Hiscox plc Interim Statement 2006

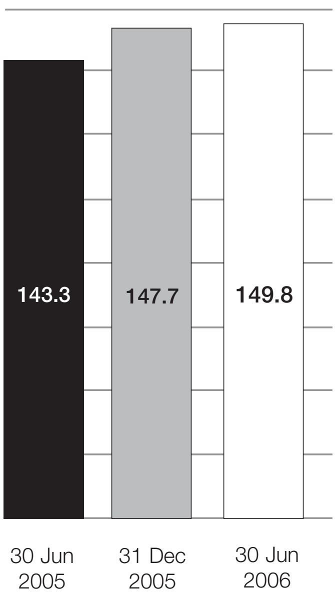
HISCOX

Contents

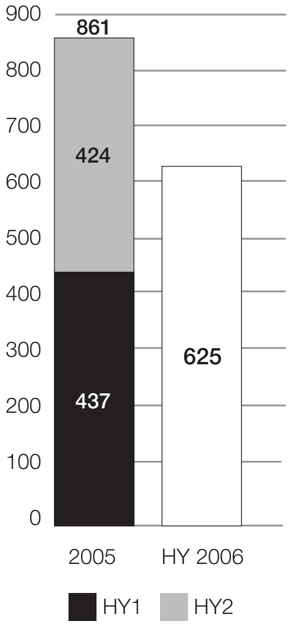
Corporate highlights

- Gross premiums written increased **43%** to **£625.1 million**
- Profit before tax of **£61.3 million**
- Profit before tax excluding currency exchange movements **£64.7 million** (2005: £51.2m)
- Group combined ratio adjusted for currency exchange on unearned premiums and deferred acquisition costs **89.5%** (2005: 89.6%)
- Strong start for Hiscox Bermuda and Hiscox USA
- Global Markets achieving high rates for catastrophe exposed risks
- Increase in demand for UK household and commercial insurance following additional advertising spend
- Planned re-domicile to Bermuda anticipated to yield long-term benefits.

Net asset value per share (p)



Hiscox plc Gross premiums written (£m)



Chairman's statement

"It was a good first half with strong growth fuelled by high rates for all business exposed to catastrophes, helped by steady growth from our retail non-catastrophe business. The successful start of our new ventures in Bermuda and the USA have strengthened our strategy of international spread, and balance between high-risk and low-risk specialist insurance."

The first half of 2006 has seen considerable growth in premium income together with strong starts by our two new ventures, Hiscox Bermuda and Hiscox USA, in Armonk, NY. Our well-received TV advertising campaign in the UK has strengthened demand for our specialist products through all channels. We now have an excellent well-balanced and international spread of distribution channels to continue to grow the business profitably in its specialist areas.

Results

The results for the half-year to 30th June 2006 were a profit before tax of £61.3 million (2005: £88.1m). Gross written premium income increased 43% to £625.1 million (2005: £437.2m) and net earned income increased 16% to £401.7 million (2005: £345.7m). The group combined ratio was 93.2% (2005: 83.5%). Earnings per share were 12.1p (2005: 20.2p) and net assets per share rose to 149.8p (2005: 143.3p).

Dividend

The Board stated at the 2005 year-end that it would recommend a total dividend of 9.0p for 2006 subject to profitability. We will pay an interim dividend of 3.0p (net) per ordinary share (2005: 2.25p) on 23rd October 2006 to shareholders on the register at the close of business on 29th September 2006.

Overall comment

The profit of the group is up year on year without currency exchange movements. The currency impact this half year was a small loss of £3.4 million compared with a substantial gain of £36.9 million during the same period in 2005. This underlying improvement was achieved despite considerable investment in start-up costs and advertising spend, but these will yield strong returns in the future. The increase in written premium income is highly satisfactory. The increase in earned premium is less than the written premium due to the usual accounting delay in a growing account and also to the underwriters of catastrophe business delaying commitment as rates were rising. This should improve earnings in the second half of the year.

I am writing this as always in the middle of the wind season so do not want to say anything that will look ridiculous in a few weeks time, but even if Mother Nature does choose to subject us to the same onslaught as in 2005, the catastrophe account should do better than last year as we have received much more money for the same risk. The rates for business in obvious catastrophe zones have strengthened throughout the period, but this has been offset by increasing competition for non-catastrophe exposed business. Overall, however, conditions are good.

Our strategy remains to underwrite the more volatile big risk and catastrophe business through Lloyd's in London and through Hiscox Bermuda, and to balance it with less volatile retail business through our regional offices in the UK and Europe, through Guernsey and the USA, and through our direct operations.

International

Our International business covers our new operations in Bermuda and the USA, as well as our established operation in Guernsey.

Hiscox Bermuda was boosted by having Robert Childs, our Chief Underwriting Officer, as its leader. (I was always told that rule number one for opening an overseas office was don't, and if you chose to break rule one, rule number two was to send one of your most senior people as it is the most difficult thing you will ever do. We have obeyed rule two to great benefit.) Hiscox Bermuda is on target to write its annual budget of $325 million.

Hiscox USA, led by Ed Donnelly, opened for business in March 2006 and has got off to a storming start. Ed has recruited an impressive team and has already increased his annual forecast for this year from $15 million to $25 million. I know it does not sound a lot compared with $325 million for Bermuda, but retail business has to be won by relatively small premium by small premium. Its advantage is less volatility in risk and retention. We definitely believe that this is an acorn which will grow into a substantial oak tree.

Hiscox Guernsey produced another excellent profit which helped to give the international division an overall combined ratio of 83.9% despite start-up costs.

Global Markets

This division underwrites London Market risks and the bigger retail risks and those international retail risks for which we need to use the Lloyd's licences. Its catastrophe book is written in addition to the Hiscox Bermuda book, which widens the spread of the account and balances the risk across the Group.

This division's results are dominated by its catastrophe book and, as we announced in our recent trading statement, last year's hurricanes have produced more claims during the period. Overall our reserves were flat despite strengthening the hurricane reserves by about £10 million, predominantly for Hurricane Wilma.

The combined ratio was 93.3% (2005: 80.5%) on an increased written premium income of £390.8 million (2005: £287.2m). Earned income at £256.1 million (2005: £217.2m) has increased less than written premium due to the accounting delay from strong growth and the underwriters waiting to write reinsurance business until later in the period. This has, together with the currency movement, increased the combined ratio. The earnings should, of course, show through more strongly in the second half.

The London Market is still the principal centre for internationally traded risks, and our underwriters get a very good showing of the business that comes to London. We also have Global Market offices in the USA and Paris to market our global underwriting abilities more widely.

Rates are strong for any risks exposed to catastrophes but competition is growing fiercer for other risks. Fortunately we have specialist books of business built up over many years which insulate us to an extent, but the cycle is interestingly split with some rates going down and some up.

As announced recently, we are in discussions with investors on the formation of an independent reinsurer (a 'sidecar') to reinsure exclusively the Syndicate 33 catastrophe account. This would allow us to expand our capacity for this business next year whilst controlling our risk.

UK and Europe

This division covers our retail business in UK and Europe together with some of our international art and specie account. Specie business is the insurance of valuable commodities such as cash and gold, which we underwrite with the art account. The UK figures in the period have been affected by some large specie losses which together with the advertising spend increased the combined ratio to 95.2% (2005: 90.2%). The UK combined written premium income was up 8.8% to £112.2 million (2005: £103.1m) but in that overall figure, the Direct account grew 75% and the Specie account reduced by 57%.

Competition has increased and put pressure on the rates. (We are reaching the stage in the cycle when Chief Executives state in public that their company will not reduce rates, while demanding in private more income from their troops. The troops cut the rates.) However, our commercial products are sufficiently specialist to make entry into the market by foolish and uneconomic competitors difficult. We have also concentrated on smaller risks where there is less competition. In art and household business, we have an established reputation and expertise and we do not compete on price alone but with our rapid service and sympathetic claims payment as well.

The great majority of our business comes through brokers. In addition, we have developed a growing direct account for both household and commercial policies with good underlying underwriting margins before start-up and marketing costs.

Once the direct operation had proved itself in its technology and underwriting, the time came to step up the marketing, culminating in the UK television advertising earlier this year which is being repeated during September. Demand surged following the last run of advertisements, and has settled 50% above the pre-campaign level. Brokers also reported a greater ease of selling our policies, so, combined with the strengthening of the Hiscox brand, the early stages of this campaign have proved a great success. Our direct activities complement our broker account. More and more clients want to buy direct insurance and our policies must be available to those who want them through whatever channel they choose. Some brokers are using our direct technology to market smaller risks, which we believe is the future.

Our European income was static but remained profitable. The new European management is strengthening the teams and progress will be made.

Investments

We achieved an annualised return on investments of 3.3% in the period despite difficult bond and equity markets in May and June. Cash and investments have grown by 35% to £1,678 million at 30 June 2006 (2005: £1,239m) augmented by our rights issue, increased borrowings and strong cashflow from trading. We continue to keep the portfolio balanced taking relatively little risk with short duration and high credit quality on the bonds and a continued weighting of 7-8% in equities. Our investment in Bermuda has been retained in cash and short dated bonds to protect the capital there and the US dollar exposure hedged to limit any effects on group net assets. The investment policy has served us well in the period as interest rates in major currencies rose. We will take increased risk in the portfolio where we believe the reward is justified but are currently happy to sit and wait for advantageous conditions.

Re-domicile

In 2005 when we established Hiscox Bermuda we stated that as such a substantial amount of the Group's business could originate from the Bermudan and US markets it may be in shareholders' interests to move the domicile of Hiscox's parent company to Bermuda. Since then the Board has been examining this proposal and following the completion of detailed work, the Board has concluded that there are significant advantages in moving the Group's domicile to Bermuda.

Accordingly the Board has approved a corporate re-organisation which will introduce a new Bermuda domiciled holding company, Hiscox Ltd ("New Hiscox Bermuda") for the Group. In effect a shareholder will receive new shares in New Hiscox Bermuda in place of the equivalent number of their existing shares in Hiscox plc. New Hiscox Bermuda will be listed on the Official List of the London Stock Exchange in place of Hiscox plc and is expected to replace Hiscox plc as a member of the FTSE 250 Index.

It is not expected that Hiscox's existing dividend policy would be affected and shareholders would have the right to elect to receive UK sourced dividends. The corporate re-organisation should also be neutral in tax terms for UK resident shareholders.

The re-domicile is subject to a number of regulatory approvals. A circular setting out how the corporate re-organisation will be effected will be sent to shareholders in due course.

Conclusion

Hiscox Bermuda and Hiscox USA have added two more solid building blocks to the foundations of the Group. Our existing foundation blocks of Global Markets, UK (including direct), Europe and Guernsey are all in robust shape. A move of our domicile to Bermuda should increase the earnings and add to our international status. Creative underwriting, combined with efficient service and rapid and fair claims settlement, are together building a distinctive brand which will be supported by strong marketing in the second half of the year. I wrote in last year's full year results that I was confident that we were entering a new era of profitable growth, and my confidence remains undiminished.

Robert Hiscox

Robert Hiscox, Chairman
11 September 2006

Condensed consolidated interim income statement

for the six month period ended 30 June 2006

	Notes	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Income				
Gross premiums written		**625,152**	437,160	861,174
Outward reinsurance premiums		**(120,449)**	(92,113)	(179,938)
Net premiums written		**504,703**	345,047	681,236
Insurance premiums earned		**473,393**	412,899	879,344
Insurance premiums ceded to reinsurers		**(71,731)**	(67,231)	(186,045)
Net premiums earned		**401,662**	345,668	693,299
Investment return	7	**44,375**	20,368	43,883
Other revenues	8	**6,876**	52,095	81,297
Net revenue		**452,913**	418,131	818,479
Expenses				
Claims and claim adjustment expenses, net of reinsurance	10	**(198,050)**	(186,207)	(457,025)
Expenses for the acquisition of insurance contracts		**(107,989)**	(99,378)	(199,979)
Administration expenses		**(26,970)**	(17,779)	(41,197)
Other costs and expenses	8	**(53,736)**	(25,789)	(46,973)
Total expenses		**(386,745)**	(329,153)	(745,174)
Results of operating activities		**66,168**	88,978	73,305
Finance costs	9	**(4,824)**	(1,009)	(3,334)
Share of profit/(loss) of associates after tax		**5**	151	250
Profit before tax		**61,349**	88,120	70,221
Tax expense		**(14,029)**	(27,040)	(21,591)
Profit for the period (all attributable to equity shareholders of the Company)		**47,320**	61,080	48,630
Earnings per share on profit attributable to equity shareholders of the Company				
Basic	11	**12.1p**	20.2p	15.6p
Diluted	11	**11.9p**	20.0p	15.1p

The notes to the condensed consolidated interim financial statements are an integral part of this document.

Condensed consolidated interim balance sheet
at 30 June 2006

	Notes	30 June 2006 (unaudited) £000	30 June 2005 (unaudited) £000	31 December 2005 (audited) £000
Assets				
Intangible assets		**33,016**	32,370	33,099
Property, plant and equipment		**12,891**	10,837	12,128
Investments in associates		**23**	1,013	18
Deferred acquisition costs		**128,898**	114,875	106,747
Financial assets	13	**1,210,543**	1,037,993	1,237,778
Loans and receivables including insurance receivables		**464,522**	330,996	436,981
Deferred tax		**13,129**	-	-
Reinsurance contract receivables		**435,094**	290,342	506,376
Cash and cash equivalents	13, 16	**467,904**	200,919	413,759
Total assets		**2,766,020**	2,019,345	2,746,886
Equity and liabilities				
Shareholders' equity				
Share capital		**19,649**	14,717	19,570
Share premium		**403,259**	234,899	401,365
Other reserves		**16,705**	37,823	38,789
Retained earnings		**148,750**	134,246	118,289
Total equity		**588,363**	421,685	578,013
Employee retirement benefit obligations		**17,308**	25,964	16,677
Deferred tax		-	33,322	15,193
Insurance contracts		**1,769,644**	1,373,869	1,723,000
Financial liabilities	13	**115,064**	2,167	126,246
Current tax		**44,264**	12,750	16,581
Trade and other payables		**231,377**	149,588	271,176
Total liabilities		**2,177,657**	1,597,660	2,168,873
Total equity and liabilities		**2,766,020**	2,019,345	2,746,886

The notes to the condensed consolidated interim financial statements are an integral part of this document.

Condensed consolidated interim statement of changes in equity for the six month period ended 30 June 2006

	Share capital (unaudited) £000	Share premium (unaudited) £000	Merger reserve (unaudited) £000	Currency translation reserve (unaudited) £000	Capital redemption reserve (unaudited) £000	Retained earnings (unaudited) £000	**2006 Total (unaudited) £000**	2005 Total (unaudited) £000
Balance at 1 January	19,570	401,365	4,723	822	33,244	118,289	**578,013**	368,826
Currency translation differences	-	-	-	(22,084)	-	-	**(22,084)**	324
Net income recognised directly in equity	-	-	-	(22,084)	-	-	**(22,084)**	324
Profit for the period	-	-	-	-	-	47,320	**47,320**	61,080
Total recognised income for the period	-	-	-	(22,084)	-	47,320	**25,236**	61,404
Employee share options:								
Equity settled share-based payments	-	-	-	-	-	1,780	**1,780**	825
Proceeds from shares issued	79	1,894	-	-	-	-	**1,973**	664
Change in own shares	-	-	-	-	-	-	**-**	252
Dividends to equity shareholders (note 12)	-	-	-	-	-	(18,639)	**(18,639)**	(10,286)
Balance at 30 June	19,649	403,259	4,723	(21,262)	33,244	148,750	**588,363**	421,685

The notes to the condensed consolidated interim financial statements are an integral part of this document.

Condensed consolidated interim cash flow statement

for the six month period ended 30 June 2006

	Notes	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Profit before tax		**61,349**	88,120	70,221
Interest and equity dividends received		**(33,339)**	(22,236)	(48,072)
Net (gains)/losses on financial assets		**4,967**	(836)	4,289
Retirement benefit charges in excess of contributions paid		**631**	(8,754)	(18,041)
Depreciation		**1,800**	1,534	3,281
Charges in respect of share based payments		**1,780**	826	2,059
Other non-cash items		**(24,618)**	(481)	690
Changes in operational assets and liabilities:				
Insurance and reinsurance contracts		**69,019**	71,650	212,462
Financial assets		**19,844**	(54,259)	(256,280)
Other assets and liabilities		**(20,819)**	(493)	13,048
Cash generated from operations		**80,614**	75,071	(16,343)
Interest received		**32,892**	20,907	46,844
Equity dividends received		**447**	1,329	1,228
Interest paid		**(2,409)**	(774)	(2,573)
Current tax paid		**(14,668)**	(3,339)	(10,239)
Net cash flows from operating activities		**96,876**	93,194	18,917
Cash flows from the acquisition and sale of subsidiaries and associates		**-**	-	3,750
Cash flows from the sale/(purchase) of property, plant and equipment		**(2,534)**	(1,530)	(4,474)
Cash flows from the purchase of intangible assets		**-**	(2,401)	(3,277)
Loans repaid by related parties		**-**	-	1,580
Net cash used in investing activities		**(2,534)**	(3,931)	(2,421)
Proceeds from the issue of ordinary shares		**1,973**	664	171,983
Proceeds from the sale of treasury shares		**-**	252	192
Dividends paid to Company's shareholders	12	**(18,639)**	(10,286)	(16,917)
Proceeds from borrowings		**-**	-	121,133
Repayment of borrowings		**(319)**	(233)	(102)
Net cash flows from financing activities		**(16,985)**	(9,603)	276,289
Net increase in cash and cash equivalents		**77,357**	79,660	292,785
Cash and cash equivalents at 1 January		**413,759**	119,563	119,563
Net increase in cash and cash equivalents		**77,357**	79,660	292,785
Effect of exchange rate fluctuations on cash and cash equivalents		**(23,212)**	1,696	1,411
Cash and cash equivalents at end of period	16	**467,904**	200,919	413,759

The notes to the condensed consolidated interim financial statements are an integral part of this document.

Notes to the condensed consolidated interim financial statements

1 Reporting entity

Hiscox plc (the "Company") is a public limited company incorporated and domiciled in Great Britain. The condensed consolidated interim financial statements for the Company as at, and for the six months ended, 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

2 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with the Listing Rules issued by the Financial Services Authority. The information presented herein does not include all of the disclosures typically required for full consolidated financial statements. Consequently these financial statements should be read in conjunction with the full consolidated financial statements of the Group as at, and for the year ended, 31 December 2005 which are available from the Company's registered office at 1 Great St Helen's, London, EC3A 6HX or at www.hiscox.com. Except where otherwise indicated, all amounts are presented in Pounds Sterling, rounded to the nearest thousand.

The condensed consolidated interim financial statements for the 30 June 2006 and 30 June 2005 periods are unaudited but have been subject to a review by the independent auditors. The unaudited condensed consolidated interim financial statements, and the comparative information as at, and for the year ended, 31 December 2005, presented herein do not constitute statutory accounts of the Group within the meaning of Section 240 of the Companies Act 1985.

The independent auditors have reported on the Group's full consolidated financial statements as at, and for the year ended, 31 December 2005. The report of the independent auditors was not qualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

These condensed interim financial statements were approved by the Board of Directors on 11 September 2006.

3 Accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied by the Group in its consolidated financial statements as at, and for the year ended, 31 December 2005 which were prepared in accordance with International Financial Reporting Standards as endorsed by the European Union.

The Group continues to monitor the insurance industry's interpretation and emerging consensus on the application of International Financial Reporting Standards as endorsed by the European Union. Following publication of the *Interim Report 2005*, certain presentational reclassifications were made to the 30 June 2005 prior period amounts and segment disclosures to conform to the presentation in the Group's 2005 Annual Report and to the current period presentation. The effect of these reclassifications was to present investment expenses within other costs and expenses rather than investment return, and to seperately identify fair value movements on foreign exchange derivative contracts within the investment return. These reclassifications have no impact on previously reported Results of operating activities or Profit before tax.

The accounting policies applied in these condensed consolidated interim financial statements are also consistent with those that the Group expects to apply for the year ending 31 December 2006. The Group has not adopted IAS 34 *Interim Financial Reporting*.

4 Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the full consolidated financial statements as at, and for the year ended, 31 December 2005.

5 Segment information

The Group is managed and reported on a worldwide basis in three primary business segments as follows:

- **Global Markets and Corporate Centre** comprises the results of Syndicate 33, excluding Syndicate 33's specie, fine art and non-US household business. It also includes the investment return and administrative costs associated with the parent company and other Group management activities.
- **UK and Europe** comprises the results of Hiscox Insurance Company Limited, the results of Syndicate 33's specie, fine art and non-US household business, together with the income and expenses arising from the Group's retail agency activities in the UK and in continental Europe.
- **International** comprises the results of Hiscox Insurance Company (Guernsey) Limited and Hiscox Insurance Company (Bermuda) Limited which commenced underwriting on 1 January 2006. This segment also includes the activities of the US agency, Hiscox Inc. which commenced operations in March 2006.

This segmentation reflects the internal operational structure within the Group and how the business units are strategically managed to offer different products and services, with different risk profiles, to specific customer groups. All revenue sources are captured by one of the three business segments shown above. All results arise from continuing activities.

The segmental results for the six months to 30 June 2006, presented in operational reporting format, were as follows:

	6 months to 30 June 2006 (unaudited)				6 months to 30 June 2005 (unaudited)			
	Global Markets and Corporate Centre £000	UK and Europe £000	International £000	Total £000	Global Markets and Corporate Centre £000	UK and Europe £000	International £000	Total £000
Gross premiums written	390,807	139,457	94,888	625,152	287,192	129,613	20,355	437,160
Net premiums written	311,311	117,043	76,349	504,703	217,257	114,918	12,872	345,047
Net premiums earned	256,133	115,127	30,402	401,662	217,200	118,559	9,909	345,668
Investment return based on longer term rates of return	19,192	9,100	6,339	34,631	17,245	6,928	93	24,266
Net claims incurred	(137,389)	(50,888)	(9,773)	(198,050)	(129,650)	(56,365)	(192)	(186,207)
Acquisition costs	(67,081)	(38,486)	(11,707)	(117,274)	(59,601)	(40,181)	(8,110)	(107,892)
Administration expenses	(12,593)	(11,242)	(3,135)	(26,970)	(7,974)	(9,582)	(1,075)	(18,631)
Other income/(expenses)	(20,151)	(1,159)	788	(20,522)	38,806	840	404	40,050
Trading result	38,111	22,452	12,914	73,477	76,026	20,199	1,029	97,254
Agency and other income	2,030	12,530	471	15,031	8,207	11,090	169	19,466
Profit commission	1,130	-	-	1,130	2,744	-	-	2,744
Short-term investment return fluctuations	10,564	(1,320)	500	9,744	(7,249)	3,374	(23)	(3,898)
Other expenses	(7,284)	(19,889)	(6,041)	(33,214)	(13,681)	(12,907)	-	(26,588)
Operating result	44,551	13,773	7,844	66,168	66,047	21,756	1,175	88,978
Finance costs	(4,824)	-	-	(4,824)	(1,009)	-	-	(1,009)
Associates result	5	-	-	5	-	-	151	151
Profit before tax	39,732	13,773	7,844	61,349	65,038	21,756	1,326	88,120

	Global Markets and Corporate Centre	UK and Europe	International	Total	Global Markets and Corporate Centre	UK and Europe	International	Total
100% level net combined ratio (%)	93.3	95.2	83.9	93.2	80.5	90.2	90.6	83.5

5 Segment information cont

	Year to 31 December 2005 (audited)			
	Global Markets and Corporate Centre £000	UK and Europe £000	International £000	Total £000
Gross premiums written	555,183	262,271	43,720	861,174
Net premiums written	417,128	235,276	28,832	681,236
Net premiums earned	428,334	241,603	23,362	693,299
Investment return based on longer term rates of return	36,181	14,300	1,632	52,113
Net claims incurred	(347,865)	(108,498)	(662)	(457,025)
Acquisition costs	(118,546)	(81,827)	(18,380)	(218,753)
Administration expenses	(14,342)	(24,571)	(2,284)	(41,197)
Other income/(expenses)	55,060	2,362	(162)	57,260
Trading result	38,822	43,369	3,506	85,697
Agency and other income	8,376	22,640	2,469	33,485
Profit commission	7,357	-	-	7,357
Short-term investment return fluctuations	(15,252)	6,081	(70)	(9,241)
Other expenses	(15,253)	(28,740)	-	(43,993)
Operating result	24,050	43,350	5,905	73,305
Finance costs	(3,334)	-	-	(3,334)
Associates result	-	-	250	250
Profit before tax	20,716	43,350	6,155	70,221

	Global Markets and Corporate Centre	UK and Europe	International	Total
100% level net combined ratio (%)	99.9	86.9	91.3	96.0

The longer term rates of return are calculated based on 6% return on equities and 4% for all other investments including cash. These rates are applied to the average value of investments held in each class during the current and prior financial periods.

6 Return on equity

	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Profit for the period	**47,320**	61,080	48,630
Opening shareholders' equity	**578,013**	368,826	368,826
Adjusted for the time weighted impact of:			
Rights Issue	**-**	-	15,510
Distributions and other movements in capital	**(205)**	(78)	(5,285)
Adjusted opening shareholders' equity	**577,808**	368,748	379,051
Annualised return on equity (%)	**17.0%**	35.9%	12.8%

Notes to the condensed consolidated interim financial statements continued

7 Investment result

i) Analysis of investment result

	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Investment income including interest receivable	**35,128**	22,657	48,172
Net realised gains/(losses) on investments at fair value through income	**(7,185)**	(1,629)	(8,040)
Net fair value gains/(losses) on investments at fair value through income	**(795)**	2,465	10,155
Net realised gains on derivative instruments	**18,091**	-	-
Net fair value gains/(losses) on derivative instruments and financial liabilities	**(864)**	(3,125)	(6,404)
Total returns on financial assets	**44,375**	20,368	43,883

The majority of the Group's foreign exchange cylindrical collar derivatives closed during June 2006, at nil overall cost. At 31 December 2005 the fair value of all such contracts that were closed out before 30 June 2006 was a liability of £3,713,000.

The Group also realised £14,214,000 from the closing out of foreign exchange forward derivatives during the period to 30 June 2006. These contracts provide a partial hedge of the Group's net investment in its Bermudan operation but do not currently qualify for the formal hedge accounting treatment permitted under IAS 39 *Financial Instruments: Recognition and Measurement*. Further details are provided at note 15.

Investment expenses are presented within other expenses (note 8).

ii) Annualised investment yields

	6 months to 30 June 2006 (unaudited)		6 months to 30 June 2005 (unaudited)		Year to 31 Dec 2005 (audited)	
	Return £000	Yield %	Return £000	Yield %	Return £000	Yield %
Debt and fixed income securities at fair value through income	**13,852**	**2.8**	15,268	3.6	26,733	3.1
Equities and shares in unit trusts at fair value through income	**2,702**	**4.4**	3,789	9.0	12,278	13.1
Deposits with credit institutions/cash and cash equivalents	**10,594**	**4.0**	4,436	4.6	11,276	3.7
	27,148	**3.3**	23,493	4.1	50,287	4.0

8 Other income and expenses

	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Agency related income	**3,175**	2,527	3,044
Profit commission	**1,130**	2,744	9,807
Exchange gains (note 15)	**-**	40,050	57,420
Other income	**2,571**	6,774	11,026
Other income	**6,876**	52,095	81,297
Managing agency expenses	**4,235**	10,022	9,869
Underwriting agency expenses	**19,303**	10,905	19,886
Connect agency expenses	**6,360**	1,682	6,135
Exchange losses	**20,522**	-	-
Investment expenses	**640**	571	1,013
Other Group expenses	**2,676**	2,609	10,070
Other expenses	**53,736**	25,789	46,973

9 Finance costs

	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Interest and expenses associated with bank borrowings and letters of credit	**4,806**	996	3,302
Interest charges arising on finance leases	**18**	13	32
	4,824	1,009	3,334

The Group drew down £137,500,000 on a syndicated letter of credit facility on 7 November 2005 to support its underwriting operations. On 5 December 2005, the Group drew down US$208,000,000 of its term and revolving credit facility to support the investment in the new Bermudan operations.

10 Claims and claim adjustment expenses

	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Gross insurance claims and claim adjustment expenses	**(221,005)**	(236,078)	(810,678)
Insurance claims recovered from reinsurers	**22,955**	49,871	353,653
Net insurance claims and claim adjustment expenses	**(198,050)**	(186,207)	(457,025)

11 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held as own shares.

	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Profit attributable to the Company's equity holders (£000)	**47,320**	61,080	48,630
Weighted average number of ordinary shares (thousands)	**392,125**	302,754	310,797
Basic earnings per share (pence per share)	**12.1p**	20.2p	15.6p

The comparative weighted average number of shares in issue for the 6 months to 30 June 2005 has been adjusted for the effects of the Rights Issue in November 2005.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Profit attributable to the Company's equity holders (£000)	**47,320**	61,080	48,630
Weighted average number of ordinary shares in issue (thousands)	**392,125**	302,754	310,797
Adjustment for share options (thousands)	**6,772**	3,263	12,283
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**398,897**	306,017	323,080
Diluted earnings per share (pence per share)	**11.9p**	20.0p	15.1p

Diluted earnings per share has been calculated after taking account of outstanding options under both employee share schemes and also SAYE schemes.

Notes to the condensed consolidated interim financial statements continued

12 Dividends

	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Final dividend for the year ended:			
31 December 2005 of 4.75p (net) per share	**18,639**	-	-
31 December 2004 of 3.5p (net) per share	**-**	10,286	10,286
Interim dividend for the year ended:			
31 December 2005 of 2.25p (net) per share	**-**	-	6,631
	18,639	10,286	16,917

An interim dividend of 3.00p (net) per ordinary share has been declared payable on 23 October 2006 to shareholders registered on 29 September 2006 in respect of the six months to 30 June 2006 (30 June 2005: 2.25p (net) per ordinary share). The dividend was approved by the Board on 4 September 2006 and accordingly has not been included as a distribution or liability in this interim consolidated financial information in accordance with IAS 10 *Events after the Balance Sheet Date*.

13 Financial assets and liabilities

i) Analysis of financial assets at fair value through income

	30 June 2006 (unaudited) £000	30 June 2005 (unaudited) £000	31 Dec 2005 (audited) £000
Debt and fixed income securities	**1,010,472**	865,005	1,028,795
Equities and shares in unit trusts	**131,515**	93,427	119,407
Deposits with credit institutions	**67,967**	79,561	89,576
Investments	**1,209,954**	1,037,993	1,237,778
Derivative financial assets	**589**	-	-
	1,210,543	1,037,993	1,237,778

ii) Analysis of financial liabilities at fair value through income

	30 June 2006 (unaudited) £000	30 June 2005 (unaudited) £000	31 Dec 2005 (audited) £000
Short-term borrowings from credit institutions	**112,378**	390	121,190
Derivatives financial liabilities	**2,686**	1,777	5,056
	115,064	2,167	126,246

The face value of the Group's short-term borrowings from credit institutions at 30 June 2006 was £112,432,000 (30 June 2005: £390,000; 31 December 2005: £121,190,000). The Group's borrowings at 31 December 2005 and 30 June 2006 served as a partial hedge of its net investment in the new Bermudan operation. However, the Group has not applied the hedge accounting treatment permitted under IAS 39 *Financial Instruments: Recognition and Measurement*.

Consequently, the foreign exchange gain of £8,498,000 (31 December 2005: loss of £120,000) and fair value gain of £54,000 (31 December 2005: £nil) arising during 2006 are both recognised in the interim income statement.

iii) Investment and cash allocation

	30 June 2006 (unaudited)		30 June 2005 (unaudited)		31 Dec 2005 (audited)	
	£000	%	£000	%	£000	%
Debt and fixed income securities	**1,010,472**	**60.3**	865,005	69.8	1,028,795	62.3
Equities and shares in unit trusts	**131,515**	**7.8**	93,427	7.5	119,407	7.2
Deposits with credit institutions/cash and cash equivalents	**535,871**	**31.9**	280,480	22.7	503,335	30.5
	1,677,858		1,238,912		1,651,537	

iv) Investment and cash allocation by currency

	30 June 2006 (unaudited) %	30 June 2005 (unaudited) %	31 Dec 2005 (audited) %
Sterling	**34.6**	36.4	29.9
US Dollars	**52.9**	49.5	57.5
Euro and other currencies	**12.5**	14.1	12.6

14 Net asset value per share

	30 June 2006 (unaudited) Net asset value £000	30 June 2006 (unaudited) NAV per share pence	30 June 2005 (unaudited) Net asset value £000	30 June 2005 (unaudited) NAV per share pence	31 Dec 2005 (audited) Net asset value £000	31 Dec 2005 (audited) NAV per share pence
Net asset value	**588,363**	**149.8**	421,685	143.3	578,013	147.7
Net tangible asset value	**555,347**	**141.4**	389,315	132.3	544,914	139.3

The net asset value per share is based on 392,795,000 shares (30 June 2005: 294,193,000; 31 December 2005: 391,216,000), being the adjusted number of shares in issue at each reference date.

15 Impact of foreign exchange related items

	6 months to 30 June 2006 (unaudited) £000	6 months to 30 June 2005 (unaudited) £000	Year to 31 Dec 2005 (audited) £000
Income statement			
Derivative gains/(losses) on foreign exchange hedge contracts included within investment return	**17,172**	(3,125)	(6,404)
Unearned premium and deferred acquisition costs adjustment	**(15,436)**	20,903	22,401
Foreign exchange gains/(losses) on borrowings hedging the Bermudan assets	**8,498**	-	(120)
Other foreign exchange gains/(losses)	**(13,584)**	19,147	35,139
Impact of foreign exchange related items on income statement	**(3,350)**	36,925	51,016
Balance sheet			
Foreign exchange differences recognised directly in equity	**(22,084)**	324	1,290
Overall impact of foreign exchange related items on net assets	**(25,434)**	37,249	52,306
Profit before tax			
Profit before tax	**61,349**	88,120	70,221
Unearned premium and deferred acquisition costs retranslation adjustment	**15,436**	(20,903)	(22,401)
Adjusted profit before tax	**76,785**	67,217	47,820
100% level combined ratio	**93.2%**	83.5%	96.0%
100% level combined ratio (after unearned premium and deferred acquisition costs adjustment)	**89.5%**	89.6%	99.6%

16 Cash and cash equivalents

The purchase, maturity and disposal of financial assets is part of the Group’s insurance activities and is therefore classified as an operating cash flow.

Included within cash and cash equivalents held by the Group are balances totaling £43,718,000 (30 June 2005: £54,259,000; 31 December 2005: £50,313,000) not available for use by the Group which are held within the Lloyd’s Syndicate.

Independent review report by KPMG Audit Plc to Hiscox plc

Introduction
We have been engaged by the company to review the financial information for the six months ended 30 June 2006 which comprise the condensed consolidated interim income statement, condensed consolidated interim balance sheet, condensed consolidated interim statement of changes in equity, condensed consolidated interim cash flow statement and related notes 1 to 16. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/ 4: Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting polices and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Statements on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

KPMG Audit Plc
London
11 September 2006

HISCOX

Hiscox 1 Great St Helen's London EC3A 6HX United Kingdom
T+44 (0)20 7448 6000 **F**+44 (0)20 7448 6900 **E** enquiry@hiscox.com

www.hiscox.com