance policy forms and reinsurance contracts, such as limitations on, or exclusions from, coverage, will be enforceable in the manner intended. Disputes relating to coverage and choice of legal forum can be expected to arise, as a result of which the Group may incur losses beyond those that it contemplates incurring pursuant to its reinsurance contracts or insurance policies.

#### *IFRS volatility*

The introduction of International Financial Reporting Standards (“IFRS”) may lead to an increase in the volatility of results.

### **Risks resulting from Hurricane Katrina/New Orleans Flood (“NOF”)**

#### *Background*

Hurricane Katrina first made landfall as a Category 1 storm just north of Miami, Florida on 25 August 2005, then again on 29 August 2005 along the Central Gulf Coast near New Orleans, Louisiana, as a Category 4 storm. Claims have been caused both by the very high wind speeds

endured by properties in the affected areas and by tidal surge, in particular causing the flooding of New Orleans, which was exacerbated by failures of the levees.

To reach the estimate of claims in respect of Hurricane Katrina/NOF, the Group has had to assess a variety of factors. Industry estimates range between US\$40-\$60 billion. It is also a complex loss, being an unusual combination of wind storm and flood thus affecting different parts of the Group's portfolio, insurance and reinsurance, both offshore and onshore.

The Group's estimate of its net claims (net of reinstatement premiums) arising from Hurricane Katrina/NOF, along with a (non-exhaustive) description of the methodology and assumptions used in computing such estimate, are set out below (see "The Brit Insurance Group — Hurricane Katrina/New Orleans Flood (NOF)").

#### *Claims estimate may be exceeded*

The Group's net claims arising out of Hurricane Katrina/NOF may exceed the estimate. The estimate of the Group's net claims has not been capable of independent verification.

#### *Accuracy of assumptions*

The assumptions used by the Group may ultimately not prove to be correct.

#### *Reinsurance recoveries*

The Group has assumed that it will make full recovery from all of its reinsurers (currently, the Group has no knowledge or information to suggest that any of its reinsurers may default on the payment of monies due to the Group in this context). The failure of any of its reinsurers to pay anticipated recoveries could have an adverse impact on the Group's net claims.

#### *Reinsured's liabilities*

The Group's reinsurance and retrocession exposures will ultimately be determined by the level of the reinsured's liability under the underlying insurance and reinsurance contracts.

#### *Policy term and limits*

Hurricane Katrina is unusual because of the combination of wind storm and flood. The Group's exposure could be affected by the application of policy terms and limits, including as to whether certain claims are determined to have arisen as a consequence of flood or wind. Flood exclusionary language, if sustained or coverage expanded, may materially affect the Group's position.

#### *Number of "occurrences" or "events"*

Should the claims arising from Hurricane Katrina/NOF be determined to arise from more than one occurrence or event then the Group's exposure to claims could materially increase or decrease because policyholders may be able to reformulate claims in respect of each occurrence or event.

#### *Exchange rate risk*

The claims arising from Hurricane Katrina/NOF are predominantly payable in US Dollars. The Group, in estimating its net claims, has assumed an exchange rate of £1:US\$1.79. Changes in the US Dollar rate from this assumed rate may result in an increase or decrease in the Group's net claims arising from Hurricane Katrina/NOF.

### **Lloyd's market risks**

#### *Lloyd's franchise principles*

Following the introduction of proposals made by the Chairman of Lloyd's Strategy Group, the Lloyd's Franchise Board was formed. The Franchise Board's primary role is to protect the Lloyd's franchise.

BSL and Brit UW must comply with Lloyd's "franchise principles" and BSL must submit its business plan for the Brit Syndicate to the Franchise Board who may require changes to it; such changes could lead to a change in business mix.

### *Risk based capital*

Lloyd's has since 1 January 2005 been subject to a risk based capital regime, in relation to business carried on by its members in the aggregate, determined in accordance with the rules in the FSA's Lloyd's Specialist Source book and the Integrated Prudential Source book. Lloyd's has for many years imposed capital requirements on its members based on its own risk based capital model. It has in the last year materially changed its model in the light of annual accounting and aggregation of the release and coming-into-line tests. Further changes may occur should it discover that the sum of members' individual capital plus centrally held assets is insufficient to enable it to meet its aggregate obligations.

The solvency ratio which is required by Lloyd's to be maintained in the form of funds at Lloyd's to support the underwriting activities of Brit UW is determined by a risk based capital assessment which calculates the capital requirement by taking account of the type, volume and diversification of the business underwritten and applying various stress tests and scenario analyses to allow for market, operational, insurance and other risks. The process and the method by which the solvency ratio is calculated may alter from year to year and the Group's future underwriting capacity may be reduced. Lloyd's also has the power, in certain circumstances, to impose "capital loadings" upon syndicates, resulting in an increase in the solvency ratio for the members supporting that syndicate.

### *Value of funds at Lloyd's*

A proportion of the Group's funds at Lloyd's is provided by means of secured investments. The capital value of these investments may fall as well as rise and the income derived from them may fluctuate. Should the value of the funds at Lloyd's of the Group be reduced due to changes in value or to meet underwriting or other relevant liabilities, the Group's underwriting capacity may be reduced. Lloyd's also has the power to reduce the underwriting capacity of the Group or to prohibit any of the Group's corporate members from underwriting if at any time the value of one or more of the relevant corporate members' total funds at Lloyd's falls by more than 10 per cent. from the funds required at the last annual "coming into line" exercise.

### *Reinsurance to close; run-off account; risk of non-closure of years*

In the event that a managing agent concludes, in respect of a particular year of account of a syndicate, that an equitable "reinsurance to close" ("RITC") premium cannot be established, it must determine that the year of account will remain open and be placed into run-off. During a run-off, there can be neither a release of a member's funds at Lloyd's nor a release to such member of any profits arising in respect of that syndicate without the consent of the Council. There can be no assurance that any year of account of a syndicate managed by a member of the Group, or a syndicate in which the Group has participated in an earlier year of account, will not go into run-off.

### *1992 and prior business*

Equitas Reinsurance Limited ("Equitas") is a reinsurance company that was formed in 1996 by the Society of Lloyd's for the purpose of accepting reinsurances to close of non-life syndicates for the 1992 and prior years of account. Equitas has reinsured to close 1992 and prior underwriting years on terms that if, at any time, its assets are insufficient to meet its liabilities it may make a proportionate cover plan and then pay claims, at the appropriate reduced rate. Notwithstanding this ring fence established by Lloyd's, underwriting members may incur liability for losses arising in respect of 1992 and prior underwriting years in one or more of the following ways:

- (a) If Equitas were to fail, or were to invoke the proportionate cover plan, members' Premiums Trust Funds and funds at Lloyd's would continue to be available to make good their liabilities in respect of 1992 and prior underwriting years.
- (b) If Equitas were to fail, or were to implement the proportionate cover plan, Lloyd's would be required to consider whether it wished to make good any shortfall or replenish the regulatory deposits which may have been used to meet policyholder claims. This might require the use of the New Central Fund following prior approval of members in general meeting. If the New Central Fund is used for either of these purposes an additional New Central Fund levy might be imposed, subject to approval by vote, on all members underwriting on the relevant year of account in proportion to their underwriting capacity and might be weighted towards continuing members having an exposure to any unpaid liability in respect of 1992 and prior underwriting years.

- (c) Regulatory authorities in a number of jurisdictions require the maintenance of deposits for the protection of policyholders as a condition of their regulatory approval and accreditation of Lloyd's. If Equitas were to fail to meet its liabilities in full, the deposit in place at that time could be vulnerable to seizure by regulators or policyholders. The Lloyd's market would have to consider making good any part of the deposit required to be used to meet its liabilities, or risk being unable to continue to do business in the relevant jurisdiction.

#### *Lloyd's market solvency test*

The FSA requires Lloyd's to satisfy an annual solvency test. The solvency requirement is in essence the aggregate to meet all outstanding liabilities of members at Lloyd's, both current and in run-off together with a capital buffer. If Lloyd's fails to satisfy the test in any year, the FSA may require Lloyd's to cease trading and/or members to cease or reduce underwriting.

#### *The New Central Fund*

Despite the principle that each member of Lloyd's is only responsible for the proportion of risk written on his or its behalf, the New Central Fund acts, *inter alia*, as a policyholders' protection fund to make payments where other members have failed to pay valid claims. The Council may, at its discretion, resolve to make payments from the New Central Fund, which could lead to additional or special levies being payable by the Group. In addition, it may be that Lloyd's will be required to participate in the Financial Services Compensation Scheme (the UK's statutory fund of last resort for customers of authorised financial services firms which, subject to its rules, pays compensation if such a firm is unable, or likely to be unable, to pay claims against it).

#### *Fees and levies*

Lloyd's imposes charges on those operating in its markets. These include, for example, annual subscriptions, central fund levies for members and policy signing charges. Lloyd's has announced an increase in the central fund levy from 0.5 per cent. to 1 per cent. of stamp capacity for the 2006 year of account, and Lloyd's may also otherwise vary the amounts and bases of these charges to the detriment of the Group.

#### *Lloyd's trading licences*

Lloyd's worldwide insurance and reinsurance business is subject to local regulation. Changes in such regulation (such as requirements for increased deposits to support underwriting) may have an adverse effect on members generally and on the Group.

#### *Lloyd's credit ratings*

As mentioned above, the Brit Syndicate benefits from Lloyd's global credit rating, which could be affected by matters outside the Group's influence or control.

#### *"User pays" principle*

The Lloyd's Franchise Board's responsibility for the management and pricing of Lloyd's central services to the market is likely to give added impetus to the move towards the concept of user pays, whereby expenses will be allocated to those members and syndicates using them, rather than being spread across the market as a whole. It may be that, for any particular member or syndicate, additional costs incurred through the application of the "user pays" concept will outweigh any savings from intended reductions in Lloyd's subscriptions.

#### *Lloyd's U.S. trading arrangements*

The U.S. regulators require syndicates trading in certain business in the United States to maintain minimum deposits as protection for U.S. policyholders. These deposits reflect the relevant managing agents' estimates of unpaid claims liability (less premium receivable) relating to this business, adjusted by provisions for potential bad debt on premium earned but not received and for any anticipated profit on unearned premium. No credit is generally allowed for potential reinsurance recoveries but the New York Insurance Department and the National Association of Insurance Commissioners ("NAIC") currently require funding of only 30 per cent. of gross liabilities relating to business classified as "Surplus Lines" (100 per cent. for business classified as "Credit for Reinsurance"). The funds contained within the deposits are not ordinarily available to meet trading expenses. U.S. regulators may increase the level of funding required or change the requirements as to the nature of the funding.

Accordingly, in the event of a major claim arising in the United States, for example from a major catastrophe, syndicates participating in such U.S. business may be required to make cash calls to meet claims payment and deposit funding obligations. Current Lloyd's regulations do not normally allow for the distribution of monies to members of a syndicate for a year of account until 36 months has expired, even if that distribution represents a previous cash call which is now surplus to requirements.

### *Litigation*

Certain Names have commenced legal proceedings against Citibank, N.A., as trustee of the Lloyd's American Trust Funds ("LATFs"), alleging that Citibank, N.A. breached its duties as the trustee of the LATFs. The plaintiffs were individual Names who did not accept the Reconstruction and Renewal Plan, and the U.S. courts certified the proceedings as a class action. Citibank, N.A. strongly denied the allegations and vigorously defended the proceedings. In May 2002, a settlement was achieved in principle between the class and Citibank, N.A. (the "Settlement Offer"). The trial judge subsequently ratified that settlement. In November 2002, however, some 80 of the class of 1,400 Names appealed the judicial ratification to the Second Circuit Court of Appeals. The Court of Appeals upheld the trial judge's decision in August 2003 but the 80 Names have filed petitions with that Court for leave to appeal to the U.S. Supreme Court. Leave to appeal has subsequently been denied. Under the terms of the Lloyd's American Trust Deed, Citibank, N.A. has a right to reimbursement of expenses (including legal fees) properly incurred in its capacity as trustee and in certain circumstances a preferred lien for up to 1 per cent. of the LATF's principal and income to cover reimbursable expenses and liabilities. At this time Citibank, N.A. is not seeking to recover its fees and expenses from the LATFs.

The Settlement Offer and the Reconstruction and Renewal Plan generally brought an end to a substantial part of the non-claims litigation that affected the Lloyd's market during and prior to 1996. However, the Settlement Offer was not accepted by all Names and there is, therefore, a risk of residual litigation against the Group or Lloyd's itself. New litigation may be commenced by Names in respect of causes of action that are not time-barred.

Litigation (known as the "Jaffray case") involving a number of Names who had not paid certain sums due to Lloyd's in connection with the Reconstruction and Renewal Plan was decided in Lloyd's favour. The defendant Names had alleged, *inter alia*, fraud on the part of Lloyd's and certain of its officers. The result of the Jaffray judgement is that the defendant Names must now pay the sums due in connection with the Reconstruction and Renewal Plan. This decision was confirmed by the Court of Appeal on 26 July 2002. The House of Lords has refused the Names permission to appeal; however five Names have obtained permission to amend their pleadings to allege negligent misrepresentation. In addition, a group of Names seeking permission to amend their pleadings to allege misfeasance in public office against Lloyd's were refused permission in May 2005, and an application to appeal this decision is pending.

### *Investigation into finite reinsurance*

Lloyd's has been contacted by the Securities and Exchange Commission and the office of Eliot Spitzer, New York state Attorney General, as they seek information about so-called finite reinsurance products. The information being sought may relate to parties other than Lloyd's. There can be no assurance that these enquiries will not have an adverse impact on the industry.

## **Regulatory matters**

### *EU investigations into aviation insurance*

The European Commission launched an enquiry into the aviation insurance sector (not restricted to Lloyd's) following the events of 11 September 2001. As a result of that investigation, the Commission found that certain practices of aviation insurers were anti-competitive and in breach of EU law. As a result, insurers gave a series of undertakings, one of which will allow customers to make representations on the development of standard clauses. Although the Commission has closed the investigation it intends to continue to monitor developments in the aviation insurance market and there can be no assurance that the Commission, or other bodies, will not take up the matter again in the future with a potentially adverse impact on the industry.

### *EU investigation into the business insurance market*

The European Commission announced, in June 2005, that it would launch two sector inquiries to cover retail banking and business insurance. As part of its investigation, the Commission will examine

whether the EU business insurance market is sufficiently competitive, and will consider in particular barriers to entry that may exist, the agreed use of standard policy clauses and the manner in which premiums are calculated. The results of the investigation are expected to be published in 2006. It may be that the Group is required to supply information in response to enquiries from the Commission. There can be no assurance that the supply of that information or the results of the investigation (including any actions taken by the Commission or others) will not have an adverse impact on the industry.

#### *Judicial investigation may affect business practices*

Following a complaint filed by Eliot Spitzer, the Attorney General of New York State, on behalf of the people of the State of New York on 14 October 2004, the Supreme Court of the State of New York County and New York made formal allegations of anti-competitive and fraudulent behaviour against certain insurance companies and brokers in the United States. Whilst a provisional settlement has been reached with the relevant entities and the State of New York, the New York Attorney General is continuing his investigation in conjunction with the New York State Insurance Department and this has been widened to include other participants in the international and U.S. insurance markets. Also, investigations have been undertaken by other Attorney Generals from other States, including but not confined to the States of California and Connecticut. Some of these investigations have resulted in the filing of a complaint, whilst others are still at the information gathering stage. This has created uncertainty over certain insurance business practices in the United States and there can be no assurance that the United States market will continue to operate in the same manner as that in which it currently operates or that other United States market participants will remain unaffected. Whilst the FSA has stated that it is monitoring events in the United States, it has not publicly stated that it is undertaking any investigation in relation to market practices in the United Kingdom. If any of the FSA's or competition authority's investigations or any other investigations or proceedings were to be taken in the United Kingdom and/or in Europe and were to succeed, then it is possible that United Kingdom and/or European market practices and/or participants may also be affected. There can be no assurance that the outcome of these investigations will not have an adverse impact on the industry.

#### *FSA consultation*

In 2002, the FSA issued CP144 on "A new regulatory approach to insurance firms' use of financial engineering". This Consultation Paper considered the use of financial engineering and highlighted that in certain instances financial engineering could be used to obscure the underlying financial condition of a firm. Further to this consultation paper, the FSA investigated the extent to which financial engineering is used by market participants and in October 2005 released a consultation paper outlining proposed rules that would require greater disclosure by insurers on their use of financial reinsurance. The Group does not believe these proposed rules, if introduced, will have an adverse impact on the Group.

#### *U.S. regulatory investigations of the use of finite insurance and reinsurance*

Finite insurance (being reinsurance that transfers only a finite or limited amount of risk to the reinsurer) and reinsurance have been recently subjected to scrutiny in a variety of U.S. regulatory arenas, including the New York Attorney General, the SEC, the National Association of Insurance Commissioners and the Federal Bureau of Investigation. Moreover, individual insurance commissioners, such as the Georgia and the New York Insurance Commissioners, have taken independent actions that include the issuance of subpoenas to market participants (including those in the United Kingdom) and the issuance of letters concerning the improper use of finite reinsurance. There can be no assurance that the results of this increased regulatory scrutiny will not affect insurance business practices in connection with the use of finite insurance and reinsurance. Furthermore, the Financial Accounting Standards Board (the "FASB") is reconsidering the accounting standards in respect of finite risk and risk transfer, which might also impact insurance business practices. The Group has not received any subpoena or other notification relating to the above.

#### *Contractual certainty*

In recent years both Lloyd's and the London Market Association have highlighted the need for the insurance markets to improve the legal certainty of insurance contracts. This is likely to lead to greater requirements to comply with standard form contracts. There is also likely to be an increased need to use standard information technology systems during contract formation. Whilst compliance with the regulatory and technology requirements is expected to bring significant long-term benefits, there can be no assurance that the Group will not incur, in the short-term at least, increased costs as a result of the move to greater contract certainty.

### **Third party managed syndicates**

For the 2000 and prior years of account, Brit UW (and other corporate member subsidiaries within the Group) participated on a number of syndicates managed by third party managing agents. The closure of the years of account of these syndicates and the making of any cash calls to fund cash deficiencies are not within the control of any member of the Group as explained below.

The Group has no participations on, and therefore no exposure to, third party managed syndicates for the 2001 and later years of account.

#### *Cash calls*

A third party managing agent may determine, in conjunction with the auditors of the relevant syndicate, what funds are required to meet a cash deficiency prior to the closure of the relevant year of account. In this event the managing agent may call on the members supporting that syndicate for funds. An early call for funds in this manner may adversely affect the cash flow of the Group and, in extreme circumstances, impact earnings and dividends.

#### *Provisioning*

The Issuer believes that the Group has made adequate provision at the mid-point of the latest published forecasts in respect of its participations on third party non-managed syndicates for the 2000 and prior years of account. This belief is based upon the information received to date from the managing agents of the syndicates concerned.

### **EU Directive on the Taxation of Savings Income**

Under EC Council Directive 2003/48/EC (the "Directive") on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date. There can be no assurance that the Directive, and the steps taken by Member States, will not have an impact on holders of the Notes.

### **Past results**

The past results of the Group (including for this purpose the Lloyd's syndicates) are historical records and may not be a reliable guide to future prospects, particularly given the cyclical nature of the insurance industry.

### **Forward-looking statements**

This document contains forward-looking statements which involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed above. These forward-looking statements speak only as at the date of this document.

### **Considerations relating to the Notes**

#### *Legality of purchase*

None of the Issuer, the Trustee, the Managers and any of their respective affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective purchaser of the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective purchaser with any law, regulation or regulatory policy applicable to it.

### *Deferral of Interest Payments*

The Issuer may elect to defer any Interest Payment on the Notes on any Optional Interest Payment Date as provided in Condition 4. Any interest in respect of the Notes not paid on an Optional Interest Payment Date shall, so long as the same remains unpaid, constitute “Arrears of Interest”. Any Arrears of Interest may be paid in whole or in part at any time, and in any event will automatically become immediately due and payable in whole upon the earliest of the following dates:

- (i) the date on which the Issuer or any other person declares or pays any distribution or dividend or makes any other payment on any Junior Securities or Parity Securities, save where the Issuer or such other person is not able to defer, pass or eliminate or continue to defer, pass or eliminate a dividend or other distribution or any other payment in accordance with the terms and conditions of those Junior Securities or Parity Securities;
- (ii) the date on which the Issuer notifies the Trustee that no Regulatory Intervention that has occurred is or will be continuing on such date unless the Issuer is otherwise entitled to defer at such time;
- (iii) the date on which the Issuer commences and does not abandon a public offer to redeem, purchase or acquire any Junior Securities or Parity Securities;
- (iv) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than a winding-up which has been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders); or
- (v) the date fixed for any redemption of Notes or the date fixed for any purchase of Notes by or on behalf of the Issuer.

Any Arrears of Interest will not bear interest.

### *Redemption risk*

The Notes may, subject as provided in Condition 7, be redeemed at their principal amount together with interest accrued but unpaid to (but excluding) the date of redemption and all Arrears of Interest (if any) at the option of the Issuer on 9 December 2020. In addition, upon the occurrence of a Tax Event or a Capital Disqualification Event, the Notes may be redeemed at, in the case of a Tax Event, their principal amount or, in the case of a Capital Disqualification Event, the Make Whole Redemption Price, together in each case with interest accrued but unpaid to (but excluding) the date of redemption and all Arrears of Interest (if any), all as more particularly described in “Terms and Conditions of the Notes — 7. Redemption or Purchase”.

### *No limitation on issuing senior or pari passu securities; subordination*

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or *pari passu* with, the Notes. The issue of any such securities may reduce the amount recoverable by Holders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of interest under the Notes. In particular, the Notes shall rank junior to the claims of Senior Creditors. **Accordingly, in the winding-up of the Issuer and after payment of the claims of Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the Holders.**

### *Restricted remedy for non-payment when due*

In accordance with the FSA’s requirements for Tier 2 Capital, the sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Terms and Conditions of the Notes) any Holder for recovery of amounts which have become due in respect of the Notes and Coupons will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up and/or claiming in the liquidation of the Issuer.

### *Denominations of £50,000*

The Notes are issued in the denomination of £50,000. However, for so long as the Notes are represented by a Global Note, and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradeable in minimum nominal amounts of £50,000 and integral multiples of £1,000 thereafter. In the event that a Global Note is exchanged for definitive Notes, such definitive Notes shall be printed and issued in denominations of £50,000 only. Accordingly, if definitive Notes are required to be issued, Holders who hold Notes in the relevant clearing system in amounts that are not integral

multiples of £50,000 may need to purchase or sell, on or before the relevant Exchange Date, a principal amount of Notes such that their holding is an integral multiple of £50,000.

*Holding company structure*

The Issuer is a holding company with no significant assets other than the shares of its wholly-owned and non wholly-owned subsidiaries. The ability of the Issuer's subsidiaries to pay dividends and make other transfers to the Issuer may be limited by various regulatory, contractual, legal and tax constraints or the subsidiaries' existing debt agreements. If as a result of these restrictions the Issuer is unable to ensure the continued transfer of dividends and other income to it from these subsidiaries, this may materially and adversely impair the Issuer's ability to pay dividends and interest, and to service its debt obligations, including the Notes.

*Absence of prior public markets*

The Notes constitute a new issue of securities by the Issuer. Prior to such issue, there will have been no public market for the Notes. Although applications have been made for the Notes to be listed, there can be no assurance that an active public market for the Notes will develop and, if such a market were to develop, neither the Managers nor any other person is under any obligation to maintain such a market. The liquidity and the market prices for the Notes can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Group and other factors that generally influence the market prices of securities.

## TERMS AND CONDITIONS OF THE NOTES

*The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the Notes which will be endorsed on each Note in definitive form (if issued).*

The £150,000,000 6.625 per cent. Subordinated Notes due 2030 (the “Notes”, which expression shall in these Conditions, unless the context otherwise requires, include any further instruments issued pursuant to Condition 16 and forming a single series with the Notes) of Brit Insurance Holdings PLC (the “Issuer”) are constituted by a trust deed (the “Trust Deed”) dated 9 December 2005 between the Issuer and HSBC Trustee (C.I.) Limited (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes (the “Holders”). The issue of the Notes was authorised pursuant to a resolution of a committee of the Board of Directors passed on 6 December 2005. The statements in these terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of (i) the Trust Deed and (ii) the paying agency agreement (the “Paying Agency Agreement”) dated 9 December 2005 made between the Issuer, HSBC Bank plc as principal paying agent (the “Principal Paying Agent”, which expression shall include any successor thereto) and the other paying agents for the time being and any successors thereto (together with the Principal Paying Agent, the “Paying Agents”) and the Trustee are available for inspection during normal business hours by the Holders and the holders of the interest coupons (the “Coupons”, appertaining to Notes in definitive form (the “Couponholders”) at the specified office of each of the Paying Agents. The Holders and the Couponholders are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, and are deemed to have notice of all the provisions of the Paying Agency Agreement applicable to them.

### 1. Form and Denomination

The Notes are serially numbered and in bearer form in the denomination of £50,000, each with Coupons attached on issue.

### 2. Title

Title to the Notes and Coupons will pass by delivery. The bearer of any Notes will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as their absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the Holders.

### 3. Status and Subordination

#### (a) General

The Notes constitute direct, unsecured and subordinated securities of the Issuer and rank, and will rank, *pari passu* without any preference among themselves. In the event of the winding-up of the Issuer, the payment obligations of the Issuer under or arising from the Notes, the Coupons and the Trust Deed relating to them shall be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors (as defined in Condition 20) of the Issuer but shall rank at least *pari passu* with all other obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital and in priority to those whose claims constitute, or would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital or Tier 1 Capital and to the claims of holders of all classes of share capital of the Issuer.

#### (b) Set-off

Subject to applicable law, no Holder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Notes or the Coupons and each Holder and Couponholder shall, by virtue of his holding of any Note or Coupon, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder or Couponholder by the Issuer under or in connection with the Notes or the Coupons is discharged by set-off, such Holder or Couponholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding-up, the liquidator of

the Issuer for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator of the Issuer (as the case may be), for payment to the Senior Creditors in respect of amounts owing to them by the Issuer, and accordingly any such discharge shall be deemed not to have taken place.

*On a winding-up of the Issuer, there may be no surplus assets available to meet the claims of the Holders after the claims of the parties ranking senior to the Holders (as provided in Condition 3) have been satisfied.*

#### **4. Deferral of Interest**

##### **(a) Optional Deferral of Interest**

The Issuer may on any Optional Interest Payment Date, defer the payment of interest on the Notes which would otherwise be payable on such date.

The Issuer shall notify the Trustee and the Holders (in accordance with Condition 15) as soon as practicable (and in any event within 10 Business Days) after any Optional Interest Payment Date in respect of which payment is deferred of the amount of such payment otherwise due on that date and the grounds upon which such deferral has been made (the "Deferral Notice"). Subject to Condition 5, the Issuer may defer paying interest on each Optional Interest Payment Date until the Maturity Date or any earlier date on which the Notes are redeemed in full.

##### **(b) No default**

Notwithstanding any other provision in these Conditions or the Trust Deed, any payment which for the time being is not made on Notes by virtue of Condition 4(a) shall not constitute a default for any purpose (including, but without limitation, Condition 9) on the part of the Issuer and will not give the Trustee or any Holder the right to accelerate the Notes.

#### **5. Arrears of Interest**

Any interest in respect of the Notes not paid on an Interest Payment Date by virtue of Condition 4(a) shall, so long as the same remains unpaid, constitute "Arrears of Interest". Any Arrears of Interest payment of which is deferred in accordance with Condition 4(a), may be paid in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Trustee and to the Holders in accordance with Condition 15 (the "Optional Deferred Interest Payment Date"), and all Arrears of Interest will automatically become immediately due and payable in whole upon the earliest of the following dates:

- (i) the date on which the Issuer or any other person declares or pays any distribution or dividend or makes any other payment on any Junior Securities or Parity Securities, save where the Issuer or such other person is not able to defer, pass or eliminate or continue to defer, pass or eliminate a dividend or other distribution or any other payment in accordance with the terms and conditions of those Junior Securities or Parity Securities;
- (ii) the date on which the Issuer notifies the Trustee that no Regulatory Intervention that has occurred is or will be continuing on such date unless the Issuer is otherwise entitled to defer at such time by virtue of Condition 4(a);
- (iii) the date on which the Issuer commences and does not abandon a public offer to redeem, purchase or acquire any Junior Securities or Parity Securities;
- (iv) the date on which an order is made or a resolution is passed for the winding-up of the Issuer (other than a winding-up which has been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders); or
- (v) the date fixed for any redemption of Notes or the date fixed for any purchase of Notes by or on behalf of the Issuer pursuant to Condition 7 or Condition 9(a).

Arrears of Interest shall not bear interest.

## 6. Interest Payments

### (a) Interest Rate

The Notes bear interest from the Issue Date in accordance with the provisions of this Condition 6.

Subject to Condition 4, interest shall be payable on the Notes annually in arrear on each Interest Payment Date.

Where it is necessary to compute an amount of interest in respect of any Note for a period which is less than an Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Interest Payment Date. Where it is necessary to compute an amount of interest in respect of any Note for a period of more than an Interest Period, such interest shall be calculated in respect of each full Interest Period within such period, with the interest in respect of any remaining period being calculated in the manner as aforesaid.

### (b) Interest Accrual

The Notes will cease to bear interest from (and including) the date of redemption thereof pursuant to these Conditions unless, upon due presentation, payment of all amounts due in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

### (c) Initial Rate of Interest

The Notes bear interest from (and including) the Issue Date to but excluding the Reset Date at the Initial Rate of Interest.

### (d) Reset Rate of Interest

From (and including) the Reset Date to but excluding the Maturity Date, the Notes will bear interest at the Reset Rate of Interest. The Issuer will appoint a Calculation Agent for the purposes of determining the Reset Rate of Interest.

### (e) Publication of Reset Rate of Interest

The Issuer shall cause notice of the Reset Rate of Interest to be given to the Trustee, the Paying Agents, any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading and, in accordance with Condition 15, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

### (f) Determination or Calculation by Trustee

The Trustee (or an agent appointed by it) shall, if the Calculation Agent does not for any reason determine the Reset Rate of Interest on the Notes in accordance with this Condition 6, determine the Reset Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedures described in this Condition 6), it shall deem fair and reasonable in all the circumstances and such determination shall be deemed to be a determination thereof by the Calculation Agent.

### (g) Determinations of Calculation Agent or Trustee Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6, whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Calculation Agent, the Trustee, the Paying Agents and all Holders and Couponholders and (in the absence as aforesaid) no liability to the Holders, the Couponholders or the Issuer shall attach to the Calculation

Agent or the Trustee in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

## 7. Redemption or Purchase

### (a) Redemption at Maturity

Unless previously redeemed, purchased and cancelled as provided below, the Notes shall be redeemed on the Maturity Date specified hereon at their principal amount, together with any interest accrued to (but excluding) the Maturity Date in accordance with these Conditions and all Arrears of Interest (if any).

### (b) Issuer's Call Option

Subject to Condition 7(h), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 15, the Trustee and the Principal Paying Agent, which notice shall be irrevocable, elect to redeem all, but not some only, of the Notes on the Reset Date at their principal amount together with any interest accrued to (but excluding) the Reset Date in accordance with these Conditions and all Arrears of Interest (if any).

### (c) Tax Event Redemption

If immediately prior to the giving of the notice referred to below, as a result of a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written statements made by a tax authority regarding the anticipated tax treatment of the Notes, which change or amendment (i) (subject to (ii)) becomes, or would become, effective on or after 6 December 2005, or (ii) in the case of a change or proposed change in law, if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by United Kingdom Act of Parliament or by Statutory Instrument, on or after 6 December 2005 (a "Tax Law Change"), in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the Notes and the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it, then the Issuer may, subject to Condition 7(h) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount together with any interest accrued to (but excluding) the date of redemption in accordance with these Conditions and all Arrears of Interest (if any).

Prior to the publication of any notice of redemption pursuant to this Condition 7(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Tax Law Change has occurred and the Trustee shall accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the conditions set out above in which event it shall be conclusive and binding on the Holders. Upon expiry of such notice, the Issuer shall redeem the Notes in accordance with this Condition 7(c).

### (d) Redemption for Regulatory Purposes

If immediately prior to the giving of the notice referred to below a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 7(h) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 15, the Trustee and the Principal Paying Agent (which notice shall be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Notes. The Notes will be redeemed at their Make Whole Redemption Price together with any interest accrued to (but excluding) the date of redemption in accordance with these Conditions and all Arrears of Interest (if any).

Prior to the publication of any notice of redemption pursuant to this Condition 7(d), the Issuer shall deliver to the Trustee a certificate signed by two Directors stating that a Capital Disqualification Event has occurred and is continuing as at the date of the certificate, and the Trustee shall accept such certificate without any further inquiry as sufficient evidence of the occurrence and continuation of a Capital Disqualification Event in which event it shall be conclusive and binding on the Holders. Upon expiry of such notice, the Issuer shall redeem the Notes in accordance with this Condition 7(d).

(e) Purchases

The Issuer or any Subsidiary may, subject to Condition 7(h), at any time purchase Notes in any manner and at any price. In each case, purchases will be made together with all unmatured Coupons appertaining thereto.

(f) Cancellation

All Notes so redeemed by the Issuer and any unmatured Coupons appertaining thereto will be cancelled and may not be reissued or resold. Notes purchased by the Issuer or any Subsidiary may not be held, reissued or resold and, accordingly, will forthwith be surrendered to any Paying Agent for cancellation.

(g) Trustee Not Obligated to Monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 7 and will not be responsible to Holders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 7, it shall be entitled to assume that no such event or circumstance exists.

(h) Redemption and Purchase Conditions

Save for any redemption pursuant to Condition 7(a), any redemption or purchase of the Notes by or on behalf of the Issuer or any Subsidiary is (i) subject to the Issuer giving at least six months' prior written notice to the FSA (or such shorter period of notice as the FSA may accept and, in any event, provided that such notice is required to be given) and (ii) conditional on all Arrears of Interest and interest accrued (if any) being satisfied in full on or prior to the date set for such redemption or purchase.

## 8. Payments

(a) Method of Payment

- (i) Payments of principal, premium and interest will be made by or on behalf of the Issuer against presentation and surrender of Notes or the appropriate Coupons at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on an Interest Payment Date will only be made upon surrender of the relevant Notes. Such payments will be made (subject to Condition 8(a)(ii) below), at the option of the payee, by pounds sterling cheque drawn on, or by transfer to a pounds sterling account maintained by the payee with, a bank in London.
- (ii) Upon the due date for redemption of any Notes, unmatured Coupons relating to such Notes (whether or not attached) shall become void and no payment shall be made in respect of them. If any Note is presented for redemption without all unmatured Coupons, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(b) Payments Subject to Fiscal Laws

Without prejudice to the terms of Condition 10, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders in respect of such payments.

(c) Payments on Business Days

If the date for payment of any amount in respect of any Note or Coupon, or any later date on which any Note or Coupon is presented for payment, is not a business day, then the holder thereof shall not be entitled to payment at that place of payment of the amount payable until the next following business day at that place of payment and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 8(c), “business day” means any day (not being a Saturday, Sunday or a public holiday) on which commercial banks and foreign exchange markets which settle payments in pounds sterling are open in London and in the relevant place of payment.

**9. Non-Payment when Due**

Notwithstanding any of the provisions below in Condition 9, the right to institute winding-up proceedings in England and Wales is limited to circumstances where payment has become due. No Interest Payment will be due if the Issuer has elected to defer that Interest Payment pursuant to Condition 4.

*The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.*

(a) Events of Default

If any of the following events (“Events of Default”) occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to Condition 9(d) below), give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their principal amount together with accrued interest and all Arrears of Interest (if any):

- (i) subject to the provisions of Condition 4, default is made for a period of 14 days or more in the payment of any interest due in respect of the Notes or any of them; or
- (ii) an order is made or a resolution is passed for the winding-up of the Issuer (other than a winding-up which has been previously approved in writing by the Trustee or by an Extraordinary Resolution of the Holders).

(b) Proceedings for Winding-up

If the Notes become due and repayable (whether pursuant to Condition 9(a) above or Condition 7) and are not paid when so due and repayable or any other payment obligation of the Issuer under or arising from the Notes, the Coupons or the Trust Deed is not met, the Trustee may at its discretion institute proceedings for the winding-up of the Issuer in England and Wales and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment, provided, however, that the Trustee may only take any such action on or after the failure by the Issuer to make payment as described in this Condition 9(b), but may take no further or other action to enforce, prove or claim for any such payment.

(c) Enforcement

Without prejudice to Condition 9(a) or (b) above, the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed, the Notes or the Coupons (other than any payment obligation of the Issuer under or arising from the Notes, the Coupons or the Trust Deed including, without limitation, payment of any principal, premium or interest in respect of the Notes or the Coupons and any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it. Nothing in this Condition 9(c) shall however prevent the Trustee instituting proceedings for the winding-up of the Issuer in England and Wales, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligations of the Issuer arising from the

Notes, the Coupons or the Trust Deed (including any damages awarded for breach of any obligations).

(d) Entitlement of the Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 9(a) (b) or (c) above unless (i) it shall have been so requested by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders or in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.

(e) Rights of Holders

No Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up of the Issuer in England and Wales or to prove in any winding-up of the Issuer unless the Trustee, having become so bound to proceed or being able to prove in such winding-up, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise.

No remedy against the Issuer, other than as referred to in this Condition 9, shall be available to the Trustee or any Holder or Couponholder whether for the recovery of amounts owing in relation to or arising from the Notes, the Coupons and/or the Trust Deed or in respect of any breach by the Issuer of any of its other obligations relating to or arising from the Notes, the Coupons and/or the Trust Deed.

## 10. Taxation

All payments by the Issuer of principal, premium and interest (including Arrears of Interest) in respect of the Notes will be made without withholding of or deduction for, or on any account of, any present or future United Kingdom taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts receivable by Holders or Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of a requirement to make such withholding or deduction, except that no such Additional Amounts shall be payable in relation to any payment with respect to any Notes or Coupon:

- (a) to, or to a third party on behalf of, a holder who (i) would be able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or similar claim for exemption but fails to do so, or (ii) is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such Note or Coupon;
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing or complying with, or introduced in order to conform to, European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (c) presented for payment by or on behalf of a Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the Holder or Couponholder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such period of 30 days.

References in these Conditions to principal, premium and/or interest shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## 11. Prescription

Notes and Coupons will become void unless presented for payment within a period of 10 years in the case of Notes and five years in the case of Coupons from the Relevant Date relating thereto.

## 12. Meetings of Holders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests including the modification by Extraordinary Resolution (as defined in the Trust Deed) of these Conditions or other provisions of the Trust Deed.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Condition 3, the terms concerning currency and due dates for payment of principal, any applicable premium or interest in respect of the Notes and reducing or cancelling the principal amount of any Notes, any applicable premium or the Interest Rate) and certain other provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding.

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting, and on all Couponholders.

Nothing in these Conditions shall prevent the Issuer from undertaking any reduction or cancellation of the share premium account, or any capital redemption reserve, of the Issuer which reduction or cancellation is the subject of a resolution passed by the shareholders of the Issuer at a general meeting held at any time on or prior to three years from the date of the Trust Deed and Holders shall be deemed to have given their consent to any such reduction or cancellation. In addition, the Trust Deed provides that the Trustee shall, without the need to obtain the approval of Holders, give such approvals and/or consents on behalf of the Holders as may be required in relation to any such reduction or cancellation and the Trustee shall not have any liability to Holders or any other person for so doing.

The Trustee may agree (subject to the terms of the Trust Deed), without the consent of the Holders or Couponholders, to any modification (except as set out above in relation to the higher quorum requirements at any meeting of Holders) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any other provisions of the Trust Deed, the Paying Agency Agreement or any Calculation Agency Agreement which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Holders or to any modification which, in the opinion of the Trustee, is of a formal, minor or technical nature or to correct a manifest error. No modification to these Conditions or any other provisions of the Trust Deed shall become effective unless the Issuer shall have given at least one month's prior written notice to, and received no objection from, the FSA (or such shorter period of notice as the FSA may accept and, in any event, provided that there is a requirement to give such notice).

The Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Holders or Couponholders and subject to the Issuer giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and, in any event, provided that there is a requirement to give such notice) may agree with the Issuer, without the consent of the Holders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in Condition 3 of any person or persons incorporated in any country in the world (other than the United States) (the "Substitute Obligor") in place of the Issuer (or any previous Substitute Obligor under this Condition) as a new principal debtor under the Trust Deed, the Notes and the Coupons, provided that:

- (a) a trust deed is executed or some other form of undertaking is given by the Substitute Obligor, in form and manner satisfactory to the Trustee, whereby the Substitute Obligor agrees to be bound by the terms of the Trust Deed, the Notes and the Coupons, with such consequential amendments as the Trustee may deem appropriate, as fully as if the Substitute Obligor had been named in the Trust Deed and on the Notes and the Coupons,

as the principal debtor in place of the Issuer (or of any previous Substitute Obligor, as the case may be);

- (b) (unless the successor in business of the Issuer is the Substitute Obligor or the Trustee is otherwise satisfied that the interests of the Holders are not materially prejudiced) the obligations of the Substitute Obligor under the Trust Deed, the Notes and the Coupons are guaranteed by the Issuer on a subordinated basis equivalent to that referred to in Condition 3 and in the Trust Deed and in a form and manner satisfactory to the Trustee;
- (c) if two directors of the Substitute Obligor shall certify that the Substitute Obligor is solvent at the time at which the said substitution is proposed to be effected, the Trustee may rely absolutely on such certification and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute Obligor or to compare the same with those of the Issuer;
- (d) (without prejudice to the generality of Condition 12(a)) the Trustee may in the event of such substitution agree, without the consent of the Holders or Couponholders, to a change in the law governing the Trust Deed and/or the Notes and/or the Coupons, provided further that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Holders;
- (e) if the Substitute Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in a territory with power to tax (in each case the "Substituted Territory") other than the territory to whose taxing jurisdiction (or any such authority of or in the territory to which) the Issuer is subject generally (the "Issuer's Territory"), the Substitute Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 10 with the substitution of the references in that Condition to the Issuer's Territory for references to the Substituted Territory, whereupon the Trust Deed, the Notes and the Coupons will be read accordingly; and
- (f) the Issuer and the Substitute Obligor comply with such other reasonable requirements as the Trustee may direct.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its functions (including but not limited to those referred to in this Condition 12), the Trustee shall have regard to the interests of the Holders and Couponholders as a class and the Trustee shall not have regard to the consequences of such substitution or such exercise for individual Holders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any substitution or such exercise as aforesaid, no Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Holders or Couponholders except to the extent already provided in Condition 10 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified by the Issuer to the Holders in accordance with Condition 15 as soon as practicable thereafter.

### **13. Replacement of the Notes and Coupons**

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 15) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before any replacement Notes or Coupons will be issued.

### **14. The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified to its

satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or any Subsidiary without accounting for any profit resulting therefrom.

#### **15. Notices**

Notices to Holders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Holders in accordance with this Condition.

#### **16. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Holders or the Couponholders to create and issue further Notes ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Notes) and so that the same shall be consolidated and form a single series with the outstanding Notes. Any such Notes shall be constituted by a deed supplemental to the Trust Deed.

#### **17. Agents**

The names of the initial Paying Agents and their initial specified offices are set out below. The Issuer reserves the right, subject to the approval of the Trustee, such approval not to be unreasonably withheld or delayed, at any time to vary or terminate the appointment of any Paying Agent or Calculation Agent and to appoint additional or other Paying Agents or (as the case may be) another Calculation Agent (if a Calculation Agent has already been appointed), provided that it will: (a) at all times maintain a Principal Paying Agent and a Paying Agent having a specified office in London (which may be the same as the Principal Paying Agent); (b) whenever a function expressed in these Conditions to be performed by the Calculation Agent falls to be performed, appoint and (for so long as such function is required to be performed) maintain a Calculation Agent; and (c) insofar as the Issuer would be obliged to pay Additional Amounts upon presentation of the Note or Coupon, as the case may be, for payment in the United Kingdom, maintain a Paying Agent having a specified office which is approved by the Trustee in a major city in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to such Directive, PROVIDED THAT under no circumstances shall the Issuer be obliged to maintain a Paying Agent with a specified office in such a Member State unless at least one Member State of the European Union other than the United Kingdom does not require a Paying Agent with a specified office in that Member State so to withhold or deduct tax. Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 15. If any of the Calculation Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions, the relevant Calculation Agency Agreement or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent investment bank or financial institution acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Calculation Agent or the Principal Paying Agent in relation to the Notes shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the Holders and the Couponholders.

Under no circumstances shall the Trustee be required to appoint a Calculation Agent (where the Issuer has failed to do so or otherwise), and the Trustee shall not be responsible, or liable to any person, for the consequences of any failure by the Issuer to appoint a Calculation Agent. None of the Issuer, the Trustee and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation by the Calculation Agent.

#### **18. Governing Law**

The Trust Deed, the Notes and the Coupons are governed by, and shall be construed in accordance with, the laws of England.

#### **19. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes by virtue of the Contracts (Rights of Third Parties) Act 1999.

## 20. Definitions

In these Conditions:

“Additional Amounts”	has the meaning given to it in Condition 10;
“Arrears of Interest”	has the meaning given to it in Condition 5;
“Business Day”	means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London;
“Calculation Agency Agreement”	means any agreement entered into by the Issuer, the Trustee and the Calculation Agent in respect of any of the functions expressed to be performed by the Calculation Agent under these Conditions;
“Calculation Agent”	means the independent investment bank or financial institution, appointed on the terms of a Calculation Agency Agreement, selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld or delayed, for the purposes of performing any of the functions expressed to be performed by it under these Conditions;
a “Capital Disqualification Event”	is deemed to have occurred: (1) if the Notes would not be capable of counting (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as capital resources satisfying the Regulatory Capital Requirements (if any) applicable to the Issuer and/or to all or any part of the Group as a result of any change to the Capital Regulations or the application or official interpretation thereof; or (2) if, at any time when the Issuer or the Group is required under any Capital Regulations to have Tier 2 Capital, the Notes would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 2 Capital of the Issuer or the Group on a consolidated basis;
“Capital Regulations”	means the rules and regulations of any Relevant Supervisory Authority that require the Issuer or the Regulated Subsidiary to meet a Regulatory Capital Requirement;
“Companies Act”	means the Companies Act 1985 (as amended);
“Conditions”	means these terms and conditions of the Notes, as amended from time to time;
“Coupon”	has the meaning given to it in the preamble to these Conditions;
“Couponholder”	has the meaning given to it in the preamble to these Conditions;
“Directors”	means the directors of the Issuer;
“Financial Services Authority” or “FSA”	means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary supervisory authority with respect to the Group;
“Gross Redemption Yield”	means, with respect to a security, the gross redemption yield on such security (as calculated by the Calculation Agent on the basis set out in the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi- Coupon Date” (published on 8 June 1998 and updated on 15 January 2002 and as further updated or amended) on a semi-annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places));
“Group”	means the Issuer and its Subsidiaries;
“Holder”	has the meaning given to it in the preamble to these Conditions;

“Initial Rate of Interest”	means 6.625 per cent. per annum;
“Interest Payment”	means, in respect of an Interest Payment Date, the aggregate interest for the Interest Period ending on such Interest Payment Date;
“Interest Payment Date”	means 9 December in each year, starting on (and including) 9 December 2006;
“Interest Period”	means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;
“Interest Rate”	means the Initial Rate of Interest or the Reset Rate of Interest, as the case may be;
“Issue Date”	means 9 December 2005, being the date of the initial issue of the Notes;
“Issuer”	means Brit Insurance Holdings PLC;
“Issuer’s Territory”	has the meaning given to it in Condition 12(e);
“Junior Securities”	means any class of the Issuer’s share capital together with any other securities of any member of the Group ranking or expressed to rank junior to the Notes either issued directly by the Issuer or, where issued by a Subsidiary, where the terms of the securities benefit from a guarantee or support agreement entered into by the Issuer which ranks or is expressed to rank junior to the Notes;
“Lower Tier 2 Capital”	has the meaning given to it from time to time by the FSA;
“Make Whole Redemption Price”	means, in respect of each Note, (a) the principal amount of such Note or, if redemption occurs before the Reset Date and this is higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on the Note on the Reference Date (assuming for this purpose that the Notes are to be redeemed at their principal amount on the Reset Date) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 a.m. (London time) on the Reference Date of the Reference Bond plus 1 per cent., all as determined by the Calculation Agent;
“Maturity Date”	means 9 December 2030;
“Notes”	has the meaning given to it in the preamble to these Conditions;
“Optional Interest Payment Date”	means any Interest Payment Date where: <ul style="list-style-type: none"> <li>(i) (a) a Regulatory Intervention has occurred on such date or has occurred prior to such Interest Payment Date and is continuing on such Interest Payment Date or, as determined by two Directors of the Issuer, is reasonably likely to occur as a result of making the payments of interest due on the Notes on such Interest Payment Date; and</li> <li>(b) no interest payments or payments in respect of interest have been made on any junior or <i>pari passu</i> ranking securities or obligations of the Issuer (excluding any such <i>pari passu</i> ranking securities or obligations the terms of which do not enable the issuer of the relevant securities to defer, pass on or eliminate the relevant interest payment) and no dividend or other distribution has been irrevocably declared on any class of the Issuer’s share capital since the</li> </ul>

date of the commencement of that Regulatory Intervention;  
or

- (ii) no interest payments or payments in respect of interest have been made on any junior or *pari passu* ranking securities or obligations of the Issuer (excluding any such *pari passu* ranking securities or obligations the terms of which do not enable the issuer of the relevant securities to defer, pass on or eliminate the relevant interest payment) during the financial year of the Issuer in which such Interest Payment Date falls, and no dividend or other distribution on any class of the Issuer's share capital was irrevocably declared at or since the annual general meeting of shareholders immediately prior to that Interest Payment Date;

"Parity Securities"	means any securities of the Issuer ranking or expressed to rank <i>pari passu</i> with the Notes, or other securities whether issued directly by the Issuer or by a Subsidiary and benefiting from a guarantee or support agreement entered into by the Issuer ranking or expressed to rank <i>pari passu</i> with the Notes;
"Paying Agency Agreement"	has the meaning given to it in the preamble to these Conditions;
"Paying Agents"	has the meaning given to it in the preamble to these Conditions;
"pounds sterling"	means the lawful currency of the United Kingdom;
"Principal Paying Agent"	has the meaning given to it in the preamble to these Conditions;
"Reference Bond"	means the 8 per cent. Treasury Stock due 2021, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the Maturity Date, as the Calculation Agent may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 8 per cent. Treasury Stock due 2021;
"Reference Date"	means the date which is three Business Days prior to the Reset Date;
"Reference Market Makers"	means three brokers or market makers of gilts selected by the Calculation Agent and approved for this purpose by the Trustee or such other three persons operating in the gilt-edged market as are selected by the Calculation Agent in consultation with the Issuer and approved for this purpose by the Trustee, such approval not to be unreasonably withheld or delayed;
"Regulated Subsidiary"	means Brit Insurance Limited or any entity to which all or substantially all of the business of Brit Insurance Limited is transferred;
"Regulatory Capital Requirements"	means any applicable minimum or notional margin of solvency or minimum capital or capital requirement specified for insurance companies, insurance holding companies or financial groups by any Relevant Supervisory Authority;
"Regulatory Intervention"	means (a) with respect to the Issuer, a request from any Relevant Supervisory Authority to restore or improve any applicable minimum or notional margin of solvency or capital adequacy levels of the Issuer, (b) a request to the Regulated Subsidiary by its Relevant Supervisory Authority to restore either its applicable minimum or notional margin of solvency or capital adequacy levels or the FSA is notified by a Relevant Supervisory Authority that such Relevant Supervisory Authority has made such request to the Regulated Subsidiary, or (c) if, (i) prior to any date on which a payment in respect of interest in respect of the Notes is due or (ii) on any date on which a payment in respect of interest in respect of the Notes is due, the Issuer or the Regulated Subsidiary has failed (or (in the case of (ii)) is reasonably likely to so fail immediately after such payment) to meet

its applicable minimum or notional margin of solvency or capital adequacy levels as at the date of the most recent audited accounts of the Issuer or, as the case may be, the Regulated Subsidiary or, if later, the date such levels were most recently tested for regulatory purposes or, if later, any date falling on or prior to the date such payment is, or otherwise would be, due selected by the Board of Directors (or other management body) of the Issuer or, as the case may be the Regulated Subsidiary. A Regulatory Intervention shall be deemed to be continuing until such date as, in the case of (a) or (b), the relevant margins of solvency or capital adequacy levels have been restored or improved to the satisfaction of the Relevant Supervisory Authority or the request is otherwise withdrawn or addressed to the satisfaction of the Relevant Supervisory Authority or, in the case of (c), the first date on which the Issuer or Regulated Subsidiary, as applicable, meets its applicable minimum or notional of solvency margins or, as the case may be, capital adequacy levels, as determined and so certified to the Trustee by two Directors of the Issuer;

“Relevant Date”	means in respect of any payment to be paid by the Issuer in a winding-up of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 15;
“Relevant Supervisory Authority”	means any regulator having jurisdiction over the Issuer or any Regulated Subsidiary from time to time;
“Reset Date”	means 9 December 2020;
“Reset Rate of Interest”	means the rate per annum as determined by the Calculation Agent which is the aggregate of 3.4 per cent. and the Gross Redemption Yield of the Reference Bond, with the price of the Reference Bond for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such Reference Bond quoted by the Reference Market Makers at 3.00 p.m. (London time) on the Reset Date on a dealing basis for settlement on the following dealing day in London;
“Senior Creditors”	means creditors of the Issuer who are unsubordinated creditors of the Issuer;
“Subsidiary”	means each subsidiary for the time being of the Issuer;
“subsidiary”	has the meaning given to subsidiary undertaking under section 258 of the Companies Act;
“Substitute Obligor”	has the meaning given to it in Condition 12;
“Substituted Territory”	has the meaning given to it in Condition 12(e);
“Tax Event”	means an event of a type described in Condition 7(c);
“Tax Law Change”	has the meaning given to it in Condition 7(c);
“Tier 1 Capital” and “Tier 2 Capital”	have the respective meanings given to them from time to time by the FSA;
“Trust Deed”	has the meaning given to it in the preamble to these Conditions;
“Trustee”	has the meaning given to it in the preamble to these Conditions;
“United Kingdom”	means the United Kingdom of Great Britain and Northern Ireland; and
“Upper Tier 2 Capital”	has the meaning given to it from time to time by the FSA.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Each of the Temporary Global Note and the Permanent Global Note contains provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of such Notes as set out in this document. The following is a summary of certain of those provisions:

### 1. Exchange

The Temporary Global Note is exchangeable in whole or in part for interests in the Permanent Global Note on or after a date which is expected to be 18 January 2006 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Permanent Global Note is exchangeable in whole but not in part (free of charge to the holder) for bearer Notes in definitive form ("Definitive Notes") (i) if the Permanent Global Note is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) at the option of the Issuer. Thereupon (in the case of (i) above) the holder may give notice to the Trustee and the Principal Paying Agent, and (in the case of (ii) above) the Issuer may give notice to the Trustee, the Principal Paying Agent and the Holders, of its intention to exchange the Permanent Global Note for Definitive Notes on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the holder of the Permanent Global Note may surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed.

"Exchange Date" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

### 2. Payments

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal, premium and interest in respect of Notes represented by the Permanent Global Note will be made (subject as provided in the Conditions) against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Permanent Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Holders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes.

### 3. Notices

So long as the Notes are represented by the Permanent Global Note and the Permanent Global Note is held on behalf of a clearing system, notices to Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that so long as the Notes are listed on the Official List and traded on the Market and the rules of that Exchange so require, notices shall also be published in a newspaper having general circulation in London (which is expected to be the *Financial Times*).

### 4. Prescription

Claims against the Issuer in respect of principal, premium and interest on the Notes while the Notes are represented by the Temporary Global Note or the Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the Relevant Date (as defined in Condition 20 of the Notes).

## **5. Purchase and Cancellation**

Cancellation of any Note required by the relevant Conditions to be cancelled following its purchase will be effected by a reduction in the principal amount of the relevant Global Note.

## **6. Trustee's Powers**

In considering the interests of Holders while the Permanent Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements as against the clearing system or its operator to amounts of principal in respect of the Permanent Global Note and may consider such interests as if such accountholders were the holder of the Permanent Global Note.

## **7. Meetings**

The holder of the Permanent Global Note will, at a meeting of Holders, be treated as having one vote in respect of each £1,000 in principal amount of Notes for which the Permanent Global Note may be exchanged.

## **8. Accountholder as Holder**

For so long as the Notes are represented by the Temporary Global Note and/or the Permanent Global Note, each person who is for the time being shown in the records of a clearing system as the holder of a particular principal amount of Notes (in which regard any certificate or other document issued by a clearing system as to the principal amount of the Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated by the Issuer, the Trustee, the Paying Agents and the bearer of the Temporary Global Note and/or the Permanent Global Note (as the case may be) as a holder of such principal amount of Notes for all purposes other than with respect to the payment of principal, premium (if any) and interest on the Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the Global Note in accordance with and subject to its terms and the terms of the Trust Deed.

## **9. Tradeable Amounts**

So long as the Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least £50,000 and integral multiples of £1,000 above such amount.

## USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to approximately £147,693,000 will be used:

- to fund the Group's working capital including growth opportunities in the insurance market which is expected to show increased pricing following the recent hurricane activity;
- for general corporate purposes, including the re-financing (whether on maturity in 2008 or earlier) of the Group's unsecured subordinated loan stock (which has a market value of approximately £45 million); and
- to fund the whole or partial elimination of the Group's current pension deficit under FRS 17 which as at 30 June 2005 amounted to £20 million.

## THE BRIT INSURANCE GROUP

### Overview

The Group, of which the Issuer is the holding company, is a leading listed UK non life insurance group, with an insurance company and operations at Lloyd's and in the international market.

The Group is organised into three customer facing underwriting centres: London Market, Reinsurance and UK. Within these three centres, the Group underwrites a widespread portfolio of more than 60 sub-classes of business. Each centre has access to the Group's two regulatory underwriting platforms, Brit Insurance Limited ("BIL") (the Group's insurance company outside Lloyd's) and the Brit Syndicate at Lloyd's (the "Brit Syndicate"). Brit UW Limited ("Brit UW"), a Lloyd's corporate member, underwrites the risks of the Brit Syndicate. Brit Syndicates Limited ("BSL") is the Group's Lloyd's managing agent which manages the Brit Syndicate. BIL is authorised in the UK as a general insurer and operates in the EEA on a freedom of services (passported) basis.

The Group's activities take place in a highly regulated sector. The Group works closely with its regulators. In 2004, the Group participated in the FSA pilot study on Individual Capital Adequacy Standards ("ICAS"), a development which underlined the fact that capital allocation has been at the heart of the Group's underwriting business model for the last three years. Last year, BIL received its Individual Capital Guidance ("ICG") from the FSA as part of the FSA's pilot ICAS study (one of the first UK insurers to achieve this). The Brit Syndicate's capital requirement is expected to be finalised in the near future in line with Lloyd's requirements.

Following the FSA's review in August 2004 of the Individual Capital Adequacy submission for BIL and the Group's receipt of the FSA's Individual Capital Guidance for the company, the Group believes BIL became one of the first insurance companies in the UK to have successfully completed the ICAS study.

BIL has insurer financial strength ratings of 'A+' (Strong) from Fitch ratings and 'A' (Excellent) from A M Best. Based on the most recent internal management information, BIL has regulatory capital of more than £100 million in excess of its Enhanced Capital Requirement ("ECR") as most recently submitted to the FSA. ECR is the FSA's risk-based minimum regulatory capital requirement for non-life insurers.

The Issuer was incorporated and registered in England and Wales on 30 October 1995 under the Companies Act 1985 (the "Act") as a public company limited by shares (with registered number 3121594) under the name The Benfield and Rea Investment Trust PLC. The Issuer changed its name to Brit Insurance Holdings PLC on 27 July 1999. The principal legislation under which the Issuer operates is the Act and The Financial Services and Markets Act 2000 and the regulations made thereunder. The principal place of business and the registered office of the Issuer is at 55 Bishopsgate, London EC2N 3AS, telephone number 020 7984 8500.

The Group continues to seek ways to manage its capital position, and Brit is actively considering a capital reduction sanctioned by the High Court in order to create distributable reserves and maximise its ability to pay dividends (see "Risk Factors — Considerations relating to the Brit Insurance Group — Group Risks — Capital reduction").

### Underwriting Strategy

The Group manages its underwriting activities as one operation regardless of regulatory vehicle or underwriting centre. This ensures more effective Group portfolio management from both a risk and return on capital perspective, while leading to more efficient reinsurance buying and a consistent approach to procedures, protocols and controls.

The decision on where to place the business as between the two underwriting platforms, BIL and the Brit Syndicate, is complex and is driven by a combination of factors. These may include frictional costs (for example — comparing the cost of bureau fees at Lloyd's versus the cost of the Group administering the process itself), levies, licensing requirements (the Group does not have licences to do business in every country worldwide and therefore may need to utilise Lloyd's licences), use of capital and client preference (including credit rating by rating agencies). This has led to the majority of the London Market and international business being written by the Lloyd's operation (now the Brit Syndicate) while most of the UK and European business is written by BIL. The Group intends to continue to grow BIL while broadly maintaining the Brit Syndicate's current level of capacity.

Capital is set at class level and again at sub-class level, and is internally traded regularly at Brit's Underwriting Committee where underwriters ask for, or give up, capital as business conditions dictate. This process enables capital to be directed to where the best returns are perceived as likely to be achieved. During the course of 2004 over 100 internal trades were made in respect of more than £130m of capacity.

### **Capital allocation**

While one immediate direct benefit of ICAS has been Brit's improved ability to manage its reinsurance spend, the use of the ICAS model is more widely embedded in the Group's business as it not only looks at underwriting risk, but also at the Group's investment, liquidity, counterparty and operational risks. This has given Brit a greater understanding of the extent to which risks correlate under different circumstances and of what that means in terms of the potential financial impact on the Group as a whole. Accordingly, the ICAS model has enabled the Group to take a more informed view of its capital requirements both now and in the future.

### **The Underwriting Centres**

#### *London Market Underwriting Centre*

The London Market underwriting centre is the largest of the Group's three underwriting centres accounting for £431.6m of gross written premium in 2004, split £107.8m in BIL and £323.8m in the Brit Syndicate.

This centre underwrites Brit's international and U.S. business other than reinsurance. In the main, London Market deals with wholesale buyers of insurance, not individuals. Risks are large and usually written by several underwriters. Brit is increasingly leading the business it writes and obtaining larger lines on business.

There are five divisions within London Market: Professional Risks, Marine, U.S. & International Property, Space and Accident & Financial. The Group has over 80 underwriters within the centre writing business in the international market for larger corporates and coverholders.

#### *Reinsurance Underwriting Centre*

Inwards reinsurance business is written in the Reinsurance underwriting centre. London has historically been the major centre for reinsurance underwriting in both the Lloyd's and company markets and Brit is therefore able to access international business without a local office presence. Nevertheless, Brit utilises resources in Copenhagen and Sydney to improve distribution channels in Europe and Australasia. Classes of business underwritten within the Reinsurance underwriting centre include casualty and accident, marine, aviation and property.

The Reinsurance underwriting centre deals exclusively with Treaty Reinsurance. Within the Reinsurance underwriting centre, the vast majority of treaties are underwritten on an excess of loss (non-proportional) basis.

#### *UK Underwriting Centre*

The UK underwriting centre is developing business opportunities within the UK general commercial insurance markets through both wholesale and retail brokers. The delivery mechanisms and profile of the UK operation are distinctly different from those of the Group's other two underwriting centres as most of the business is written on a non-subscription basis and comes through regional retail brokers.

The UK underwriting centre operates through a network of eight offices across the UK and employs over 200 staff. Classes of business written include Commercial Combined, Motor (Fleet, Haulage, Private Car and Niche Product Lines), Property, Liability (Employers, Public and Products), Professional Indemnity and Directors and Officers.

### **Reinsurance purchased by the Group**

One of the major benefits of the development of the Group's ICAS model has been the Group's ability to manage better its outward reinsurance buying and the Group has cut its reinsurance spend as a percentage from 21.2 per cent. of gross written premium income in 2002 to 16.2 per cent. in both 2003 and 2004. The figure for 2004 would have been 1.1 percentage points lower but for reinstatement premiums relating to hurricanes in 2004, which totalled £11.9m.

The Group monitors its exposure to counterparty reinsurance risk, not just on the basis of current exposure but also taking into account all the Group's outstanding claims and claims incurred but not reported ("IBNR") by legal entity.

The Group also runs a matrix which provides guidelines regarding the Group's exposure to any one reinsurer and is based on the entity's financial net worth and the Group's internal rating of that entity. This enables the Group to manage its relationship with a particular reinsurer from overweight to underweight as circumstances dictate. The Group seeks to have the same open and transparent dialogue with its reinsurers as it does with all stakeholders in its business and views the Group's relationships with its reinsurers as long term.

## Claims

For monitoring purposes, underwriting and claims are separated. This has enabled proactive management of claims handling.

The Group puts claims service at the centre of its brand and strives to achieve prompt settlement. The Group believes this strategy benefits both its clients and itself as it enables the Group to assess more accurately its actual cost of sales. This in turn means it is better placed to get its pricing right. Where the Group does not have full knowledge of a definite claim amount it actuarially assesses the reserve to ultimate including claims inflation.

The Group is represented on the Lloyd's Claims Steering Group (the "Steering Group"). The Steering Group has proposed major changes to the Lloyd's market which the Group believes will radically reform the way claims are managed in terms of the efficiency of delivery of information and quality of the data received. Accordingly, the Group has been an early adopter of the main recommendations.

## Reserving Policy

Reserving strength is crucial for any insurer; the Group's policy of reserving fully is supported by a number of internal and external reviews and benchmarking exercises.

## Hurricane Katrina/New Orleans Flood ("NOF")

Set out below is the Group's estimate of its net claims (net of reinstatement premiums) arising out of Hurricane Katrina/NOF in respect of its participation on the Brit Syndicate and its underwriting through BIL, along with summaries of:

- the methodology which the Group has adopted in arriving at that estimate;
- the assumptions upon which the Group has based such estimate; and
- the classes of business which the Group believes may give rise to potential liability.

To reach the estimate of claims for Hurricane Katrina/NOF, the Group has had to assess a variety of factors. Industry estimates range between US\$40-\$60 billion. It is also a complex loss, being an unusual combination of wind storm and flood, thus affecting different parts of the Group's portfolio, insurance and reinsurance, offshore and onshore.

A number of factors will influence the eventual net claims of the Group arising from Hurricane Katrina/NOF and these claims could differ materially from the estimate contained in this section. The specific risk factors which Brit considers are material in the context of Hurricane Katrina/NOF are set out in the section above headed "Risk Factors — Risks resulting from Hurricane Katrina/New Orleans Flood ("NOF")".

### *Claims estimates*

The Group's estimate is that its net claims arising out of Hurricane Katrina/NOF will be £125 million (net of reinstatement premiums).

The split of this net claim to the Group between direct and reinsurance business is:

- Direct: £38 million
- Reinsurance: £87 million

### *Methodology*

The Group adopted the following methodology in analysing its exposure:

- The classes of business which had potential exposure were identified and where appropriate a risk-by-risk review was undertaken.
- Information was gathered from a variety of sources, at a market level, through brokers, advisers, agents and customers. This information was evaluated using the Group's in-house expertise. The Group has conducted extensive modelling on Hurricane Katrina/NOF and carried out a ground up review of all exposed contracts.
- An estimate of the gross loss and (where applicable) inwards reinstatement premium for each relevant risk was established.
- Reinsurance protections were then reviewed in order to calculate the anticipated reinsurance recovery and outward reinsurance premiums and any other contractual payments due. Regard was taken of co-insurance, coverage restrictions and previous reinsurance erosion from earlier events. The amounts due from individual reinsurers were then calculated.

### *Assumptions*

The following is a non-exhaustive list of the assumptions/approaches used for the purpose of calculating the amount of the Group's expected claims from Hurricane Katrina/NOF:

- In respect of exclusionary language for flood on certain original policies, a prudent approach was taken such that where ambiguity existed, preference was afforded to the assured.
- In respect of the Group's Catastrophe Retro reinsurance class (i.e. the Group's business, entirely written by BIL, reinsuring reinsurance companies against liabilities they have accepted as inwards reinsurance business), every policy that is not excluded by peril or location has been assumed to have a claim relating to every layer/programme insured and that the following Probable Maximum Loss ("PML") factors will apply to BIL's maximum contractual limits on such policies:
  - (i) 60% for reinsurance of direct insurers;
  - (ii) 90% for retrocession business, where certain market-wide exclusion clauses apply; and
  - (iii) 100% for other business written under the class.
- No subrogation recoveries will be made by the Group.
- The Group has assumed it is one event other than in the area of potential reinsurance reinstatement mentioned below.
- Reinsurance recoveries due to the Group will be made in full. Currently, the Group has no knowledge or information to suggest that any of its reinsurers may default on the payment of monies due to the Group in this context.
- Where ambiguity exists in the language of reinstatement provisions of certain reinsurance to the Group, a partial recovery was factored into the figure. This recovery amounts to approximately US\$15 million.

### *Classes of business*

The classes of business which the Group believes will give rise to its principal exposures resulting from Hurricane Katrina/NOF are as follows:

- the offshore and onshore energy account, the marine cargo account and the oil liability account;
- the property and business interruption policies for industrial commercial and private lines; and
- the reinsurance exposures to original companies and insurers/reinsurers of the classes listed above.

## **Hurricanes Rita and Wilma**

### *Hurricane Rita*

Hurricane Rita first struck Florida after making an approach near Cuba and went on to make landfall between Texas and Louisiana on 24 September 2005 as a Category 3 storm. The Group estimates that it will suffer claims (net of reinsurance recoveries and reinstatements) of £20 million in respect of Hurricane Rita.

### *Hurricane Wilma*

Hurricane Wilma first struck the Yucatan Peninsula on 21 October 2005 as a Category 4 storm. The area also suffered severe flooding. On Monday 24 October 2005, Wilma struck the Everglades as a Category 3 storm. The eye of the storm crossed West Palm Beach but Miami escaped the strongest winds. The Group estimates that it will suffer claims (net of reinsurance recoveries and reinstatements) of £37.5 million in respect of Hurricane Wilma.

### **Current Trading and Prospects of the Group**

The Group writes some 60 different lines of business with a broad geographic spread.

Management believe that the Hurricane claims of 2004/2005 will lead to catastrophe models being rebased which will force the market to review the amount of exposure they are prepared to underwrite and increase the demand for reinsurance protection. The Group anticipates a shortage of capacity which will have a major effect on pricing of business, both insurance and reinsurance. Catastrophe exposed risks are already faced with rate increases irrespective of whether they have been affected by Katrina or not. The Group anticipates that the reaction will be global.

Marine energy rates are showing increases. In the marine account, rates in the Gulf of Mexico for oil exploration and production are already rising (along with restrictions in coverage and conditions), and rates in the rest of the world are also increasing. The Group anticipates that reinsurance and insurance capacity will be in short supply during 2006 in this area.

Brit's strong balance sheet has allowed it to take a larger net position than many of its competitors. Brit has reviewed its reinsurance requirements and purchasing is in progress for 2006.

Brit, with its broad underwriting base, envisages great opportunities available to it across all of its divisions into 2006. Additionally within its growing UK operations, Brit is seeing increasing opportunity in a market that is at the moment very price sensitive, and the breadth of Brit's offering is proving increasingly attractive to brokers, clients and existing and potential staff.

### **Further Information**

On 14 November 2005 Brit published the following profit forecast in respect of 2005 in a regulatory announcement of its Hurricane Wilma net claims estimate:

*“ . . . Absent further exceptional claims or other unforeseen circumstances, Brit expects to remain in profit for 2005.”*

### *Basis of preparation and principal assumptions*

The Group's forecast for profit for 2005 has been prepared after due and careful enquiry and under the historical cost convention on a basis consistent with the accounting policies adopted by the Group (in its audited consolidated financial statements for the year ended 31 December 2004 as restated under IFRS and in its unaudited consolidated financial statements for the six months ended 30 June 2005 which were prepared under IFRS). The forecast takes into account the following principal assumptions:

- (a) There will be no material change in foreign currency exchange rates;
- (b) The Group will suffer no material credit losses from major counterparty exposures or investment losses from its investment portfolio;
- (c) The Group's claims reserves continue to prove sufficient for known and projected events;
- (d) There will be no material unpredictable events or circumstances, including natural or “man-made” disasters, the emergence of latent risks, legal developments or changes in public policy, affecting global insurance or investment markets;
- (e) There will be no other material industrial, commercial, economic or political disputes, terrorist activities, abnormal weather conditions or other interruptions adversely affecting the Group, its operations or its customers;
- (f) There will be no changes in the rates of taxation to which the Group is subject;
- (g) The Group's operational risk profile remains unchanged; and
- (h) There will be no material change in the present management or control of the Group or its accounting policies.

Assumptions under (a) to (f) above are exclusively outside the influence or control of Brit.

## **Business Process**

The Group continues to invest in better business process and in its information technology capability.

The Group's commitment to the reform of business process includes involvement in relevant market committees. In particular, Dane Douetil is a member of the Market Reform Group which consists of the major London brokers and insurance companies and representatives of Lloyd's. He also chairs the Lloyd's Market Association.

The Group is hopeful that progress through Accounting and Settlement, Claims Loss Advice and Settlement System ("CLASS"), the contract certainty at inception programme and the London Market Principles ("LMP") slip will start to provide operational efficiencies during 2006. However, first it will be necessary for significant market standardisation to be achieved if the new information technology is to be utilised effectively.

Further impetus for change is also likely to flow from the Spitzer enquiry in the U.S. as this will create increased pressure for brokers to become more efficient in their processes. Those underwriting units that are able to take over some of the processing from brokers and to provide them with a better service are likely to be the medium term winners.

The Group believes that it is ideally equipped to take advantage of this market repositioning and the Group will continue to place itself generally at the forefront of market process changes.

## **Strategic Investments**

The Group owns 40.9 per cent. of The Equity Partnership Limited ("EPL"), an investment management group. The Group's share of EPL's post-tax profit for 2004 under IFRS was £348,000 (2003: £137,000). As at 31 December 2004, of the Group's total invested assets of £1,842.9m (including 100 per cent. of syndicate assets), EPL managed some £1,570m, plus some £616m of external client monies.

The Group owns 34.0 per cent. of Ebix, a Nasdaq listed U.S. software supplier, which recorded its best ever results in 2004. Its share price performed well, rising from US\$12.26 to US\$15.00 during 2004.

The Group owns 85.55 per cent. of RI3K, an electronic reinsurance trading platform supplier.

## Organisational Structure

The Issuer is the ultimate holding company of the Group and has the following subsidiaries:

<i>Name of Company</i>	<i>Nature of Business</i>	<i>Proportion of capital held (directly or indirectly)</i>
Wren Limited	Intermediate holding company	100
Brit Insurance Limited	Insurance company	100
Brit UW Limited	Lloyd's corporate member	100
HCG Holdings Limited	Intermediate holding company	100
HCG Alpha Limited	Lloyd's corporate member	100
HCG Bravo Limited	Lloyd's corporate member	100
HCG Charlie Limited	Lloyd's corporate member	100
HCG Delta Limited	Lloyd's corporate member	100
HCG Echo Limited	Lloyd's corporate member	100
HCG Foxtrot Limited	Lloyd's corporate member	100
HCG Golf Limited	Dormant company	100
HCG Hotel Limited	Dormant company	100
Brit Investment Company Limited	Dormant company	100
Brit Investment Holdings Limited	Dormant company	100
Finsbury Underwriting Limited	Intermediate holding company	100
FUIT Underwriting and Placings Limited	Dormant company	100
FUIT One Limited	Lloyd's corporate member	100
FUIT Two Limited	Lloyd's corporate member	100
FUIT Three Limited	Lloyd's corporate member	100
FUIT Four Limited	Lloyd's corporate member	100
FUIT Five Limited	Lloyd's corporate member	100
Wren Holdings Group Limited	Intermediate holding company	100
Brit Group Services Limited	Intermediate holding company	100
Brit Syndicates Limited	Lloyd's managing agent	100
Wren Underwriting Agencies Limited	Lloyd's members agent	100
Wren Lloyd's Advisers Limited	Non-trading company	100
Wren Insurance Services Limited	Lloyd's syndicate support company	100
Marham Consortium Management Limited	Lloyd's syndicate support company	100
Wren Group Services Limited	Dormant company	100
Wren Legal Expenses Limited	Dormant company	100
Masthead Insurance Underwriting Limited	Intermediate holding company	100
Masthead A Limited	Lloyd's corporate member	100
Masthead B Limited	Lloyd's corporate member	100
Masthead C Limited	Lloyd's corporate member	100
Masthead D Limited	Lloyd's corporate member	100
Masthead E Limited	Lloyd's corporate member	100
Brit Corporate Secretaries Ltd	Dormant company	100
RI3K Limited	E-commerce solutions company	85
RI3K Asia Pte Limited	E-commerce solutions company	77
Brit Underwriting Group Limited	Intermediate holding company	100
Brit Insurance (UK) Limited	Insurance company	100
Brit Group Services (II) Ltd	Management service company	100
Brit Corporate Services Ltd	Dormant company	100
Brit Claims Management Limited	Dormant company	100
CF Epic Investment Funds	Open ended investment company	81.1

The Issuer is dependent on the following subsidiaries: Brit Insurance Limited; Brit UW Limited; Brit Group Services Limited; Brit Syndicates Limited; Masthead Insurance Underwriting Limited.

**Directors**

<i>Name</i>	<i>Position held in relation to the Issuer</i>	<i>Significant External Directorships</i>
Clive Frederick Coates	Chairman	Eagle Star Executives' Pension Trustees Ltd
Dane Jonathan Douetil	Group Chief Executive Officer	Lloyd's Market Association
Neil David Eckert	Executive Director	Climate Exchange Limited Cricket Management Limited Design Technology & Innovations Safety (1994) Limited Design Technology & Irrigation Limited Design Technology and Innovation Limited Design Technology and Innovation Marketing Limited ECX Associate Membership Limited ECX Limited European Climate Exchange Limited The Oval Cricket Relief Trust "Pure" The Clean Planet Trust Ripe Foods Limited Northward Properties Ltd Titan (South West) Limited Tradings Emissions plc
Matthew Scales	Group Finance Director	—
Peter Frank Hazell	Non-Executive Director Chairman of the Audit Committee	Argent Estates Limited Argent Group plc Natural Environment Research Council Regulatory Policy Institute Smith & Williamson Holdings Limited The Oval Cricket Relief Trust UK Coal plc
Joseph Patrick MacHale	Non-Executive Director	Macmillan Cancer Relief Morgan Crucible Company PLC (The) National Westminster Bank PLC The Royal Bank of Scotland Group PLC The Royal Bank of Scotland PLC Prytania Group
Donald Cecil McCrickard	Non-Executive Director and Senior Independent Director Chairman of the Nomination and Remuneration Committees	Equity Partnership Investment Company PLC National Counties Building Society Limited Three Cophall Avenue Limited Verdandi Limited
Cornelis Antonius Carolus Maria Schrauwers	Non-Executive Director	ALIO Limited CMGL Group Limited CMGL Holdings Limited
Michael Gordon Smith	Non-Executive Director	Cavell Managing Agency Limited CFC Underwriting Limited Horseshoe Wharf Management Limited Michael Smith Associates Limited The Foyle Foundation The National Hospital for Neurology and Neurosurgery Development Foundation The Oval Cricket Relief Trust Wigcave Investments Limited

## Directors

<i>Name</i>	<i>Position held in relation to the Issuer</i>	<i>Significant External Directorships</i>
John Anthony Victor Townsend	Non-Executive Director	British and American Investment Trust PLC (Chairman) Cranleigh Enterprises Ltd Cranleigh School Company F&C Smaller Companies PLC Finsbury Emerging Biotechnology Trust Plc Finsbury Growth & Income Trust plc Finsbury Technology Trust Plc Finsbury Worldwide Pharmaceutical Trust Plc Flit Investments Limited Hansa Capital Ltd Ilimia Investment Trust plc (Chairman) Lloyd's Regulatory Board Mebroking plc Oxfordshire BiotechNet Ltd The Association of Investment Trust Companies The Ukraine Opportunity Trust PLC

None of the Directors has any potential conflict between their duties to the Issuer and their other directorships as set out above.

The business address of each of the Directors is 55 Bishopsgate, London EC2N 3AS, England.

### **Clive Frederick Coates**

#### *Chairman*

Born 1944. He is a Fellow of the Chartered Association of Certified Accountants and has nearly 40 years' experience in the insurance industry. He was formerly Chief Executive of Eagle Star Insurance Company Limited, Group Deputy Chairman of Eagle Star Holdings PLC and Finance Director of British American Financial Services Limited until his retirement in December 1997. He is a Director of Eagle Star Executives' Pension Trustees Limited. He joined the Board of Brit Insurance Limited in December 1998 and was the Chairman from September 1999 until August 2004. He was appointed as a Director and Deputy Chairman of Brit on 29 April 2002 and became the Chairman of the Issuer on 24 September 2002.

### **Dane Jonathan Douetil**

#### *Group Chief Executive Officer*

Born 1960. He graduated in 1982 from Birmingham University with an Honours Degree in commerce, joined the Willis Faber Group in 1982 and was appointed Executive Director of the Political & Financial Risk Division in 1988. He was a founding shareholder and Director of insurance broker, Special Risk Services Limited, from 1989 to 1994. Between 1994 and 1998 he acted as a consultant on the sale of a number of mortgage operations, as well as acting as a risk consultant for several financial institutions. He became a consultant to the Benfield Group in July 1997 prior to joining Brit Insurance Limited, the Issuer FSA regulated insurance company, in August 1998 and was appointed as its Chief Executive in December 1998. He joined the Brit Insurance Holdings PLC Board on 30 November 1999, becoming Chief Executive of Brit Syndicates Limited in July 2002, Head of Underwriting for the Brit Group in August 2002, and Deputy Chief Executive of Brit Insurance Holdings PLC on 1 March 2004. He was appointed Group Chief Executive Officer in April 2005. He chairs the Lloyd's Market Association.

### **Neil Eckert**

#### *Executive Director*

Born 1962. He became a Lloyd's reinsurance broker in 1980, joining the Benfield Group in 1986 and its main board in 1991. In 1995 he co-founded the Issuer as a listed Investment Trust and, following a sustained period of corporate activity, the Issuer re-listed as a publicly quoted insurance company in 1999 when he was appointed as Chief Executive Officer. He resigned from all Benfield

Boards in January 2000 to concentrate on his role at Brit. Neil is Non-Executive Chairman of Design Technology & Innovation Limited, a patenting and intellectual property company and a Director of R13K, an internet hub for reinsurance. Neil is also a founder Director of Climate Exchange plc and Chairman of the European Climate Exchange, an exchange set up to trade carbon and other emissions permits.

### **Matthew Scales**

#### *Group Finance Director*

Born 1954. He is a Fellow of the Institute of Chartered Accountants and joined the C T Bowring Group in 1979, transferring within that group to English & American Group in 1982. He was the Finance Director of English & American Group plc (1991-1993). He also acted as Group Financial Controller of Benfield Group plc from February 1996 to March 1999. He has been Finance Director of Brit Insurance Limited, the Issuer FSA regulated insurance company, since its establishment in 1993 and joined the Board of the Issuer as Finance Director on 30 November 1999.

### **Peter Frank Hazell**

#### *Non-Executive Director*

Born 1948. He was appointed to the Board on 1 April 2004. He is Chairman of the Argent Group, a Non-Executive Director of UK Coal PLC and of Smith & Williamson Holdings Limited and Chairman of both companies' audit committees. He is a member of the Competition Commission, and a member of the Natural Environment Research Council whose audit committee he also chairs. He was previously UK Managing Partner of PricewaterhouseCoopers. He spent his early career at Deloitte Haskins & Sells starting in their Management Consultancy Division and later advising on competition policy, investment appraisal and strategic planning. He was also involved in founding the Corporate Finance Practice, specialising in privatisation, regulation and mergers and acquisitions.

### **Joseph Patrick MacHale**

#### *Non-Executive Director*

Born 1951. Joseph MacHale held a number of senior executive positions with J P Morgan between 1979 and 2001 and was most recently chief executive of J P Morgan Europe, Middle East and Africa Region. He is currently a non-executive director and member of the audit committee of Royal Bank of Scotland Group PLC, non-executive director and chairman of the audit committee of Morgan Crucible plc, non-executive director and chairman of Prytania Group and a trustee of MacMillan Cancer Relief. He was appointed to the Board of Brit Insurance Holdings PLC on 9 November 2005 and is a member of the Remuneration Committee.

### **Donald Cecil McCrickard**

#### *Non-Executive Director*

Born 1936. He was previously a Director of American Express International Inc (1978-83), Group Chief Executive of TSB Group Plc (1990-92), Chief Executive of TSB Bank Plc (1989-92) and Chairman of Hill Samuel Bank (1991-92). He was also a member of the executive committee of the British Bankers Association (1988-92) and a member of the Bank of England's Deposit Protection Board (1989-92). He is a fellow of the Chartered Institute of Bankers. He has been a Director of the Issuer since its flotation in 1995.

### **Cornelis Antonius Carolus Maria Schrauwers**

#### *Non-Executive Director*

Born 1947. He joined the Board on 1 June 2005 and is a member of the Issuer's Audit Committee. He has some 30 years' industry experience, most recently as managing director of Aviva International and managing director of CGU Insurance. He previously held a number of senior positions in Commercial Union covering both the general insurance and life sectors. Prior to this he was a partner with Coopers & Lybrand in charge of insurance consultancy. He is Chairman of Alio Limited and a non executive director of CMGL Group Limited and CMGL Holdings Limited and was a non-executive director of Canopus Holdings UK Limited of Canopus Managing Agents Limited and of Munich Re (UK) plc.

### **Michael Gordon Smith**

#### *Non-Executive Director*

Born 1945. He joined the Board on 8 March 2004 and is a member of the Issuer's Nomination and Remuneration Committees. He is a former senior partner of Titmuss Sainer & Webb (now Dechert), the international law firm. He was a specialist corporate lawyer and from the early 1990's he focused on the Lloyd's insurance market and built a team of lawyers concentrating solely on this area.

### **John Anthony Victor Townsend**

#### *Non-Executive Director*

Born 1948. He graduated from Cambridge University with a degree in engineering. Following 10 years as a merchant banker he worked in his family's Lloyd's broking business from 1979 to 1987 and then moved to investment banking with Rea Brothers Group from 1988 to 1998. He was Chairman of the Association of Investment Trust Companies from 2001 to 2003. He has been a name at Lloyd's since 1974 and was a member of the Executive Committee of the Lloyd's Regulatory Board from 1996 until it relinquished its functions to the new Lloyd's Franchise Board at the end of 2002. He has been a Director of Brit since 2 August 1999.

### **Major Shareholders**

The Issuer's major shareholders (3 per cent. and above) as at 4 November 2005 were as follows:

<i>Shareholder</i>	<i>Percentage holding</i>	<i>Number of shares</i>
Invesco	19.31	189,336,577
Third Avenue	7.38	72,353,692
Jupiter Asset Management	6.68	65,536,576
F&C Asset Management	4.30	42,216,032
Schroder Investment Management	4.28	41,987,659
Fidelity Investments	3.88	38,008,519
Legal & General Investment Management	3.58	35,060,668
Liontrust Asset Management	3.15	30,894,251

## GLOSSARY OF INSURANCE MARKET TERMS

“capacity”	underwriting capacity or stamp capacity, as the context requires.
“cash call”	a request for funds made by a managing agent pursuant to the terms of the standard managing agent’s agreement in the form prescribed by Lloyd’s.
“corporate member”	a member of Lloyd’s which is a body corporate or a Scottish limited partnership.
“Council”	the Council of Lloyd’s, and any person or delegate acting under its authority, including the Lloyd’s Franchise Board.
“Equitas”	Equitas Reinsurance Limited, the company into which all non-life liabilities in relation to 1992 and prior business have been reinsured.
“funds at Lloyd’s” or “FAL”	funds held in trust at Lloyd’s to support a member’s underwriting activities.
“Lloyd’s”	The Society and Corporation of Lloyd’s created and governed by the Lloyd’s Acts 1871-1982, including the Council of Lloyds (and its delegates and other persons through whom the Council may act), as the context may require.
“managing agent”	an underwriting agent at Lloyd’s responsible for, amongst other things, managing a syndicate and employing the active underwriter.
“member”	except where the context otherwise requires, an underwriting member of Lloyd’s.
“Name”	an individual underwriting member of Lloyd’s.
“New Central Fund”	a fund established pursuant to the New Central Fund Byelaw (No. 23 of 1996) by Lloyd’s primarily as a policyholders’ protection fund in the event of a member being unable to meet his underwriting liabilities. The New Central Fund may also be used, with certain exceptions, for any purpose which may appear to the Council to further any of the objects of Lloyd’s.
“OPL” or “Overall Premium Limit” or “underwriting capacity”	the premium limit which determines the maximum amount of business which a member may underwrite, based on the level of his funds at Lloyd’s, in any year of account.
“Premiums Trust Fund”	a trust fund into which all premiums received by or on behalf of the member must be placed and which is available for payment of claims, reinsurance premiums, syndicate expenses and when the relevant year of account has been closed, profits.
“the proportionate cover plan”	the plan designed, <i>inter alia</i> , to help Equitas avoid going into insolvent liquidation or having to promote a scheme of arrangement in the event that it becomes unable to meet the liabilities attaching to 1992 and prior business in full, as described in the Settlement Offer.
“Reconstruction and Renewal plan”	the plan for the reconstruction and renewal of Lloyd’s described in the document entitled “Lloyd’s: reconstruction and renewal” sent by Lloyd’s to members in May 1995, as developed and finally incorporated into the Settlement Offer which was sent to Names on 30 July 1996.
“reinsurance to close” or “RITC”	a reinsurance agreement under which the members of a syndicate for a year of account are reinsured by underwriting members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business underwritten by the reinsured syndicate.

“solvency ratio”	the ratio of a member’s funds at Lloyd’s to its Overall Premium Limit, determined in accordance with Lloyd’s requirement.
“syndicate”	a group of underwriting members of Lloyd’s or a single corporate member underwriting insurance business at Lloyd’s through the agency of a managing agent to which a particular syndicate number is assigned by or with the authority of the Council.
“the Settlement Offer”	the document sent to members on 30 July 1996 incorporating the Reconstruction and Renewal Plan in its final form.
“year of account”	the basic accounting year at Lloyd’s commencing 1 January and ending 31 December in each year.
“1992 and prior business”	all liabilities under contracts of insurance (whether direct or otherwise) or reinsurance underwritten at Lloyd’s (other than long term business as defined in the Insurance Companies Act 1982) and originally allotted to the 1992 year of account or any earlier year of account including, without liability, any such liabilities reinsured to close into the 1993 or any later year of account, but excluding any liabilities re-signed, or reallocated pursuant to a premium transfer, into the 1993 or later year of account.

## UNITED KINGDOM TAXATION

*The following is a summary of the Issuer's understanding of the current United Kingdom law and practice relating to the taxation treatment of the Notes as at the date of this Prospectus and may be subject to change, possibly with retroactive effect. It relates only to the position of persons who are the absolute beneficial owners of the Notes and Coupons and may not apply to certain classes of Holders, such as dealers in securities. This summary deals only with the question of whether payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax and does not deal with other United Kingdom tax consequences that might arise from holding Notes. Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.*

### Withholding tax

1. So long as the Notes continue to be listed on a recognised stock exchange within the meaning of section 841 of the Income and Corporation Taxes Act 1988, payments of interest may be made without withholding or deduction for or on account of income tax. The London Stock Exchange is a recognised Stock Exchange for these purposes.
2. Persons in the United Kingdom paying interest to or receiving interest on behalf of another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest or the amount of interest paid or received and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

If the Notes cease to be listed on a recognised stock exchange, interest on the Notes will generally be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Interest on the Notes may also be paid without deduction or withholding for or on account of United Kingdom tax where interest on the Notes is paid to a person who belongs in the United Kingdom for United Kingdom taxation purposes and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest provided that HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax in circumstances where it has reasonable grounds to believe that it is likely that the beneficial owner is not within the charge to United Kingdom corporation tax in respect of such payment of interest at the time the payment is made.

3. The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes who are not resident in the United Kingdom, except where the holder in question carries on a trade, profession or vocation in the United Kingdom through a branch or agency, or in the case of a corporate holder, through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency or permanent establishment.
4. If interest were paid under deduction of United Kingdom income tax (e.g. if the Notes lost their listing), Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
5. Holders should note that the provisions relating to additional amounts referred to in Condition 10 of "Terms and Conditions of the Notes" above would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

## EU Directive

6. The EU has adopted a Directive regarding the taxation of savings income. The Directive requires each Member State to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) unless during such period they elect otherwise. A number of other non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the adoption of the Directive.

## SUBSCRIPTION AND SALE

Barclays Bank PLC and HSBC Bank plc (the “Managers”) have, pursuant to a Subscription Agreement dated 6 December 2005 (the “Subscription Agreement”), jointly and generally agreed with the Issuer to subscribe and pay for the Notes at 99.212 per cent. of the principal amount of the Notes plus accrued interest (if any) less certain commissions and expenses as agreed with the Issuer.

The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (“Regulation S”).

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the relevant Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has represented, warranted and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### General

No action has been or will be taken by the Issuer or the Managers that would permit a public offering of the Notes, or the possession or distribution of this Prospectus, or any amendment or supplement thereto, or any other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each Manager has agreed that it will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required for the offer, purchase or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers, purchases or sales and it will, to the best of its knowledge and belief, comply with all such laws and regulations.

Each of the Managers and their affiliates currently provide, and may continue to provide, banking services, including senior lending facilities, to the Issuer on customary market terms, and for which they have been or will be paid customary fees.

## GENERAL INFORMATION

- (1) The Issuer is incorporated in England and Wales with registered number 3121594.
- (2) It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or around 12 December 2005, subject only to the issue of the Temporary Global Note. If the Temporary Global Note is not issued as mentioned in this document, the issue of the Notes may be cancelled. Prior to listing, however, dealings in Notes will be permitted by the London Stock Exchange in accordance with its rules. The total expenses related to the admission to trading of the Notes are estimated to be £1.7 million.
- (3) Save as disclosed herein (see pages 39 to 40 (inclusive)), there has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2005 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2004.
- (4) Save as disclosed herein (see pages 14 and 15 in the paragraphs headed "Litigation" and "Investigation into finite reinsurance" in the "Lloyds market risks" section and "EU investigations into aviation insurance", "EU investigation into the business insurance market", "Judicial investigation may affect business practices" and "U.S. regulatory investigations of the use of finite insurance and reinsurance" in the "Regulatory matters" section, which refer to industry wide matters as opposed to matters specific to the Group and, as such, the impact of those matters (if any) on the insurance industry and/or the Group is not capable of quantification), neither the Issuer nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or any member of the Group is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer or the Group.
- (5) The annual accounts of the Issuer for the last two financial years have been audited. The consolidated accounts of the Issuer for the years ended 31 December 2004 and 31 December 2003 were audited by Mazars LLP, Chartered Accountants (authorised and regulated by the Financial Services Authority for designated investment business), in accordance with auditing standards and have been reported on without qualification. The report of the Issuer's auditors for the years ended 31 December 2004 and 31 December 2003 contained a statement that to the fullest extent permitted by law, the Issuer's auditors do not accept or assume responsibility to anyone other than the Issuer and the Issuer's members as a body for their audit work, for their report, or for the opinions they have formed. The address of Mazars LLP is 24 Bevis Marks, London EC3A 7NR. Ernst & Young LLP succeeded Mazars LLP as auditors to the Issuer with effect from 24 May 2005. Historically it had been necessary for the Group to use two firms of auditors as a consequence of having third party capacity on Lloyd's syndicates in which the Group participated (it being a requirement in such a case that syndicate auditors must be independent to those of the Group). There is now no such third party participation and it was considered to be appropriate and more efficient for the Group to use a single firm of auditors. The Group continues to have a good working relationship with Mazars and they continue to act as tax consultants. The address of Ernst & Young LLP is 1 More London Place, London SE1 2AF, United Kingdom.
- (6) The financial information of the Issuer set out in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the "Act"). Statutory accounts for such years have been delivered to the Registrar of Companies in England and Wales. The Issuer's auditors have made reports under Section 235 of the Act on such statutory accounts which were not qualified within the meaning of Section 262 of the Act and did not contain any statements made under Section 237(2) or (3) of the Act.
- (7) The issue of the Notes was authorised pursuant to a resolution of a duly authorised committee of the Board of Directors of the Issuer passed on 6 December 2005.
- (8) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The ISIN for the Notes is XS0237631097 and the Common Code for the Notes is 023763109.

- (9) Copies of the latest annual report and consolidated accounts of the Issuer, the latest interim consolidated accounts of the Issuer and the documents referred to in “Incorporation by Reference” above may be obtained free of charge, and copies of the Memorandum and Articles of Association of the Issuer, the Subscription Agreement, the Trust Deed and Paying Agency Agreement will be available for inspection, at the specified office of each of the Paying Agents during normal business hours, for a period of 12 months from the date of this document. The Issuer publishes unaudited interim consolidated accounts on a semi-annual basis. Copies of this Prospectus will be available for viewing at the specified offices of the Paying Agents during normal business hours and on the website of the London Stock Exchange.
- (10) The Notes and Coupons will bear the following legend: *“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”*.
- (11) The Trust Deed provides that the Trustee may rely on certificates or reports from the auditors of the Issuer and/or any other expert in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and such auditors and/or expert in connection therewith contains any limit on liability (monetary or otherwise) of such auditors and/or expert.

#### **REGISTERED OFFICE OF THE ISSUER**

Brit Insurance Holdings PLC  
55 Bishopsgate  
London EC2N 3AS  
United Kingdom  
Tel: (+44) 20 7984 8500

#### **TRUSTEE**

HSBC Trustee (C.I.) Limited  
PO Box 88  
1 Grenville Street  
St Helier  
Jersey JE4 9PF  
Channel Islands

#### **PRINCIPAL PAYING AGENT**

HSBC Bank plc  
8 Canada Square  
London E14 5HQ  
United Kingdom

#### **LEGAL ADVISERS**

*To the Managers and the Trustee:*

Linklaters  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

*To the Issuer:*

Allen & Overy LLP  
One New Change  
London EC4M 9QQ  
United Kingdom

#### **REGISTERED AUDITORS OF THE ISSUER**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF  
United Kingdom

