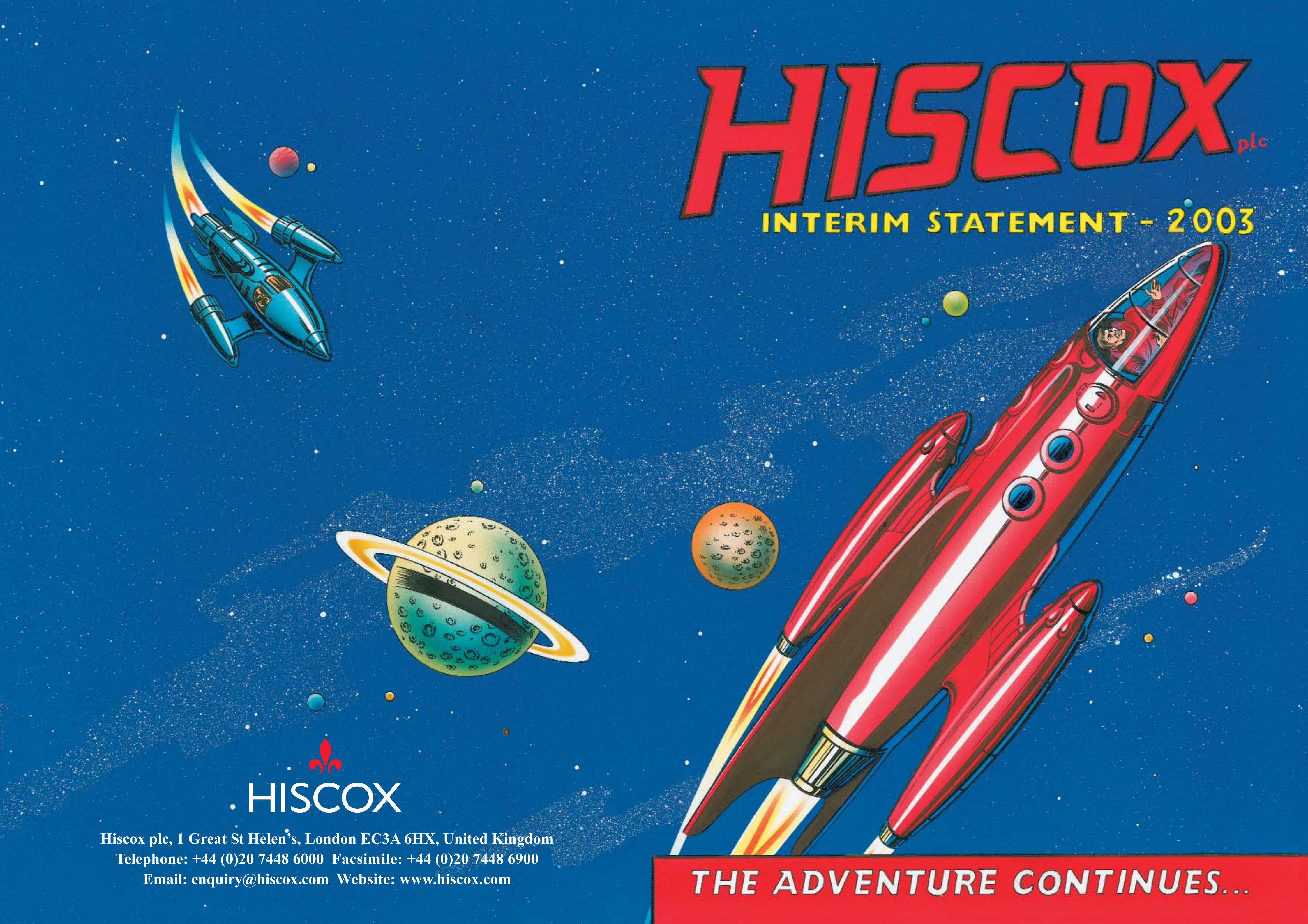
HISCOX plc

INTERIM STATEMENT - 2003



THE ADVENTURE CONTINUES...

HISCOX

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☆ CORPORATE HIGHLIGHTS ☆

- ★ *Pre-tax profit up 708% to £31.5 million (2002: £3.9 million), operating profit up 144% to £26.4 million (2002: £10.8 million)*
- ★ *Interim dividend increased to 1.3p per share*
- ★ *Hiscox plc gross written premium income up 34% to £590.6 million (2002: £442.3 million)*
- ★ *Group combined ratio has improved significantly to 95.9% (2002: 101.5%)*
- ★ *Net asset value per share (before equalisation provision) up 18% to 108.6p (2002: 92.4p)*
- ★ *Exceptional performance from Lloyd's Syndicate 33. Gross written premium applicable to Hiscox plc up 38% to £471.7 million (2002: £342.5 million). Operating profit up 270% to £15.9 million (2002: £4.3 million). London Market conditions very positive and expected to remain so*
- ★ *UK Retail made a significant contribution with pre-tax profit up 163% to £10.0 million (2002: £3.8 million). Gross written premiums up 17% to £78.0 million (2002: £66.8 million). Rates in our commercial business continue to rise*
- ★ *International Retail delivered a pre-tax profit of £2.6 million from a loss of £0.7 million in June 2002. Gross written premiums increased 24% to £40.9 million (2002: £33.1 million). Mainland Europe business now profitable*

CHAIRMAN'S STATEMENT

A strong first half, with all sections of the business performing well. Syndicate 33 in Lloyd's has exceptional figures ahead of most of its peers in the market. Outside Lloyd's, our retail business has had another strong performance in the UK and broken into profit in mainland Europe. Rates are still rising overall, conditions in the markets we are in look very positive, so the opportunities for profitable growth are there and we intend to take them.

BY ROBERT HISCOX, CHAIRMAN

RESULTS

Hiscox plc recorded a pre-tax profit of £31.5 million (2002: £3.9 million) for the six months to 30 June 2003 and an operating profit of £26.4 million (2002: £10.8 million). Group premium income for the period increased by 34% to £590.6 million (2002: £442.3 million). Earnings per share (based on the profit after tax) were 7.6p (2002: 1.4p). Net asset value per share (before equalisation provision) was 108.6p (2002: 92.4p). Group combined ratio was 95.9% (2002: 101.5%) which would have reduced to 77.3% without the increase in the World Trade Center (WTC) reserves.

DIVIDEND

In accordance with the Board's progressive dividend policy, we have increased the interim dividend to 1.3p per ordinary share (2002: 1.2p per share). This will be paid on 27 October 2003 to shareholders on the register at the close of business on 3 October 2003.

OVERALL COMMENT

All sections of the group performed well, with the UK Retail and International Operations making substantial strides towards fulfilling our long term strategic objective to balance the volatility of London Market business with more steady retail business. However, the main excitement is still in the London Market and the Hiscox Syndicate 33 has continued to show exceptional growth and profits. The next few years should remain full of opportunity for the Syndicate as we believe market conditions will remain positive for some time to come.

LONDON MARKET

These excellent results and the satisfactory ratio are struck after the substantial increase in reserves by Syndicate 33 for the World Trade Center loss in 2001 (WTC) announced in the period. It was decided to increase the reserves to the full amount of notifications, $588 million, from the previous reserves of $475 million. Claims continue to settle below notifications and we continue to take no account of any possible success in litigation against those with any responsibility for the loss, but we wished to rid ourselves of any perceived uncertainty as to the level of WTC reserves. The net cost of the increase to Hiscox plc was £40 million. The Syndicate's underlying combined ratio without the increase in WTC reserves was 74.9%.

At the half-year in 2001, Syndicate 33 had a gross premium income of £380 million. Two traumatic years on from the WTC tragedy the premium income has nearly doubled to £724.3 million. A surge in premium income at the wrong time means your prices are too low and disaster beckons. This surge has been achieved at exactly the right time in strong market conditions. The pure 2002 year of account figures are showing the lowest loss ratio since our available records begin in 1946, and 2003 has started well although I always hate talking about an account in its infancy and during the wind season.

These conditions will not last for ever, nor should they. The London Market is an opportunist market which flourishes to the sound of gunfire, and struggles to the sound of violins. Some of the more aggressive rate rises following the WTC tragedy were overdone, and reality dictates that some rates should reduce. But the full orchestra of violins is a long way off. International insurers and reinsurers are still licking their wounds and the investment markets and low interest rates will keep the emphasis on profitable underwriting for a good few years. Figures from the USA show that in 2002, $17.3 billion of new money was invested into the US insurance industry, premiums grew 14% with claims only growing 3% but the industry's surplus fell $4.4 billion (the third consecutive annual fall). Whether this is due to black holes being filled or their current rates being inadequate matters little – there is no sensible commercial reason for them to reduce rates.

The rates in Syndicate 33's markets are stable at a high level or rising. Some headline rate reductions are more than balanced by opportunities in areas where rates are rising as capacity is still in short supply.

The Syndicate will continue to offer creative underwriting in its international markets, strengthened by the experiences of the last few years, and from the base of a strong, revitalised Lloyd's.

UK RETAIL

UK Retail, through the Hiscox Insurance Company, made another highly satisfactory contribution to group profits. We continue to focus on two main areas of business: specialty commercial and affluent personal lines. These are substantial markets in which we have as yet relatively small penetrations so the focus can remain until we find another class in which to specialise. The advantage of specialisation is that we can be big, expert and efficient in our chosen fields and rival the biggest of our competitors in them.

Retail business does not come in big chunks as business does in the London Market but has to be won at a local level piece by piece. The hard work involved in building the book is, however, rewarded by better stability and retention. We have offices in London, Birmingham, Glasgow, Leeds and Maidenhead which, together with our direct internet business, reach all parts of the UK. Hiscox arrived in the regions at the right time as insurance cover was being withdrawn by wounded competitors and I believe we were welcomed by the local brokers. By focusing on our specialist areas we have offered stability with creative solutions to the insurance problems of brokers and their clients and will continue so to do. Rates have stabilised in property but continue to rise in some liability areas. Great efforts will be made to increase the distribution of our products.

	London Market		UK Retail		International Retail		Hiscox Insurance Co.	
6 months ended 30 June	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Gross written premium	**471.7**	342.5	**78.0**	66.8	**40.9**	33.1	**98.8**	81.5
Pre tax profit	**18.9**	0.9	**10.0**	3.8	**2.6**	(0.7)	**11.3**	1.7
Combined ratio (%)	**99.3**	103.7	**90.6**	96.4	**90.2**	103.3	**91.8**	100.3
Combined ratio without increase in WTC reserves	**74.9**	103.7	–	–	–	–	–	–

INTERNATIONAL RETAIL

Overall, our overseas operations (which underwrite business for both Syndicate 33 and the Hiscox Insurance Company) made a significantly increased profit. Guernsey produced another good profit, as did our small operation in the Republic of Ireland. To this was added a welcome profit from the continental European offices – a satisfactory step towards our objective to be a leading pan-European specialist insurer. We have offices in Belgium, France, Germany and the Netherlands, and links with operations in other European countries. There is a massive market there in which we have now established a good name and critical mass, and the next few years should show further substantial growth in volume and profits.

HISCOX INSURANCE COMPANY

Hiscox Insurance Company's income comprises all of UK Retail and part of International Retail. The combined ratio at 91.8% is arguably too low given our target of 95% – 98% but I, for one, am not going to argue with it! It gives us a margin to step up marketing and distribution efforts to find and win more business.

INVESTMENTS

Hiscox plc's invested assets grew to £738.1 million from £623.8 million and produced returns of 7% on fixed interest assets and 14% on equities. This exceeded the long term annual rate of return which was lowered on 1 January 2003 to 4% for fixed interest securities and 6% for equities (2002: 6% and 7%). This was done to reflect lower interest rates and expected returns from equities. (The reduction in the assumed long-term rates reduced the level of operating profits by £6.2 million).

Through our Hiscox Investment Management subsidiary we are now supervising the investment of the £1 billion of investments for the group and Syndicate 33, and also managing five OEIC Sub-Funds specialising in insurance and financial stocks.

FINALLY

A good report of a strong half-year. All parts of the business have made extremely positive strides, encouraging us greatly in our determination to build a first rate, balanced specialist insurer. Syndicate 33 has grabbed the recent opportunities in the London Market with great verve and vigour. In our retail business, we favour organic growth but this does take investment and time. Our only major retail acquisition, the Hiscox Insurance Company in 1996, had to be turned round and built up but is now a strong provider of profit. Our international operations have been started from the ground, and after a few years of investment are now making money with tremendous growth potential.

We believe that these excellent market conditions will remain longer than some pessimists are forecasting. The insurance cycle is of course alive and well, but long received market wisdom is that the insurance market goes up the lift and then down the stairs, whereas the Stock Market goes down the lift and then up the stairs. Our rating indices show that we are still going up in the lift. When it stops rising, there will be a slow decline which will be mitigated by cheaper and more available reinsurance.

So, given normal loss patterns, we will continue to enjoy strong trading conditions for a good few years to come during which we will grow our profits and net assets by winning new business through creative underwriting and great service, by selective acquisitions in our specialist areas and by attracting the best people to work with us.

Robert Hiscox

***Robert Hiscox**, 17 September 2003*

Consolidated Profit and Loss Account
for the six month period ended 30 June 2003
Hiscox plc Interim Statement 2003

	Notes	**6 months to 30 June 2003 (unaudited) £000**	6 months to 30 June 2002 (unaudited) £000	Year to 31 Dec 2002 (audited) £000
Gross premiums written		**590,632**	442,373	676,705
Net premiums written		**440,294**	247,984	416,144
Net premiums earned		**266,912**	185,258	385,129
Trading profit, before movement in equalisation provision		**36,845**	19,280	50,814
Trading profit, after movement in equalisation provision		**35,205**	17,885	48,111
Investment income	6	**16,439**	8,675	21,413
Unrealised gains/(losses) on investments	6	**4,557**	(1,583)	(4,425)
Investment expenses and charges	6	**(718)**	(353)	(809)
		20,278	6,739	16,179
Allocated investment return transferred to the technical account	6	**(13,553)**	(12,231)	(27,643)
Short term fluctuations in investment return	6	**6,725**	(5,492)	(11,464)
Other income		**8,035**	2,727	10,119
Other expenses		**(18,466)**	(11,186)	(26,451)
Profit on ordinary activities before tax		**31,499**	3,934	20,315
Comprising:				
Operating profit based on longer term investment return – continuing activities		**26,414**	10,821	34,482
Short term fluctuations in investment return	6	**6,725**	(5,492)	(11,464)
Movement in equalisation provision		**(1,640)**	(1,395)	(2,703)
		31,499	3,934	20,315
Tax on profit on ordinary activities		**(9,449)**	(1,141)	(6,340)
Profit on ordinary activities after tax		**22,050**	2,793	13,975
Dividends – Interim paid and payable	4	**(3,824)**	(2,299)	(2,299)
– Final payable		**–**	–	(6,914)
		(3,824)	(2,299)	(9,213)
Retained profit for the period		**18,226**	494	4,762
Earnings/(loss) per share:				
– Basic, based on operating profit after tax (on longer term investment return)	3	**6.4p**	3.8p	11.3p
– Basic, based on profit on ordinary activities after tax	3	**7.6p**	1.4p	6.6p
– Diluted, based on profit on ordinary activities after tax	3	**7.5p**	1.4p	6.5p

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

Profit on ordinary activities after tax	**22,050**	2,793	13,975
Exchange differences taken to reserves	**157**	51	(50)
Total recognised gains and losses	**22,207**	2,844	13,925

Consolidated Balance Sheet
at 30 June 2003
Hiscox plc Interim Statement 2003

	Notes	**30 June 2003 (unaudited) £000**	30 June 2002 (unaudited) £000	31 December 2002 (audited) £000
Assets				
Intangible assets				
Goodwill		**6,457**	6,782	6,617
Other intangible assets		**15,966**	16,308	16,469
		22,423	23,090	23,086
Investments				
Land and buildings		**415**	425	420
Other financial investments		**640,440**	378,195	502,944
		640,855	378,620	503,364
Reinsurers' share of technical provisions	2	**347,887**	454,412	320,783
Debtors		**570,523**	590,134	345,517
Other assets		**7,442**	6,709	7,119
Cash at bank and in hand		**99,025**	67,321	121,196
Prepayments and accrued income		**154,860**	119,857	97,240
Total assets		**1,843,015**	1,640,143	1,418,305
Liabilities				
Capital and reserves				
Called up share capital		**14,540**	9,635	14,459
Share premium account		**231,903**	124,624	230,585
Merger reserve		**4,723**	4,723	4,723
Capital redemption reserve		**33,244**	33,244	33,244
Profit and loss account		**15,674**	(6,876)	(2,709)
Shareholders' funds attributable to equity interests		**300,084**	165,350	280,302
Technical provisions	2	**1,192,668**	1,244,471	919,959
Equalisation provision		**15,572**	12,624	13,932
Creditors		**291,951**	209,365	169,729
Provisions for other risks and charges		**–**	1,742	–
Accruals and deferred income		**42,740**	6,591	34,383
Total liabilities		**1,843,015**	1,640,143	1,418,305
Net asset value (before equalisation provision) pence per share		**108.6**	92.4	101.7

Profit/(loss) on ordinary activities before taxation – by business division	6 months to 30 June 2003 (unaudited)				6 months to 30 June 2002 (unaudited)				Year to 31 December 2002 (audited)			
	London Market/Group £000	UK Retail £000	International Business £000	Total £000	London Market/Group £000	UK Retail £000	International Business £000	Total £000	London Market/Group £000	UK Retail £000	International Business £000	Total £000
Gross premiums written	471,703	77,999	40,930	590,632	342,479	66,821	33,073	442,373	461,766	147,583	67,356	676,705
Net premium written	346,496	66,886	26,912	440,294	170,479	58,312	19,193	247,984	251,433	123,243	41,468	416,144
Net premiums earned	178,679	63,844	24,389	266,912	108,906	59,302	17,050	185,258	227,922	119,988	37,219	385,129
Investment return, based on longer term rate of return	9,057	3,298	1,198	13,553	6,931	4,172	1,128	12,231	16,803	8,729	2,111	27,643
Net claims incurred	(118,311)	(30,949)	(8,279)	(157,539)	(66,905)	(31,402)	(5,908)	(104,215)	(138,789)	(62,565)	(10,997)	(212,351)
Acquisition costs	(45,149)	(17,745)	(14,385)	(77,279)	(37,546)	(17,199)	(12,324)	(67,069)	(69,029)	(34,232)	(25,243)	(128,504)
Administration expenses	(4,619)	(10,196)	(268)	(15,083)	(4,668)	(8,123)	(99)	(12,890)	(7,045)	(19,202)	(1,222)	(27,469)
Other technical income (expenses)	81	–	–	81	(902)	–	–	(902)	(3,856)	–	–	(3,856)
Trading result	19,738	8,252	2,655	30,645	5,816	6,750	(153)	12,413	26,006	12,718	1,868	40,592
Agency and other income	3,221	145	8,491	11,857	2,123	37	6,867	9,027	4,499	120	12,286	16,905
Profit commission	2,378	–	–	2,378	567	–	–	567	3,237	–	200	3,437
Expenses	(7,821)	(614)	(8,387)	(16,822)	(2,946)	(411)	(6,534)	(9,891)	(9,712)	(1,178)	(12,718)	(23,608)
Loan interest	(922)	–	–	(922)	(587)	–	–	(587)	(1,432)	–	–	(1,432)
Goodwill and capacity amortisation	(702)	–	(20)	(722)	(686)	–	(22)	(708)	(1,370)	–	(42)	(1,412)
Operating profit based on longer term investment return	15,892	7,783	2,739	26,414	4,287	6,376	158	10,821	21,228	11,660	1,594	34,482
Short term fluctuations in investment return	3,041	3,361	323	6,725	(3,404)	(1,608)	(480)	(5,492)	(7,739)	(3,135)	(590)	(11,464)
Movement in equalisation provision	–	(1,186)	(454)	(1,640)	–	(1,006)	(389)	(1,395)	–	(2,104)	(599)	(2,703)
Profit/(loss) on ordinary activities before taxation	18,933	9,958	2,608	31,499	883	3,762	(711)	3,934	13,489	6,421	405	20,315

	6 months to 30 June 2002 (unaudited)				6 months to 30 June 2001 (unaudited)				Year to 31 December 2001 (audited)			
	London Market	UK Retail	International Business	Total	London Market	UK Retail	International Business	Total	London Market	UK Retail	International Business	Total
100% level combined ratio	99.3%	90.6%	90.2%	95.9%	103.7%	96.4%	103.3%	101.5%	94.1%	96.0%	97.5%	94.8%

Net asset value per share	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	300,084	290,786	103.2	165,350	192,696	85.8	280,302	289,177	96.9
Net asset value (before equalisation provision)	315,656	290,786	108.6	177,974	192,696	92.4	294,234	289,177	101.7
Net tangible asset value	277,661	290,786	95.5	142,260	192,696	73.8	257,216	289,177	88.9
Net tangible asset value (before equalisation provision)	293,233	290,786	100.8	154,884	192,696	80.4	271,148	289,177	93.8

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

The number of shares as at 30 June 2002 has not been adjusted for the impact of the Rights Issue. If it had been, the number of shares would have increased to 202,331,000. Accordingly, the net asset values disclosed above for June 2002 would have reduced. The net asset value (before equalisation provision) per share of 92.4p would have been restated to 88.0p. All the other disclosed net asset values per share for June 2002 would have been adjusted in a similar manner.

	6 months to 30 June 2003 (unaudited) £000	6 months to 30 June 2002 (unaudited) £000	Year to 31 Dec 2002 (audited) £000
Net cash inflow/(outflow) from general business	**6,131**	10,753	45,069
Net shareholders' cash inflow/(outflow) from Lloyd's business	**(7,712)**	(23,037)	(23,037)
Net cash inflow/(outflow) from operating activities	**(1,581)**	(12,284)	22,032
Servicing of finance	**(1,312)**	(602)	(1,709)
Taxation recovered/(paid)	**–**	1,048	777
Capital expenditure	**(1,609)**	(713)	(3,569)
Equity dividends paid	**(6,963)**	–	(2,299)
Financing	**1,292**	(2,011)	108,539
	(10,173)	(14,562)	123,771
Cash flows were invested as follows:			
Increase/(decrease) in cash holding	**(20,343)**	(1,062)	25,288
Net portfolio investment:			
Shares and units in unit trusts	**37,605**	2,748	19,911
Debt securities and other fixed income securities	**54,096**	34,097	10,314
Deposits with credit institutions	**(81,531)**	(50,345)	68,265
Other investments	**–**	–	(7)
Net investment of cash flows	**(10,173)**	(14,562)	123,771

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	**26,414**	10,821	34,482
Depreciation and amortisation of fixed assets	**1,975**	1,617	3,422
Increase in general insurance technical provisions, net of reinsurance	**12,028**	7,788	22,254
Increase/(decrease) in amounts owed to agents	**15,477**	14,516	13,238
(Increase)/decrease in amounts owed by agents	**(27,546)**	(7,197)	(3,729)
(Increase)/decrease in other debtors	**(23,012)**	(5,253)	(1,024)
Increase/(decrease) in other creditors	**16,223**	(5,539)	2,721
Realised and unrealised investment (gains)/losses	**(5,321)**	2,139	4,841
Short term fluctuations in investment return	**6,725**	(5,492)	(11,464)
Interest expense	**922**	564	1,432
Cash received from/(paid to) Lloyd's business	**(7,712)**	(23,037)	(23,037)
(Profits)/losses relating to Lloyd's business	**(17,020)**	(3,017)	(21,034)
Other non-cash transactions	**(734)**	(194)	(70)
Net cash inflow/(outflow) from operating activities	**(1,581)**	(12,284)	22,032

1 BASIS OF PREPARATION

The unaudited interim accounts have been prepared on the basis of accounting policies consistent with those set out in the Group's 2002 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 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 2002 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 2002, 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 on Syndicate 33. Hiscox Insurance Company and the international operations of Hiscox have had a negligible loss from this event. The situation is unprecedented and as such, even two years after the event, the extent of the gross and net loss to the Group is difficult to assess with the degree of confidence which is usual for property insurance losses; facts or circumstances will come to light which may affect these estimates. Provision has been made in these financial statements for the current level of notifications resulting in a net loss to Hiscox plc of £80 million (31 December 2002: £40 million) at £1: $1.65. This takes no account of any potential subrogation.

The Group has exposure to WTC losses on a number of non-liability accounts, in particular direct property, risk excess, catastrophe and aviation hull. There is no significant liability exposure.

Since the initial review carried out in October 2001 no new losses have been identified. Syndicate 33 has reserved the loss at its current level of notifications which amounted to US$588 million at 31 August 2003 (28 February 2003: US$591 million). The 31 December 2002 reserve of US$475 million was after an appropriate discount or premium to individual notifications based on Hiscox's past experience of large property losses and additional information received. Whilst claims continue to settle lower than the notifications level, they are taking longer to settle than originally anticipated, based on settlement patterns experienced on previous large property losses. Consequently, in order to eliminate uncertainty, the directors have increased the reserves to the current level of notifications.

Based on notified losses Syndicate 33's net loss provided has increased to approximately US$245 million. 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.

As at 31 August 2003, Syndicate 33 had paid US$374 million of the gross loss and recovered US$223 million from reinsurers. This includes payment to Silverstein, on the basis of one occurrence, for the WTC property. The courts in the USA have not yet ruled on occurrence. Syndicate 33 has had no need to make a cash call. As part of our required funding of the US Trust Funds, a further US$30 million of cash advances and letters of credit had also been received from reinsurers at 31 August 2003. These recoveries of US$253 million at 31 August represent 74% of the expected total recoveries of approximately US$343 million. 72% of the remaining balance of US$90 million is due from reinsurers rate A grade or better.

Syndicate 33 has held its bad debt provision on reinsurance recoveries from the WTC loss at US$7.5 million despite the decrease in receivables since the year end. No reinsurer on our programme has yet refused to pay a claim through insolvency. It has been assumed that no major reinsurer will fail.

3 EARNINGS PER SHARE

Earnings per share on operating profit are based on the operating profit after taxation of £18,490,000 (2002: £7,575,000) and on the average number of shares in issue during the current period of 289,436,000 (2002: 201,172,000).

Earnings per share on ordinary activities are based on the profit after taxation of £22,050,000 (2002: £2,793,000) and on the average number of shares in issue during the current period of 289,436,000 (2002: 201,172,000).

Fully diluted earnings per share on ordinary activities are based on the profit after taxation of £22,050,000 (2002: £2,793,000) and on the average number of shares in issue during the period of 293,878,000 (2002: 203,410,000) taking into account the options outstanding under the Employee Share Option Schemes.

4 DIVIDENDS

An interim dividend of 1.3p (net) per Ordinary Share has been declared payable on 27 October 2003 to shareholders registered on 3 October 2003 in respect of the six months to 30 June 2003 (30 June 2002: 1.2p (net) per Ordinary Share).

5 100% Level Technical Account – by business division

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 2003 (unaudited)				6 months to 30 June 2002 (unaudited)			
	London Market £000	**UK Retail £000**	**International Business £000**	**Total £000**	London Market £000	UK Retail £000	International Business £000	Total £000
Gross premiums written	**724,340**	**77,999**	**40,930**	**843,269**	541,139	66,821	33,073	641,033
Net premiums written	**532,659**	**66,886**	**26,912**	**626,457**	267,705	58,312	19,193	345,120
Net premiums earned	**280,695**	**63,844**	**24,389**	**368,928**	177,052	59,302	17,050	253,404
Net claims incurred	**191,839**	**30,949**	**8,279**	**231,067**	109,922	31,402	5,908	147,232
Claims ratio (%)	**68.3%**	**48.5%**	**33.9%**	**62.6%**	62.1%	53.0%	34.7%	58.1%
Commission	**126,970**	**17,949**	**14,873**	**159,792**	91,715	17,174	13,066	121,955
Operating expenses	**38,161**	**10,196**	**268**	**48,625**	19,568	8,123	99	27,790
Movement in deferred acquisition costs	**(84,218)**	**(204)**	**(488)**	**(84,910)**	(42,837)	25	(742)	(43,554)
Net expenses	**80,913**	**27,941**	**14,653**	**123,507**	68,446	25,322	12,423	106,191
Commission ratio (%)	**23.8%**	**26.9%**	**55.3%**	**25.5%**	34.3%	29.5%	68.1%	35.3%
Operating expense ratio (%)	**7.2%**	**15.2%**	**1.0%**	**7.8%**	7.3%	13.9%	0.5%	8.1%
Expense ratio (%)	**31.0%**	**42.1%**	**56.3%**	**33.3%**	41.6%	43.4%	68.6%	43.4%
Net longer term investment return	**9,086**	**3,298**	**1,198**	**13,582**	7,496	4,172	1,128	12,796
Technical profit/(loss)	**17,029**	**8,252**	**2,655**	**27,936**	6,180	6,750	(153)	12,777
Combined ratio (%)	**99.3%**	**90.6%**	**90.2%**	**95.9%**	103.7%	96.4%	103.3%	101.5%

6 Investment Return

a) The total actual investment return comprises:

	6 months to 30 June 2003 (unaudited) £000	6 months to 30 June 2002 (unaudited) £000	Year to 31 Dec 2002 (audited) £000
Investment return on funds at Lloyd's and other corporate funds:			
Investment income	**4,202**	2,111	4,590
Unrealised gains/(losses) on investments	**1,054**	(982)	(2,939)
Realised gains/(losses) on investments	**1,028**	(238)	(244)
	6,284	891	1,407
Investment return on syndicate funds:			
Investment income	**5,336**	2,298	7,057
Realised gains/(losses) on investments	**1,279**	837	1,827
	6,615	3,135	8,884
Investment return on insurance company funds:			
Investment income	**4,858**	3,985	8,354
Unrealised gains/(losses) on investments	**3,503**	(601)	(1,486)
Realised gains/(losses) on investments	**(264)**	(318)	(171)
	8,097	3,066	6,697
Investment management expenses	**(718)**	(353)	(809)
Total investment return	**20,278**	6,739	16,179
Allocation to the technical account based on the longer term rate	**(13,553)**	(12,231)	(27,643)
Short term fluctuations in investment return retained in the non-technical account	**6,725**	(5,492)	(11,464)

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 2003 (unaudited) %	6 months to 30 June 2002 (unaudited) £000	Year to 31 Dec 2002 (audited) £000
Shares and units in unit trusts	**6.0**	7.0	7.0
Debt securities and other fixed interest securities	**4.0**	6.0	6.0
Deposits with credit institutions	**4.0**	6.0	6.0

For the six months ended 30 June 2003, the directors revised their current expectations of the long term rates following a review of current market conditions and investment performance. If these long term rates had not been revised in the period, operating profit would have been £6.2 million higher.

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 2003 (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	2,409	12.6	–	–	1,980	14.8	4,389
Debt securities and other fixed interest securities	2,719	7.2	5,281	4.9	5,170	9.3	13,170
Deposits with credit institutions	916	2.7	1,011	3.1	793	3.2	2,719
	6,044		6,291		7,943		20,278
Longer term investment return:							
Shares and units in unit trusts	1,150	6.0	–	6.0	669	6.0	1,819
Debt securities and other fixed interest securities	1,513	4.0	4,295	4.0	2,232	4.0	8,040
Deposits with credit institutions	1,337	4.0	1,324	4.0	1,033	4.0	3,694
	4,000		5,619		3,934		13,553
Short term fluctuations in investment return	2,044		672		4,009		6,725

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)

INTRODUCTION

We have been engaged by the Company to review the financial information for the six months ended 30 June 2003 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.

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 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 2003.

KPMG Audit Plc
London
17 September 2003