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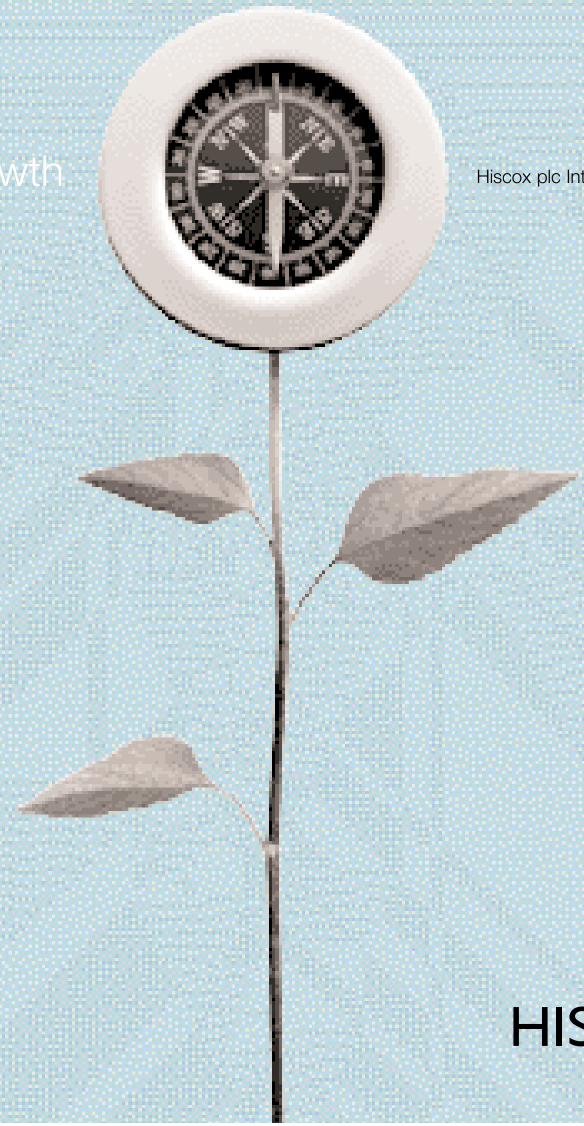
set for growth



Hiscox plc Interim Statement 2001

HISCOX

Contents

Highlights of first six months

Group gross written premium income up **45%**

Group operating profit **£4.8million** (2000: £0.9million)

The Hiscox Insurance Company gross premium income up **34%** with combined loss ratio of **99.1%**

Syndicate 33 premium income up **14%**. Plc share of premium income up **49%**. Syndicate continuing to achieve rate rises

Further strong overseas premium income growth of **48%**

World Trade Centre

Based on current knowledge, the net cost after reinsurance to Hiscox plc is £20 million pre-tax or 10p per share after tax

The interim results show two things. First, that our strategy of building a retail business outside Lloyd's continues to succeed, and second, that our underwriters are taking advantage of the greatly improved market conditions to grow profitable accounts.

The tragic events centred on the World Trade Centre will cause a setback to the current year's profits. However the resulting conditions will inevitably lead to accelerated growth and profit opportunities.

Group performance
Group premium income for the period increased by 45% to £313 million generating an operating profit of £4.8 million (2000: £0.9million) and a pre-tax profit of £1.4 million (2000: £0.1million).

Dividend
The board decided that due to the uncertainty of the exact size of the WTC loss and the probable capital needs to take advantage of future opportunities, it would be prudent to defer consideration of dividends for 2001 until the full year results are available.

Investments
The investment return for the period of £6.2 million (2000: £5.4 million) was below the assumed long-term rate which caused the pre-tax profit to be lower than the operating profit. The average asset split was fixed interest 55%, equities including property 21% and cash 24%. All asset classes performed ahead of benchmarks.

The Hiscox Insurance Company
Premium Income
Gross written premium income was up 34% for the period. This income growth was achieved before the demise of the Independent Insurance Company, from which we gained underwriting teams for the core areas of the Hiscox Insurance Company in May. The combined ratio was 99.1% (2000: 98.8%) despite some heavy losses in the period compared with a very benign experience last year. Rates are being raised, new business won and underwriting disciplines maintained. Our target combined ratio remains 95% to 98% for the Company.

We are well aware of the perils of fast growth, but the combination of increases in premiums on existing business and the ability to win new business through the demand for our specialist policies make these ideal conditions for us. We will grab the opportunities while they last, but be prepared to throttle back when the market softens.

Business strategy
The company focuses on two main areas:
• Personal: the insurance of household and associated risks of high net worth individuals.
• Commercial: insurance of service-based professional firms and media and technology companies.

These two areas are interlinked in many ways which enhances growth prospects that are already robust. Our household underwriters are covering many proprietors and leaders of businesses we want to insure, and many of the businesses we are insuring are staffed by individuals whose personal assets we want to insure.

Personal insurance
The management of private assets is a thriving sector, and the need for specialist insurance cover for larger household risks is becoming better known. Estimates of the size of the market are extremely imprecise. We believe that we have under 5% of it in the UK, and under 1% in mainland Europe, so the growth possibilities are excellent.

Commercial insurance
The established and emerging professions firms and service-based companies that we want to insure are a growing and successful part of the economy of the UK, and increasingly so in mainland Europe too. We choose the areas of business we want to insure and offer expertise and pertinent cover. Again, any estimate of the total premium income from all these risks is totally imprecise, but we believe that our market share is definitely under 5%, so the growth potential in the areas on which we focus is considerable.

Distribution strategy
Distribution is almost entirely through brokers, with a small but growing direct online (www.hiscox.com) portfolio for household insurance for mid net worth insureds. We have acquired or opened offices in Birmingham, Leeds, and Glasgow. We are also selling our products through our own offices in France, Germany, Holland, Belgium and Guernsey, and through a joint venture with a large insurer in Austria.

World Trade Centre
The company could have a small involvement in travel disruption policies and event cancellation, but nothing material is currently foreseeable.

Lloyd's business
Premium Income
Syndicate 33 has increased its gross written premium income for the period by 14%. The group's share of the premium income has grown 49% due to acquisition of capacity. In 2001 we have 60% of the Syndicate (2000: 53%) retaining 53% after quota share reinsurance. Our bid in the first auction for 2002 capacity was not successful. We are the only serious bidder in the long term so are not interested in chasing the price up. We will continue to offer a sensible price and if we do not succeed we are content to be paid to underwrite for third party capital.

The group's premium income will grow in 2002 as the Syndicate is increasing its capacity from £360 million to £447 million for that account. We have the funds in place to sustain our share and to acquire a reasonable amount in the auctions.

6 months ended 30 June	Insurance Company 2001 £m	Insurance Company 2000 £m	Lloyd's Business/ Group 2001 £m	Lloyd's Business/ Group 2000 £m	International operations 2001 £m	International operations 2000 £m	Total 2001 £m	Total 2000 £m
Gross written premium	**73.8**	55.2	**218.5**	146.7	**20.8**	14.0	**313.1**	215.9
Operating profit	**3.2**	2.5	**(0.1)**	(2.0)	**1.7**	0.4	**4.8**	0.9
Pre-tax profit	**0.0**	2.8	**(0.3)**	(3.3)	**1.7**	0.6	**1.4**	0.1
Earnings per share – basic							0.7p	0.1p
Dividends per share (net)							–	1.2p
Net assets before equalisation provision (£m)							145.3	135.4
Net assets per share before equalisation provision							98.0p	93.7p

Forecast results
The mid-point forecast results for the Syndicate prior to WTC were: 1999 account 9% loss: 2000 account 0.5% profit. We estimate that a small amount of the WTC loss could fall on 2000 with the majority on the 2001 account. The second quarter of 2001 saw some substantial losses hitting the market and some reinsurance failures. Syndicate 33 has had no material reinsurance failure and has a minimal involvement in Directors & Officers or financial institutions insurances which are producing serious losses from the dot.com crash.

World Trade Centre
Syndicate 33 has underwritten direct insurance of property, aviation hull war, personal accident and other miscellaneous risks such as event cancellation, involved in the WTC loss. It also has a reinsurance account which will have losses from both property and liability risks. The insurance and reinsurance industry has no ability to calculate the ultimate loss until the extent of damage is known. Understandably we have not yet received advices of loss from crucial insured risks. However, our current estimate, based on the best assumptions we can make, is a loss to the Syndicate in the region of £39 million, which would be about £20 million before tax to Hiscox plc after quota share reinsurance. 97.5% of the Syndicate's reinsurance programme is placed with reinsurers with an A rating or higher. The loss to the Syndicate will be set against profit from the balance of the account. Syndicate 33 has sufficient liquid assets, backed by bank facilities, to pay these losses.

Market conditions
Rates prior to the WTC loss were rising rapidly in the London Market. Syndicate 33 has achieved overall rate increases of 17% this year up to August 2001 and market conditions were as good as I had ever seen as there was no great shortage of capacity but just better disciplined underwriting. Now there will be a shortage of capacity in the reinsurance market and consequent pressure on direct insurers which can only drive prices up further. Any last vestige of weakness in the insurance market will have been swept away. Insurers and reinsurers have a duty to replenish their reserves in order to continue to service the needs of personal and commercial insureds and that requires charging the proper premium for the risk. We intend to do just that.

After a difficult patch, Syndicate 33 is back on track amongst the leaders in Lloyd's. The WTC loss is a setback, but with the upward cycle now accelerating fast, strong sustainable profits are clearly achievable in the next few years.

International operations
Gross written premium income was up 48% as the overseas offices continued the penetration of their markets. They seek and underwrite business for both the Hiscox Insurance Company and for Syndicate 33.

The Hiscox Insurance Company (Guernsey) continues to grow successfully and attracts business from markets worldwide, mainly for Syndicate 33.

The offices in mainland Europe are making great strides. The French office which suffered from the storms and adverse market conditions in 2000 has produced much improved figures this year, and the other offices continue to grow their accounts successfully. All have enormous markets of high net worth household business which have been virtually untapped. Each country has different distribution chains, and each office will expand its product range according to local demand and market conditions. In Germany, we have started writing professional indemnity risks, and in Holland we also write commercial risks in the media and leisure industry.

The future
This is our 100th year. It is sad that it will be remembered for such a tragic event. However, the benefits of such longevity are the long experience of large shock losses, of keeping the nerve to take advantage of the inevitable tightening in market conditions that follow, and also of the constant need for discipline in underwriting and prudence in reserving. The coming years look as exciting as any period in my time in the business, and we all remain absolutely determined to reward our shareholders with some decent returns.

Robert Hiscox

Robert Hiscox, Chairman
25 September 2001

Consolidated Profit and Loss Account
for the six month period ended 30 June 2001
Hiscox plc Interim Statement 2001

	Notes	**6 months to 30 June 2001 (unaudited) £000**	6 months to 30 June 2000 (unaudited) £000	Year to 31 Dec 2000 (audited) £000
Gross premiums written		**313,132**	215,938	384,736
Net premiums earned		**152,370**	97,021	241,450
Trading profit, before movement in equalisation provision		**10,732**	4,663	11,028
Trading profit, after movement in equalisation provision		**9,400**	3,561	8,719
Investment income	6	**7,979**	5,265	14,688
Realised gains/(losses) on investments	6	**369**	(899)	238
Unrealised gains/(losses) on investments	6	**(1,787)**	1,200	3,005
Investment expenses and charges	6	**(332)**	(139)	(666)
		6,229	5,427	17,265
Allocated investment return transferred to the technical account	6	**(8,240)**	(6,120)	(16,222)
Short term fluctuations in investment return	6	**(2,011)**	(693)	1,043
Other income		**2,165**	3,760	8,340
Other expenses		**(8,108)**	(6,482)	(14,615)
Profit on ordinary activities before tax		**1,446**	146	3,487
Comprising:				
Operating profit based on longer term investment return – continuing activities		**4,789**	910	2,950
Short term fluctuations in investment return	6	**(2,011)**	(693)	1,043
Exceptional item: sale of long term business		**–**	1,031	846
Exceptional item: sale of non-managed Lloyd's capacity		**–**	–	957
Movement in equalisation provision		**(1,332)**	(1,102)	(2,309)
		1,446	146	3,487
Tax on profit on ordinary activities		**(433)**	(41)	1,943
Profit on ordinary activities after tax		**1,013**	105	5,430
Dividends – Interim paid and payable	3	**–**	(1,734)	(1,708)
– Final payable		**–**	–	(3,404)
		–	(1,734)	(5,112)
Retained profit/(loss) for the period		**1,013**	(1,629)	318
Earnings per share:				
– Basic, based on operating profit after tax (on longer term investment return)	2	**2.3p**	0.5p	3.5p
– Basic, based on profit on ordinary activities after tax	2	**0.7p**	0.1p	3.8p
– Diluted, based on profit on ordinary activities after tax	2	**0.7p**	0.1p	3.8p

Consolidated Statement of Total Recognised Gains and Losses
for the six month period ended 30 June 2001

Profit on ordinary activities after tax	**1,013**	105	5,430
Exchange difference taken to reserves	**86**	24	50
Total recognised gains and losses	**1,099**	129	5,480

Consolidated Balance Sheet
at 30 June 2001
Hiscox plc Interim Statement 2001

	30 June 2001 (unaudited) £000	30 June 2000 (unaudited) £000	31 December 2000 (audited) £000
Assets			
Intangible assets			
Goodwill	**7,809**	6,829	6,634
Other intangible assets	**17,286**	14,423	17,773
	25,095	21,252	24,407
Investments			
Land and buildings	**434**	407	437
Other financial investments	**241,270**	200,187	263,655
	241,704	200,594	264,092
Reinsurers' share of technical provisions	**293,269**	228,098	175,943
Debtors	**375,757**	239,619	248,899
Other assets	**6,768**	6,621	6,132
Cash at bank and in hand	**38,703**	23,507	38,466
Prepayments and accrued income	**81,437**	69,917	59,385
Total assets	**1,062,733**	789,608	817,324
Liabilities			
Capital and reserves			
Called up share capital	**7,410**	7,225	7,400
Share premium account	**72,603**	69,062	72,474
Merger reserve	**4,723**	4,723	4,723
Capital redemption reserve	**33,244**	33,244	33,244
Profit and loss account	**16,820**	13,748	15,721
Shareholders' funds attributable to equity interests	**134,800**	128,002	133,562
Technical provisions	**789,132**	544,136	470,948
Equalisation provision	**10,473**	7,440	8,647
Creditors	**122,448**	105,292	194,207
Provisions for other risks and charges	**53**	25	655
Accruals and deferred income	**5,827**	4,713	9,305
Total liabilities	**1,062,733**	789,608	817,324
Net asset value (before equalisation provision) p per share	**98.0**	93.7	96.1

Underwriting result	6 months to 30 June 2001 (unaudited)					6 months to 30 June 2000 (unaudited)					Year to 31 December 2000 (audited)				
	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000	Underwriting Result* £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000	Underwriting Result* £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000	Underwriting Result* £000
Fire and other damage to property	79,825	(48,414)	(24,836)	(5,525)	1,050	59,601	(33,634)	(22,555)	(3,542)	(130)	111,224	(76,043)	(45,767)	5,947	(4,639)
Third party liability	42,400	(23,926)	(13,032)	(1,433)	4,009	26,156	(10,830)	(9,111)	(3,266)	2,949	57,824	(35,870)	(20,850)	(797)	307
Marine, aviation and transport	26,227	(21,029)	(6,502)	(3,888)	(5,192)	17,090	(13,004)	(5,332)	(294)	(1,540)	44,930	(28,986)	(16,892)	(2,412)	(3,360)
Reinsurance acceptances	27,896	(13,502)	(7,029)	(2,953)	4,412	22,376	(15,930)	(7,199)	(1,654)	(2,407)	92,924	(71,453)	(12,055)	(4,654)	4,762
Other	40,514	(22,171)	(14,786)	(4,682)	(1,125)	35,169	(14,945)	(13,137)	(7,416)	(329)	53,996	(28,457)	(25,882)	(3,105)	(3,448)
	216,862	(129,042)	(66,185)	(18,481)	3,154	160,392	(88,343)	(57,334)	(16,172)	(1,457)	360,898	(240,809)	(121,446)	(5,021)	(6,378)

*Before longer term investment return, other technical income and movement in equalisation provision.

Profit on ordinary activities before taxation	6 months to 30 June 2001 (unaudited)				6 months to 30 June 2000 (unaudited)				Year to 31 December 2000 (audited)			
	Lloyd's Business/Group £000	Insurance Company £000	International Operations £000	Total £000	Lloyd's Business/Group £000	Insurance Company £000	International Operations £000	Total £000	Lloyd's Business/Group £000	Insurance Company £000	International Operations £000	Total £000
Gross premiums written	218,503	73,801	20,828	313,132	146,652	55,241	14,045	215,938	225,523	127,347	31,866	384,736
Net premiums earned	84,484	58,020	9,866	152,370	43,041	46,926	7,054	97,021	125,322	100,995	15,133	241,450
Investment return, based on longer term rate of return	4,469	3,452	319	8,240	2,955	3,071	94	6,120	9,128	6,433	661	16,222
Net claims incurred	(52,672)	(31,518)	(19)	(84,209)	(17,272)	(23,862)	(46)	(41,180)	(74,348)	(52,998)	(20)	(127,366)
Acquisition costs	(30,889)	(18,848)	(8,484)	(58,221)	(26,812)	(16,167)	(6,123)	(49,102)	(58,776)	(33,958)	(13,318)	(106,052)
Administration expenses	(2,977)	(7,899)	(237)	(11,113)	(2,976)	(7,430)	(134)	(10,540)	(3,561)	(14,931)	(9)	(18,501)
Other technical income	(747)	–	85	(662)	–	–	–	–	1,184	–	–	1,184
Trading result:												
Aligned result	1,668	3,207	1,530	6,405	(1,064)	2,538	845	2,319	(2,005)	5,541	2,447	5,983
Non aligned result	–	–	–	–	–	–	–	–	954	–	–	954
Agency and other income	1,949	–	4,465	6,414	2,194	–	2,879	5,073	5,049	–	5,192	10,241
Profit commission	78	–	–	78	–	–	–	–	387	–	–	387
Expenses	(2,408)	–	(4,337)	(6,745)	(1,811)	–	(3,328)	(5,139)	(5,938)	–	(6,413)	(12,351)
Loan Interest	(681)	–	–	(681)	(715)	–	–	(715)	(951)	–	–	(951)
Goodwill and capacity amortisation	(682)	–	–	(682)	(628)	–	–	(628)	(1,313)	–	–	(1,313)
Operating profit/(loss)	(76)	3,207	1,658	4,789	(2,024)	2,538	396	910	(3,817)	5,541	1,226	2,950
Short term fluctuations in investment return	(174)	(1,853)	16	(2,011)	(1,310)	418	199	(693)	(764)	1,742	65	1,043
Profit on sale of long term business	–	–	–	–	–	1,031	–	1,031	–	846	–	846
Profit on sale of non-managed Lloyd's capacity	–	–	–	–	–	–	–	–	957	–	–	957
Movement in equalisation provision	–	(1,332)	–	(1,332)	–	(1,102)	–	(1,102)	–	(2,309)	–	(2,309)
Profit/(loss) on ordinary activities before taxation	(250)	22	1,674	1,446	(3,334)	2,885	595	146	(3,624)	5,820	1,291	3,847

	6 months to 30 June 2001 (unaudited)			6 months to 30 June 2000 (unaudited)			Year to 31 December 2000 (audited)		
	Managed Syndicate	Insurance Company	Total	Managed Syndicate	Insurance Company	Total	Managed Syndicate	Insurance Company	Total
100% level combined ratio	104.9%	99.1%	102.2%	104.1%	98.8%	102.2%	105.9%	97.7%	103.1%

Consolidated Cash Flow Statement
for the six month period ended 30 June 2001
Hiscox plc Interim Statement 2001

	6 months to 30 June 2001 (unaudited) £000	6 months to 30 June 2000 (unaudited) £000	Year to 31 Dec 2000 (audited) £000
Net cash inflow/(outflow) from general business	**(685)**	8,235	40,019
Net shareholders' cash inflow from long term business	**–**	2,328	–
Net shareholders' cash inflow/(outflow) from Lloyd's business	**(12,489)**	–	1,284
Net cash inflow/(outflow) from operating activities	**(13,174)**	10,563	41,303
Interest paid	**(609)**	(525)	(982)
Taxation paid	**(1,014)**	(2,646)	(6,654)
Capital expenditure	**(1,370)**	(1,548)	(4,394)
Acquisitions	**1,312**	–	846
Equity dividends paid	**–**	–	(4,982)
Financing	**(463)**	2,090	3,345
	(15,318)	7,934	28,482
Cash flows were invested as follows:			
Increase/(decrease) in cash holding	**7,246**	(5,049)	895
Net portfolio investment:			
Shares and units in unit trusts	**7,687**	14,979	18,019
Debt securities and other fixed income securities	**(10,900)**	306	(19,132)
Deposits with credit institutions	**(19,351)**	(2,038)	28,891
Other investments	**–**	(264)	(191)
Net investment of cash flows	**(15,318)**	7,934	28,482

Reconciliation of operating profit to net cash inflow from operating activities:	£000	£000	£000
Operating profit before taxation and after interest, based on longer term investment return	**4,789**	910	2,950
Depreciation and amortisation of fixed assets	**1,534**	1,214	2,959
Increase in general insurance technical provisions, net of reinsurance	**18,743**	8,198	23,451
Increase/(decrease) in amounts owed to agents	**5,324**	7,342	20,794
(Increase)/decrease in amounts owed by agents	**(20,689)**	(13,369)	(34,634)
(Increase)/decrease in other debtors	**(9,644)**	(4,743)	780
Increase/(decrease) in other creditors	**(212)**	5,187	11,061
Realised and unrealised investment (gains)/losses	**1,993**	(321)	(2,690)
Short term fluctuations in investment return	**(2,011)**	(693)	1,043
Loan interest expense	**681**	422	951
Cash received from long term business	**–**	2,328	–
Cash received from/(paid to) Lloyd's business	**(12,489)**	–	1,284
(Profits)/losses relating to Lloyd's business	**(1,157)**	4,548	12,866
Other non-cash transactions	**(36)**	(460)	488
Net cash inflow/(outflow) from operating activities	**(13,174)**	10,563	41,303

Notes to the Interim Accounts
Hiscox plc Interim Statement 2001

1 Basis of preparation
The unaudited interim accounts have been prepared on the basis of the accounting policies consistent with those set out in the Group's 2000 Report and Accounts. In accordance with the provisions relating to Insurance Companies under Schedule 9a of the Companies Act 1985, the accounts include the transactions, assets and liabilities of the Syndicates on which certain subsidiary companies participate as corporate members of Lloyd's, accounted for on an annual basis.

The unaudited interim statements, the comparative figures for the year ended 31 December 2000 and the financial information contained in these interim results, do not constitute statutory accounts of the Group within the meaning of Section 240 of the Companies Act 1985.

The auditors have reported on the Report and Accounts for the year ended 31 December 2000, their report was not qualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2 Earnings per share
Earnings per share on operating profit are based on the operating profit after taxation of £3,353,000 and on the average number of shares in issue during the current period of 146,052,550.

Earnings per share on ordinary activities are based on the profit after taxation of £1,013,000 and on the average number of shares in issue during the current period of 146,052,550.

Fully diluted earnings per share on ordinary activities are based on the profit after taxation of £1,013,000 and on the average number of shares in issue during the period of 148,084,399, taking into account the options outstanding under the Employee Option Schemes.

3 Dividends
No interim dividend has been declared payable in respect of the six months to 30 June 2001 (30 June 2000: 1.2p (net) per ordinary share).

4 Post balance sheet events
As detailed in the accompanying Chairman's Statement, claims arising from the US terrorist attacks on 11 September 2001 are expected to have a material effect on the Group's result for the year. The unaudited interim accounts have not been affected by the event.

5 100% Level Technical Account

The underwriting activities which are managed by the Group are shown below at the 100% level regardless of ownership of capacity.

	6 months to 30 June 2001 (unaudited)				6 months to 30 June 2000 (unaudited)			
	Managed Syndicate £000	Insurance Company £000	International Operations £000	Total £000	Managed Syndicate £000	Insurance Company £000	International Operations £000	Total £000
Gross premiums written	380,046	73,801	20,828	474,675	333,285	55,241	14,045	402,571
Net premiums written	211,654	65,597	11,244	288,495	167,514	50,926	7,059	225,499
Net premiums earned	153,021	58,020	9,866	220,907	108,340	46,926	7,054	162,320
Net claims incurred	97,062	31,518	19	128,599	48,952	23,862	46	72,860
Claims ratio (%)	63.4%	54.3%		58.2%	45.2%	50.9%		44.9%
Commission	70,251	21,510	9,641	101,402	79,260	16,864	6,097	102,221
Expenses	17,519	7,899	237	25,655	19,446	7,546	134	27,126
Movement in DAC	(26,014)	(2,662)	(1,157)	(29,833)	(27,365)	(813)	26	(28,152)
Net expenses	61,756	26,747	8,721	97,224	71,341	23,597	6,257	101,195
Expense ratio (%)	41.5%	44.8%		44.0%	58.9%	47.9%		57.3%
Net longer term investment return	6,085	3,452	319	9,856	3,236	3,071	94	6,401
Technical profit/(loss)	288	3,207	1,445	4,940	(8,717)	2,538	845	(5,334)
Combined ratio (%)	104.9%	99.1%		102.2%	104.1%	98.8%		102.2%

6 Investment Return

a) The total actual investment return before taxation comprises:

	6 months to 30 June 2001 (unaudited) £000	6 months to 30 June 2000 (unaudited) £000	Year to 31 Dec 2000 (audited) £000
Investment return on funds at Lloyd's and other corporate funds:			
Investment income	1,882	1,572	3,636
Unrealised gains/(losses) on investments	(412)	846	1,631
Realised gains/(losses) on investments	73	(1,031)	(944)
	1,543	1,387	4,323
Investment return on syndicate funds:			
Investment income	2,728	583	4,660
Realised gains/(losses) on investments	575	(20)	498
	3,303	563	5,158
Investment return on insurance company funds:			
Investment income	3,369	3,110	6,392
Unrealised gains/(losses) on investments	(1,375)	354	1,374
Realised gains/(losses) on investments	(279)	152	684
	1,715	3,616	8,450
Investment management expenses	(332)	(139)	(666)
Total investment return	6,229	5,427	17,265
Allocation to the technical account based on the longer term rate	(8,240)	(6,120)	(16,222)
Short term fluctuations in investment return retained in the non-technical account	(2,011)	(693)	1,043

6 Investment Return continued

b) Longer term investment return

The longer term return is based on a combination of historical experience and current expectations for each category of investments. The longer term return is calculated by applying the following yields to the weighted average of each category of assets.

	2001 %	2000 %
Shares and units in unit trusts	7.0	7.0
Debt securities and other fixed interest securities	6.0	6.0
Deposits with credit institutions	6.0	6.0

c) Comparison of longer term investment return with actual returns

The actual return on investments is compared below with the longer term investment return.

	6 months ended 30 June 2001 (unaudited)						
	Funds at Lloyd's and other Company Assets £000	%	Share of Syndicate £000	%	Insurance Comapny £000	%	Total £000
Actual investment return:							
Shares and units in unit trusts	232	1.6	96	5.9	(772)	(6.4)	(444)
Debt securities and other fixed interest securities	682	4.3	1,842	8.2	2,094	5.5	4,618
Deposits with credit institutions	522	4.2	394	3.9	277	5.1	1,193
Other	–	0.0	862	12.2	–	0.0	862
	1,436		3,194		1,599		6,229
Longer term investment return:							
Shares and units in unit trusts	1,040	7.0	114	7.0	850	7.0	2,004
Debt securities and other fixed interest securities	944	6.0	1,345	6.0	2,292	6.0	4,581
Deposits with credit institutions	739	6.0	606	6.0	310	6.0	1,655
Other	–	0.0	–	0.0	–	0.0	–
	2,723		2,065		3,452		8,240
Short term fluctuations in investment return	(1,287)		1,129		(1,853)		(2,011)

	6 months ended 30 June 2000 (unaudited)						
	Funds at Lloyd's and other Company Assets £000	%	Share of Syndicate £000	%	Insurance Comapny £000	%	Total £000
Actual investment return:							
Shares and units in unit trusts	(58)	(0.5)	(15)	(1.7)	210	2.6	137
Debt securities and other fixed interest securities	1,315	6.1	503	3.7	3,204	7.9	5,022
Deposits with credit institutions	118	8.5	65	11.8	75	6.0	258
Other	–	0.0	10	1.5	–	0.0	10
	1,375		563		3,489		5,427
Longer term investment return:							
Shares and units in unit trusts	759	7.0	61	7.0	574	7.0	1,394
Debt securities and other fixed interest securities	1,300	6.0	813	6.0	2,422	6.0	4,535
Deposits with credit institutions	83	6.0	33	6.0	75	6.0	191
Other	–	0.0	–	0.0	–	0.0	–
	2,142		907		3,071		6,120
Short term fluctuations in investment return	(767)		(344)		418		(693)

Introduction
We have been instructed by the Company to review the financial information set out on pages 4 to 11 and 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.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The Listing Rules of the Financial Services Authority 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. 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 policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards 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 2001.

KPMG Audit Plc
Chartered Accountants
London
25 September 2001

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