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Half-year figures...

Hiscox plc Interim Statement 2002

HISCOX

Highlights of first six months

- Group gross premium income up 41.3% to £442.3 million
- Group operating profit £10.8 million
- Pre-tax profit £3.9 million
- Syndicate 33 premium income up 44.6% to £549.4 million. Plc share up 55% to £338.6 million. Excellent trading conditions in the London Market
- Hiscox Insurance Company gross premium income up 10.5% to £81.5 million
- International Operations premium income increased by 6.7% to £22.2 million
- Interim dividend of 1.2p per share

Full-bodied results.

The Hiscox Insurance Company gross premium income is up 10.5% over the same period last year. Syndicate 33 premium income is up 44.6% and continues to show significant rate rises.

Conditions in the London Market are superb. Hiscox is taking full advantage with income well up and the loss ratio in the 2002 year of account in Syndicate 33 the lowest on record. Our retail business continues to thrive and the Hiscox Group as a whole is making great strides towards its goal to be a pre-eminent speciality insurer.

6 months ended 30 June	Lloyd's Business/ Group 2002 £m	Lloyd's Business/ Group 2001 £m	Insurance Company 2002 £m	Insurance Company 2001 £m	International Operations 2002 £m	International Operations 2001 £m	Total 2002 £m	Total 2001 £m
Gross written premium	**338.6**	218.5	**81.5**	73.8	**22.2**	20.8	**442.3**	313.1
Operating profit	**4.2**	(0.1)	**4.9**	3.2	**1.7**	1.7	**10.8**	4.8
Pre-tax profit	**0.7**	(0.3)	**1.7**	0.0	**1.5**	1.7	**3.9**	1.4
Earnings per share – basic							**1.5p**	0.7p
Dividends per share (net)							**1.2p**	–
Net assets before equalisation provision (£m)							**178.0**	145.3
Net assets per share before equalisation provision							**92.4p**	98.0p

Group performance
The results for Hiscox plc ("Hiscox" or the "Company") for the six months to 30 June 2002 are an operating profit of £10.8 million (2001: £4.8 million) and a pre-tax profit of £3.9 million (2001: £1.4 million). Group premium income for the period increased by 41.3% to £442.3 million (2001: £313.1 million).

Dividend
The Board decided that trading conditions merited a return to dividends and an interim dividend of 1.2p per ordinary share (2001: nil) has been declared, returning to the level paid in 2000. This will be paid on 24 October 2002 to shareholders on the register at the close of business on 27 September 2002.

Strategy
The ambition remains to build a balanced property and casualty underwriting business. The strategy is to specialise in areas in which we have expertise and where profits can be made. We are building the retail side of the business through the Hiscox Insurance Company and our overseas operations to balance the London Market business. However, conditions in the London Market are currently the strongest for many years and we are taking full advantage of them through Syndicate 33 at Lloyd's, so the major growth this year is in that side of the business.

Syndicate 33 at Lloyd's
Gross premium income for the period is up 44.6% to £549.4 million (2001: £380.0 million). Hiscox's share is up 55.0% to £338.6 million (2001: £218.5 million). The combined ratio is down to 103.5% (2001: 104.9%).

Business is flowing to London as it fulfils its role as the prime market for internationally traded insurance. In our experience business will always be placed locally by preference, but if it cannot be, then London is the leading alternative. As our competitors worldwide are suffering from an unprecedented lack of risk appetite, our underwriters at Lloyd's are using their entrepreneurial skills to make the traditional feast follow the famine.

As usual, I am writing this in the middle of the hurricane season so I would be holding myself hostage to fortune to be too bullish. However, Syndicate 33 has increased its income substantially in the first six months of 2002 compared with 2001 and the year has had an excellent start with very few claims. In addition, our market share is up. Such a good start to the year would make a catastrophic wind or earthquake much less painful, and it is a relief to be back at the mercy of Mother Nature and not of man-made catastrophes as we have reduced our exposure to terrorism.

Not only have premiums been increased substantially, but we have been reducing exposure. Although in turn we have had to pay more for our reinsurance and retain more exposure per risk or per catastrophe, we are nonetheless benefiting from these increased premiums for less risk.

We own 63% of the capacity of Syndicate 33. We do not at present intend to make a general offer for the balance, but are happy to underwrite for third party capital, acquiring such capacity as is sold at auction for a reasonable price.

World Trade Center
At 31 March 2002, we had advices of losses from the World Trade Center of US$543 million which we believed would reduce to an ultimate loss of US$440 million gross, US$90 million net after reinsurance and £30 million to Hiscox plc. The trend since has gone up as expected with the gross advices increasing a small amount to US$576 million, at 30 August 2002. We are maintaining our net loss position.

Expenses
The surge in income to Syndicate 33 has not been matched by an increase in staff numbers or expenses. In 1998 the Syndicate employed 182 people to underwrite £261.9 million in the first six months; in 2002 it has underwritten £549.4 million with 153 people.

The future
We believe that business conditions are likely to remain strong for some time in the London Market. Worldwide insurers have problems from the past eating at their vitals (such as asbestosis, directors' and officers' insurance, World Trade Center, mould in the USA and employers' liability in the UK) which should keep existing players constrained, and the difficult investment conditions should discourage the arrival of new money. We believe that reinsurance prices may have reached a ceiling in certain areas, but the market for insurance should remain strong. Insurance is our main business, and as we both buy and underwrite reinsurance, the effect of competition for it is less important to us. We support the reforms at Lloyd's and believe the newly appointed Chairman will bring an objective view to the future of the market.

Hiscox Insurance Company (HIC)
HIC has increased its income by 10.5% to £81.5 million (2001: £73.8 million). The increase without discontinued lines would have been 22.3%. The combined loss ratio at the half year was 100.3% (2001: 99.1%) which should, with normal loss expectancy, lead to the full year being within our target range of 95-98%. The UK combined ratio was 96.3% (2001: 97.6%). The company continues to focus on the insurance of personal property of affluent individuals and insurance of service-based businesses and professional firms. At the beginning of the year we narrowed that focus by exiting the insurance of property owners portfolios and commercial schemes as we felt our capital would be better deployed in our specialist areas.

We have had to pay more for reinsurance and have had to run more risk, so it has been important to focus the book on our preferred middle band, avoiding large individual exposures or smaller commodity risks with catastrophe potential without the profit to merit them.

The UK regional offices in Glasgow, Leeds and Birmingham have increased their income by 37% to £11.4 million and HIC now has 32% of its income coming from regional offices in the UK and mainland Europe. We hope to continue this expansion which we believe will give us a solid base of local business.

We consider the vital barometer of the underwriting business to be cash flow. The investment and cash balances are up from £153.7 million to £164.2 million over the period.

Overseas business
Our International Operations, comprising the Guernsey operations and the European agencies, have made an operating profit overall of £1.7 million (2001: £1.7 million).

As underwriting businesses, the European agencies have increased their premium income by 28% to £14.7 million but the loss ratios are still not good. They have suffered the problems endemic in all small accounts of suffering large losses before the book is big enough, from catastrophes such as the French storms in December 1999 and then the wind in Majorca last year to a large individual art theft this year. They are increasing volume and rates which will drive down their expense ratios and enable them to afford reasonably foreseeable losses. We still prefer to grow the European business organically and have confidence in the talent of our staff in those offices and consider that they are sound investments for the future. We believe that there is a huge market for our specialist lines in Europe and we are establishing a good name there and are confident that profitable growth will follow.

The Hiscox Insurance Company (Guernsey) Limited ("HICG") has made another healthy profit on a slightly reduced income due to timing of premium payments. The Irish office in Dublin which specialises in construction bonds produced another steady profit.

Investments
The investment return on Group funds for the period of £6.7 million (2001: £6.2 million) was below the assumed long-term rate. It was a difficult period for all asset classes, but our chosen fund managers performed relatively well. The average asset split was fixed interest 81.2%, equities 9.1%, property 3.1% and cash 6.6%.

Technical funds representing the cash flow from underwriting are invested in short-dated fixed interest securities and cash. For the half year we have returned just under 2% and should be in line to meet our full year target.

Funds supporting underwriting are invested in a broader range of assets including fixed interest, equities and property. All asset classes made a positive return for the period apart from equities. The loss on equities represented less than 1% of total Group funds.

The cash flow from underwriting to the Syndicate and HIC is significantly stronger than in recent years, which is consistent with improving market conditions.

Rights issue
The Board today announced a rights issue. A prospectus containing details of the rights issue will be posted to shareholders of the Company as soon as practicable.

Finally
In the last year end report I said that I was looking forward to the next few years with relish. The first six months of 2002 have exceeded my expectations and my enthusiasm and optimism, together with that of my colleagues, for the future of this business remains undiminished.

Robert Hiscox

Robert Hiscox, Chairman
10 September 2002

Consolidated Profit and Loss Account
for the six month period ended 30 June 2002
Hiscox plc Interim Statement 2002

	Notes	6 months to 30 June 2002 (unaudited) £000	6 months to 30 June 2001 (unaudited) £000	Year to 31 Dec 2001 (audited) £000
Gross premiums written		**442,373**	313,132	548,926
Net premiums earned		**185,258**	152,370	344,199
Trading profit/(loss), before movement in equalisation provision		**19,280**	10,732	(10,032)
Trading profit/(loss), after movement in equalisation provision		**17,885**	9,400	(12,614)
Investment income	6	**8,394**	7,979	15,005
Realised gains/(losses) on investments	6	**281**	369	126
Unrealised gains/(losses) on investments	6	**(1,583)**	(1,787)	(4,703)
Investment expenses and charges	6	**(353)**	(332)	(560)
		6,739	6,229	9,868
Allocated investment return transferred to the technical account	6	**(12,231)**	(8,240)	(18,562)
Short term fluctuations in investment return	6	**(5,492)**	(2,011)	(8,694)
Other income		**2,727**	2,165	3,333
Other expenses		**(11,186)**	(8,108)	(14,521)
Profit/(loss) on ordinary activities before tax		**3,934**	1,446	(32,496)
Comprising:				
Operating profit/(loss) based on longer term investment return – continuing activities		**10,821**	4,789	(21,220)
Short term fluctuations in investment return	6	**(5,492)**	(2,011)	(8,694)
Movement in equalisation provision		**(1,395)**	(1,332)	(2,582)
		3,934	1,446	(32,496)
Tax on profit/(loss) on ordinary activities		**(1,141)**	(433)	9,389
Profit/(loss) on ordinary activities after tax		**2,793**	1,013	(23,107)
Dividends – Interim paid and payable	4	**(2,299)**	–	–
– Final payable		**–**	–	–
		(2,299)	–	–
Retained profit/(loss) for the period		**494**	1,013	(23,107)
Earnings/(loss) per share:				
– Basic, based on operating profit/(loss) after tax (on longer term investment return)	3	**4.0p**	2.3p	(10.2)p
– Basic, based on profit/(loss) on ordinary activities after tax	3	**1.5p**	0.7p	(15.5)p
– Diluted, based on profit/(loss) on ordinary activities after tax	3	**1.4p**	0.7p	(15.5)p

Consolidated Statement of Total Recognised Gains and Losses
for the six month period ended 30 June 2002

Profit/(loss) on ordinary activities after tax		**2,793**	1,013	(23,107)
Exchange differences taken to reserves		**51**	86	(35)
Total recognised gains and losses	**2,844**	1,099	(23,142)	

Consolidated Balance Sheet
at 30 June 2002
Hiscox plc Interim Statement 2002

	Notes	30 June 2002 (unaudited) £000	30 June 2001 (unaudited) £000	31 December 2001 (audited) £000
Assets				
Intangible assets				
Goodwill		**6,782**	7,809	6,997
Other intangible assets		**16,308**	17,286	16,800
		23,090	25,095	23,797
Investments				
Land and buildings		**425**	434	430
Other financial investments		**378,195**	241,270	344,402
		378,620	241,704	344,832
Reinsurers' share of technical provisions	2	**454,412**	293,269	372,524
Debtors		**590,134**	375,757	335,735
Other assets		**6,709**	6,768	7,018
Cash at bank and in hand		**67,321**	38,703	62,520
Prepayments and accrued income		**119,857**	81,437	89,764
Total assets		**1,640,143**	1,062,733	1,236,190
Liabilities				
Capital and reserves				
Called up share capital		**9,635**	7,410	9,633
Share premium account		**124,624**	72,603	124,612
Merger reserve		**4,723**	4,723	4,723
Capital redemption reserve		**33,244**	33,244	33,244
Profit and loss account		**(6,876)**	16,820	(7,421)
Shareholders' funds attributable to equity interests		**165,350**	134,800	164,791
Technical provisions	2	**1,244,471**	789,132	874,288
Equalisation provision		**12,624**	10,473	11,229
Creditors		**209,365**	122,448	161,296
Provisions for other risks and charges		**1,742**	53	926
Accruals and deferred income		**6,591**	5,827	23,660
Total liabilities		**1,640,143**	1,062,733	1,236,190
Net asset value (before equalisation provision) pence per share		**92.4**	98.0	91.4

Segmental Information
Hiscox plc Interim Statement 2002

Profit/(loss) on ordinary activities before taxation	6 months to 30 June 2002 (unaudited)				6 months to 30 June 2001 (unaudited)				Year to 31 December 2001 (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	338,623	81,536	22,214	442,373	218,503	73,801	20,828	313,132	336,193	163,861	48,872	548,926
Net premiums earned	108,012	65,903	11,343	185,258	84,484	58,020	9,866	152,370	192,126	126,578	25,495	344,199
Investment return, based on longer term rate of return	6,931	4,744	556	12,231	4,469	3,452	319	8,240	10,407	7,093	1,062	18,562
Net claims incurred	(65,773)	(37,195)	(1,247)	(104,215)	(52,672)	(31,518)	(19)	(84,209)	(158,966)	(67,461)	(6,328)	(232,755)
Acquisition costs	(37,546)	(20,509)	(9,014)	(67,069)	(30,889)	(18,848)	(8,484)	(58,221)	(64,514)	(40,309)	(17,452)	(122,275)
Administration expenses	(4,668)	(7,995)	(227)	(12,890)	(2,977)	(7,899)	(237)	(11,113)	(5,900)	(18,842)	(495)	(25,237)
Other technical income/(expenses)	(902)	–	–	(902)	(747)	–	85	(662)	1,324	–	–	1,324
Trading result	6,054	4,948	1,411	12,413	1,668	3,207	1,530	6,405	(25,523)	7,059	2,282	(16,182)
Agency and other income	2,160	–	6,867	9,027	1,949	–	4,465	6,414	3,173	1	6,150	9,324
Profit commission	567	–	–	567	78	–	–	78	159	–	–	159
Expenses	(3,357)	–	(6,534)	(9,891)	(2,408)	–	(4,337)	(6,745)	(5,258)	–	(6,754)	(12,012)
Loan interest	(587)	–	–	(587)	(681)	–	–	(681)	(1,099)	–	–	(1,099)
Goodwill and capacity amortisation	(686)	(22)	–	(708)	(682)	–	–	(682)	(1,370)	(40)	–	(1,410)
Operating profit/(loss)	4,151	4,926	1,744	10,821	(76)	3,207	1,658	4,789	(29,918)	7,020	1,678	(21,220)
Short term fluctuations in investment return	(3,420)	(1,828)	(244)	(5,492)	(174)	(1,853)	16	(2,011)	(3,990)	(4,184)	(520)	(8,694)
Movement in equalisation provision	–	(1,395)	–	(1,395)	–	(1,332)	–	(1,332)	–	(2,582)	–	(2,582)
Profit/(loss) on ordinary activities before taxation	731	1,703	1,500	3,934	(250)	22	1,674	1,446	(33,908)	254	1,158	(32,496)
Net assets												
Tangible assets	66,402	73,562	2,296	142,260	55,943	53,351	411	109,705	68,599	72,727	(332)	140,994
Intangible assets	22,356	734	–	23,090	25,095	–	–	25,095	23,043	754	–	23,797
Total	88,758	74,296	2,296	165,350	81,038	53,351	411	134,800	91,642	73,481	(332)	164,791

	6 months to 30 June 2002 (unaudited)				6 months to 30 June 2001 (unaudited)				Year to 31 December 2001 (audited)			
	Managed Syndicate	Insurance Company	International Operations	Total	Managed Syndicate	Insurance Company	International Operations	Total	Managed Syndicate	Insurance Company	International Operations	Total
100% level combined ratio	103.5%	100.3%	90.1%	101.5%	104.9%	99.1%	88.1%	102.2%	115.9%	97.8%	96.8%	109.9%

Net asset value per share	6 months to 30 June 2002 (unaudited)			6 months to 30 June 2001 (unaudited)			Year to 31 December 2001 (audited)		
	Net asset value £000	Number of shares* 000	NAV per share p	Net asset value £000	Number of shares* 000	NAV per share p	Net asset value £000	Number of shares* 000	NAV per share p
Net asset value	165,350	192,696	85.8	134,800	148,200	91.0	164,791	192,667	85.5
Net asset value (before equalisation provision)	177,974	192,696	92.4	145,273	148,200	98.0	176,020	192,667	91.4
Net tangible asset value	142,260	192,696	73.8	109,705	148,200	74.0	140,994	192,667	73.2
Net tangible asset value (before equalisation provision)	154,884	192,696	80.4	120,178	148,200	81.1	152,223	192,667	79.0

*The number of shares is the number of shares in issue as at 30 June or 31 December of the relevant financial period.

Consolidated Cash Flow Statement
for the six month period ended 30 June 2002
Hiscox plc Interim Statement 2002

	6 months to 30 June 2002 (unaudited) £000	6 months to 30 June 2001 (unaudited) £000	Year to 31 Dec 2001 (audited) £000
Net cash inflow/(outflow) from general business	**10,753**	(685)	15,295
Net shareholders' cash inflow/(outflow) from Lloyd's business	**(23,037)**	(12,489)	(12,489)
Net cash inflow/(outflow) from operating activities	**(12,284)**	(13,174)	2,806
Interest paid	**(602)**	(609)	(680)
Taxation recovered/(paid)	**1,048**	(1,014)	(499)
Capital expenditure	**(713)**	(1,370)	(2,774)
Acquisitions	**–**	1,312	1,380
Equity dividends paid	**–**	–	(3,453)
Financing	**(2,011)**	(463)	55,368
	(14,562)	(15,318)	52,148
Cash flows were invested as follows:			
Increase/(decrease) in cash holding	**(1,062)**	7,246	6,369
Net portfolio investment:			
Shares and units in unit trusts	**2,748**	7,687	(1,937)
Debt securities and other fixed income securities	**34,097**	(10,900)	2,792
Deposits with credit institutions	**(50,345)**	(19,351)	44,924
Net investment of cash flows	**(14,562)**	(15,318)	52,148

Reconciliation of operating profit/(loss) to net cash inflow from operating activities:	£000	£000	£000
Operating profit/(loss) before taxation and after interest, based on longer term investment return	**10,821**	4,789	(21,220)
Depreciation and amortisation of fixed assets	**1,617**	1,534	3,274
Increase in general insurance technical provisions, net of reinsurance	**7,788**	18,743	37,115
Increase/(decrease) in amounts owed to agents	**14,516**	5,324	(6,280)
(Increase)/decrease in amounts owed by agents	**(7,197)**	(20,689)	(4,713)
(Increase)/decrease in other debtors	**(5,253)**	(9,644)	(35,779)
Increase/(decrease) in other creditors	**(5,539)**	(212)	12,775
Realised and unrealised investment (gains)/losses	**2,139**	1,993	5,991
Short term fluctuations in investment return	**(5,492)**	(2,011)	(8,694)
Interest expense	**564**	681	1,099
Cash received from/(paid to) Lloyd's business	**(23,037)**	(12,489)	(12,489)
(Profits)/losses relating to Lloyd's business	**(3,017)**	(1,157)	31,641
Other non-cash transactions	**(194)**	(36)	86
Net cash inflow/(outflow) from operating activities	**(12,284)**	(13,174)	2,806

Notes to the Interim Accounts
Hiscox plc Interim Statement 2002

1 Basis of preparation
Except for the adoption of Financial Reporting Standard ("FRS") 19 "Deferred Tax" during the period, the unaudited interim accounts have been prepared on the basis of accounting policies consistent with those set out in the Group's 2001 Report and Accounts. The adoption of FRS 19 has had no material impact on the current period's results.

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 Syndicate 33 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 2001 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 2001, their report was not qualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2 World Trade Center
The Group's exposure to losses arising from the terrorist attack of 11 September 2001 arises almost entirely from its participation in Syndicate 33. HIC and HICG have had a negligible loss from this event. The situation is unprecedented and as such the extent of the gross and net losses to the Group is difficult to assess with the degree of confidence which is usual for insurance losses; facts or circumstances will come to light which may affect these estimates. The current projected estimate of net loss to Hiscox is £30 million for which provision was made in the 2001 financial statements. The Group has exposure to losses on a number of non-liability accounts, in particular direct property, risk excess, catastrophe and aviation hull. Aviation hull losses have already largely been settled. There is no significant liability exposure.

As part of the process for the setting of the loss reserves, the directors have undertaken a comprehensive review of the Group's exposure in respect of insurance and reinsurance policies issued by Syndicate 33 to identify all those exposed directly or indirectly to losses from the events of 11 September 2001. This review has been supplemented by details of the notifications received from the XChanging Claims Services (formerly the Lloyd's Claims Office) which amounted to US$576 million as at 30 August 2002. Hiscox has considered the insureds' computations of their own losses. The directors of Hiscox plc believe that the insureds' computations are likely to prove unreliable. Hiscox has estimated what the directors believe is an appropriate discount or premium to these notifications, based on their past experience of large property losses and additional information received.

The reserve required for the Group's direct property exposure is sensitive to assumptions about the quantum of property damage and business interruption costs and to the legal issues relating to the cover provided by certain insurance policies. In reserving for these claims, the directors have taken account of settlement patterns experienced on previous large property losses, where final claims settlements are usually considerably lower than initial market estimates.

Hiscox largely participates on the higher layers of risk excess policies. In certain cases, the property damage element of the claim falls well below the excess point. Certain market notifications relating to these property reinsurances have been made on a total loss basis which are without merit on the basis of information which is currently available. The directors consider it likely that in such cases, the final settlement will fall below the excess point so that Hiscox will incur no loss. The directors have nevertheless, where appropriate, established a precautionary reserve in these cases on the assumption that a part payment may be made, although this may be lower than the notification which is for a total loss on the layer.

The extent to which losses arise from property risk excess and catastrophe reinsurance policies vary, particularly if a wide definition of business interruption is adopted. Provision has been made for property and business interruption losses known to have occurred in the immediate vicinity of the WTC. Remoter losses have not been provided for.

The current total estimated gross loss to Syndicate 33 is approximately US$440 million. Syndicate 33 expects to recover from its reinsurance protections approximately US$350 million, net of reinstatement premiums payable to reinsurers to reinstate cover for future losses, resulting in a net loss of approximately US$90 million to Syndicate 33. In arriving at this estimate it has been assumed that the terrorist attack in New York City on 11 September 2001 was one occurrence and also that the aircraft impacts on the WTC are one occurrence in respect of the property losses. In the unlikely event that Syndicate 33's loss increases by a further US$100 million, and assuming there are no further reinsurance recoveries, the net cost to Hiscox plc would increase by approximately £35 million. No account has been taken for any potential subrogation.

As at 30 August 2002, 97% of Syndicate 33's WTC reinsurance is placed with counterparties which are rated A grade or better and 64% of the total is placed with companies rated AA or AAA. 89% of this reinsurance is placed outside Lloyd's. Syndicate 33 has made a general provision for bad debts of US$4.5 million against their reinsurance recoveries in relation to the WTC losses. It has been assumed that no major reinsurer will fail. Syndicate 33 has already collected 38% of this reinsurance in the form of letters of credit or cash advances as part of our required funding of the US Trust Funds. Syndicate 33 has had no need to make a cash call.

3 Earnings per share

Earnings per share on operating profit are based on the operating profit after taxation of £7,575,000 (2001: £3,353,000) and on the average number of shares in issue during the current period of 191,592,000 (2001: 146,052,550).

Earnings per share on ordinary activities are based on the profit after taxation of £2,793,000 (2001: £1,013,000) and on the average number of shares in issue during the current period of 191,592,000 (2001: 146,052,550).

Fully diluted earnings per share on ordinary activities are based on the profit after taxation of £2,793,000 (2001: £1,013,000) and on the average number of shares in issue during the period of 193,724,000 (2001: 148,084,399) taking into account the options outstanding under the Employee Option Schemes.

4 Dividends

An interim dividend of 1.2p (net) per Ordinary Share has been declared payable on 24 October 2002 to shareholders registered on 27 September 2002 in respect of the six months to 30 June 2002 (30 June 2001: nil per Ordinary Share).

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 2002 (unaudited)				6 months to 30 June 2001 (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	549,381	81,536	22,214	653,131	380,046	73,801	20,828	474,675
Net premiums written	266,523	67,574	11,113	345,210	211,654	65,597	11,244	288,495
Net premiums earned	176,158	65,903	11,343	253,404	153,021	58,020	9,866	220,907
Net claims incurred	108,790	37,195	1,247	147,232	97,062	31,518	19	128,599
Claims ratio (%)	61.8%	56.4%	11.0%	58.1%	63.4%	54.3%	0.2%	58.2%
Commission	91,715	21,673	8,567	121,955	70,251	21,510	9,641	101,402
Operating expenses	19,568	7,995	227	27,790	17,519	7,899	237	25,655
Movement in deferred acquisition costs	(42,837)	(1,164)	447	(43,554)	(26,014)	(2,662)	(1,157)	(29,833)
Net expenses	68,446	28,504	9,241	106,191	61,756	26,747	8,721	97,224
Commission ratio (%)	34.4%	32.1%	77.1%	35.3%	33.2%	32.8%	85.8%	35.1%
Operating expense ratio (%)	7.3%	11.8%	2.0%	8.1%	8.3%	12.0%	2.1%	8.9%
Expense ratio (%)	41.7%	43.9%	79.1%	43.4%	41.5%	44.8%	87.9%	44.0%
Net longer term investment return	7,496	4,744	556	12,796	6,085	3,452	319	9,856
Technical profit/(loss)	6,418	4,948	1,411	12,777	288	3,207	1,445	4,940
Combined ratio (%)	103.5%	100.3%	90.1%	101.5%	104.9%	99.1%	88.1%	102.2%

6 Investment Return

a) The total actual investment return comprises:

	6 months to 30 June 2002 (unaudited) £000	6 months to 30 June 2001 (unaudited) £000	Year to 31 Dec 2001 (audited) £000
Investment return on funds at Lloyd's and other corporate funds:			
Investment income	2,111	1,882	3,507
Unrealised gains/(losses) on investments	(982)	(412)	(2,775)
Realised gains/(losses) on investments	(238)	73	115
	891	1,543	847
Investment return on syndicate funds:			
Investment income	2,298	2,728	5,045
Realised gains/(losses) on investments	837	575	1,404
	3,135	3,303	6,449
Investment return on insurance company funds:			
Investment income	3,985	3,369	6,453
Unrealised gains/(losses) on investments	(601)	(1,375)	(1,928)
Realised gains/(losses) on investments	(318)	(279)	(1,393)
	3,066	1,715	3,132
Investment management expenses	(353)	(332)	(560)
Total investment return	6,739	6,229	9,868
Allocation to the technical account based on the longer term rate	(12,231)	(8,240)	(18,562)
Short term fluctuations in investment return retained in the non-technical account	(5,492)	(2,011)	(8,694)

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.

	6 months to 30 June 2002 (unaudited) %	6 months to 30 June 2001 (unaudited) £000	Year to 31 Dec 2001 (audited) £000
Shares and units in unit trusts	7.0	7.0	7.0
Debt securities and other fixed interest securities	6.0	6.0	6.0
Deposits with credit institutions	6.0	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 to 30 June 2002 (unaudited)

	Funds at Lloyd's and other Corporate Assets £000	%	Share of Syndicate £000	%	Insurance Company £000	%	Total £000
Actual investment return:							
Shares and units in unit trusts	(856)	(5.8)	151	10.0	(476)	(5.8)	(1,181)
Debt securities and other fixed interest securities	949	6.9	2,730	4.0	2,822	5.2	6,501
Deposits with credit institutions	739	3.6	110	3.7	570	3.2	1,419
	832		2,991		2,916		6,739
Longer term investment return:							
Shares and units in unit trusts	1,034	7.0	106	7.0	568	7.0	1,708
Debt securities and other fixed interest securities	826	6.0	4,095	6.0	3,214	6.0	8,135
Deposits with credit institutions	1,246	6.0	180	6.0	962	6.0	2,388
	3,106		4,381		4,744		12,231
Short term fluctuations in investment return	(2,274)		(1,390)		(1,828)		(5,492)

6 months to 30 June 2001 (unaudited)

	Funds at Lloyd's and other Corporate Assets £000	%	Share of Syndicate £000	%	Insurance Company £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)

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2002 which comprises the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated balance sheet, the consolidated cash flow statement, the segmental information and related notes 1 to 6. 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 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 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.

Fundamental uncertainty

In forming our review conclusion, we have considered the adequacy of the disclosures made in the financial information concerning the material exposure that the Group faces to the terrorist attack in the United States of America on 11 September 2001. Details of the circumstances relating to this uncertainty are described in note 2.

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 2002.

KPMG Audit Plc
Chartered Accountants
London
10 September 2002

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