Hiscox plc
Interim Statement 2004

HISCOX

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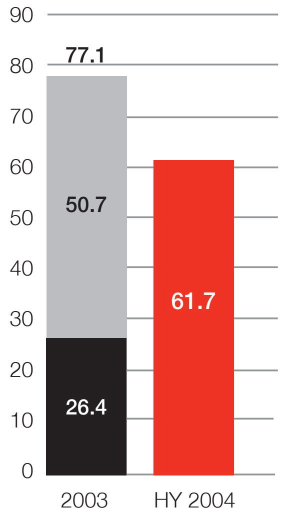
CONTENTS

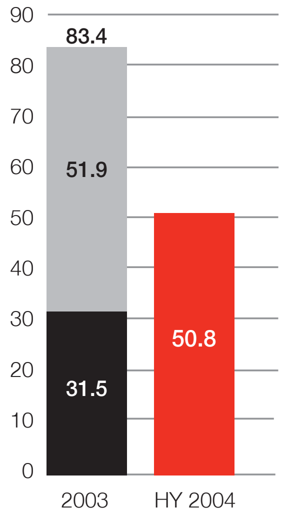
CORPORATE HIGHLIGHTS

- Record profits: operating profit up 134% to £61.7 million and pre-tax profit up 61% to £50.8 million.
- Earnings per share up 61% to 12.2p.
- Net assets per share up 20% to 129.9p.
- Interim dividend increased 15% to 1.5p (net) per share.
- Group combined ratio of 84.4%.
- Annualised return on equity of 21.6%.
- Market conditions remain healthy. Rates profitable in all classes we underwrite.
- Strong performance from Syndicate 33 with a doubling of pre-tax profit.
  - Capacity ownership increased to 70% for 2005.
- Focus on continued growth of retail business.

Hiscox plc
Operating Profit (£m)



Hiscox plc
Profit before Tax (£m)



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CHAIRMAN'S STATEMENT

"It has been an extremely good first half for Hiscox. These results show a healthy thriving business, with our London Market underwriting balanced by a highly focussed retail portfolio. If we have to be anywhere in the cycle, this is one of the best spots. We have good solid earnings coming through from the peak period and we have good years ahead as some rates settle down, but others stay firm or even increase. We will maintain profitable growth through disciplined underwriting, the expansion of our retail business and red hot customer service."

Half year results 2004

The results for the half-year to 30th June 2004 were a record operating profit of £61.7 million (2003: £26.4 million) and profit before tax of £50.8 million (2003: £31.5 million). The group written premium income for the period was £533.5 million (2003: £590.6 million) and the net earned premium income was £319.4 million (2003: £266.9 million). Earnings per share (based on the profit after tax) were 12.2p (2003: 7.6p). Net asset value per share (before equalisation provision) rose to 129.9p (2003: 108.7p). Group combined ratio was 84.4% (2003: 95.9%).

Dividend

The interim dividend is increased to 1.5p (net) per ordinary share (2003: 1.3p per share) and will be paid on 25th October 2004 to shareholders on the register at the close of business on 1st October 2004.

This increase is in line with the Board's progressive dividend policy, and our ambition of steady dividend growth throughout the insurance cycle. We are in a capital intensive business and are currently reasonably geared to support our existing underwriting. We intend to expand our retail network, and one day we will have to supply the capital for the 30% of Syndicate 33 which we do not own. We therefore can make very good use of the capital retained in the business to fuel future profitable growth of the business.

Overall comment

A combined ratio of 84.4% is an excellent underwriting performance. I know market conditions following the trauma of September 11th 2001 seem benign in retrospect, but the reason for the high rates was the vacuum caused by the lack of capacity. Others hunkered down leaving fortune to the brave.

Obviously some exceptionally high rates in the London Market had to come down to more reasonable levels, and this they are doing in those areas which can afford reductions. There is new capacity chasing high profile large property risks where the rates are deemed to be too high, so we are in effect back to normal market conditions. But if we have to be anywhere in the cycle, this is one of the best spots. We have solid earnings coming through from the peak period in the London Market of which we took full advantage, and we have good years ahead as some rates settle down, but others stay firm or even increase. Outside the London Market we have a thriving regional business where rates have been relatively steady and are at a good profitable level.

The vast majority of our corporate life is conducted in highly competitive markets where business, marketing and underwriting skills are needed to make money. We have those skills, and will enjoy using them to continue to make good returns for our shareholders.

London Market

Syndicate 33 has improved its combined ratio to 83.9% (2003: 99.3%). Market conditions remain healthy and rates are at a profitable level in all the classes we underwrite. In aggregate, our rating index for the 12 months to the end of June is broadly unchanged since June 2003. Reinsurance rates remain attractive and rate increases in the marine and global professional indemnity lines continue. Pressure continues in the commercial property and onshore energy accounts.

Premium income was down at the gross level but up at the net earned level. Tremendous advantage was taken of the vacuum caused by shortage of capacity in the last two years and opportunistic business was written which is now being reduced as planned. But the main reason for the reduction in income is the weakness of the dollar as 70% of the Syndicate's premium income is in US dollars.

We are actively seeking new distribution methods and continuing to expand our extranet network to ensure future profitable growth.

I always have to write this report in the middle of the hurricane season. This year we have had Hurricane Charley, followed shortly thereafter by Frances, and Ivan is now raging. The current forecast losses from Hurricane Charley are within our budget. There is no clear picture on the losses from Hurricane Frances, but market comment puts them at around the same amount which is manageable. Hurricane Ivan is well south, but some losses are inevitable. It is fortunate that this violent season is taking place when our margins are high and the losses can be absorbed.

In the first auction of capacity we have acquired 5% of Syndicate 33 at 6.2p bringing our total ownership for 2005 to 70%.

The Lloyd's franchise is in good hands with firm governance, and for once, what foolish competition there is, is coming from outside the market. As usual, every insurance company chief executive will state that his underwriters are exercising discipline and it is others who are being foolish, but certain organisations are cutting rates stupidly and needlessly for market share. Their pain will come later.

UK Retail

Again excellent underwriting figures with a combined ratio of 87.0% (2003: 90.6%). Our target ratio is 95-98% which produces a satisfactory return on capital, so we have considerable margin to increase our marketing and distribution efforts as we clearly need more of the same. Premium income only grew a small amount as we parted with a large account of commodity household business which did not fit our focus on higher values. Continued business showed satisfactory growth.

We continue to focus from London and our regional offices on our two specialities of higher value household business and business risks for chosen professions. We use technology to enable us to underwrite the smaller risks in each class: there is less competition in these areas as the barriers to entry are high. Our professions business continued to deliver strong profitable growth based on its expertise in professional indemnity for new, advisory-led professions. We continued to work with brokers to improve our product and delivery of high value household insurance. Our direct book of household business is growing profitably, and we are about to expand our marketing spend as we are confident that we have the underwriting and technology on a sound footing.

International Retail

The underlying figures show continued progress. In Europe, the income is up 27% at the half year and an operating profit of £1.1 million was made, on a combined ratio of 100.7%. This was reduced to £0.3 million by the exchange loss. Guernsey's underlying income was up 5% and it contributed £0.8 million to the operating profit. At a time when we are making solid profits elsewhere, we will continue to build our overseas businesses as they will be a valuable balance in the future.

Investments

Hiscox plc's invested assets grew to £967 million from £853 million during the first half of the year and produced a total return of £8.6 million. After a good investment environment in 2003, the first half of this year has been difficult for both fixed interest and equities, due mainly to interest rate rises and the level they will reach in the US. We have been cautious in these markets as making an absolute return is essential to enable us to continue to take full advantage of the strong underwriting environment. Though our return was lower than our long term rate of 4% for fixed interest and 6% for equities, we have good cash flow and more money invested which will improve future returns, especially if interest rates increase.

Through our Hiscox Investment Management subsidiary, we are now supervising the investment of £1.4 billion vs. £1.0 billion a year ago. This comprises investments for the Group and Syndicate 33, and also the management of the five Hiscox Financial Funds specialising in insurance and financial stocks.

The future

Profits up 134% and cash in our insurance businesses growing by 31% shows a healthy, thriving business. We are acutely aware that we are back in the real world of competition after an extraordinary period and that the future will be back to business as we usually know it. We have solid margins, and we will compete sensibly with flexible underwriting, better marketing and red hot service, making sure we maintain profitable growth.

The growth in profits enables us to increase the dividend and add the balance to our net assets. Growth in net assets will inevitably force the share price up however lowly we are rated: we will get that rating up by showing that we can sustain profitability, and this we are determined to do. Our strategy of a geographically spread book of highly focussed retail business balancing international volatile business is aimed to do just that.

Robert Hiscox

Robert Hiscox, Chairman
14 September 2004

Consolidated Profit and Loss Account
for the six month period ended 30 June 2004
Hiscox plc Interim Statement 2004

	Notes	6 months to 30 June 2004 (unaudited) £000	6 months to 30 June 2003 Restated* (unaudited) £000	Year to 31 Dec 2003 (audited) £000
Gross premiums written		**533,486**	590,632	797,380
Net premiums written		**449,593**	440,294	660,966
Net premiums earned		**319,377**	266,912	547,451
Trading profit, before movement in equalisation provision		**75,432**	36,845	102,409
Trading profit, after movement in equalisation provision		**74,870**	35,205	99,903
Investment return	6	**11,077**	16,439	32,154
Unrealised gains/(losses) on investments	6	**(1,837)**	4,557	8,026
Investment expenses and charges	6	**(649)**	(718)	(805)
		8,591	20,278	39,375
Allocated investment return transferred to the technical account	6	**(18,858)**	(13,553)	(30,583)
Short term fluctuations in investment return	6	**(10,267)**	6,725	8,792
Other income		**7,793**	8,019	12,582
Other expenses		**(21,570)**	(18,466)	(37,869)
Profit on ordinary activities before tax		**50,826**	31,483	83,408
Comprising:				
Operating profit based on longer term investment return – continuing activities		**61,655**	26,398	77,122
Short term fluctuations in investment return	6	**(10,267)**	6,725	8,792
Movement in equalisation provision		**(562)**	(1,640)	(2,506)
		50,826	31,483	83,408
Tax on profit on ordinary activities		**(15,248)**	(9,449)	(22,917)
Profit on ordinary activities after tax		**35,578**	22,034	60,491
Dividends – Interim paid and payable	3	**(4,410)**	(3,824)	(3,830)
– Final payable		**–**	–	(8,414)
		(4,410)	(3,824)	(12,244)
Retained profit for the period		**31,168**	18,210	48,247
Earnings per share:				
– Adjusted basic, based on operating profit after tax (on longer term investment return)	2	**14.8p**	6.4p	19.3p
– Basic, based on profit on ordinary activities after tax	2	**12.2p**	7.6p	20.9p
– Diluted, based on profit on ordinary activities after tax	2	**12.1p**	7.5p	20.6p

Consolidated Statement of Total Recognised Gains and Losses
for the six month period ended 30 June 2004

	6 months to 30 June 2004 (unaudited) £000	6 months to 30 June 2003 Restated* (unaudited) £000	Year to 31 Dec 2003 (audited) £000
Profit on ordinary activities after tax	**35,578**	22,034	60,491
Exchange differences taken to reserves	**(459)**	157	(155)
Total recognised gains and losses	**35,119**	22,191	60,336

*Restated for the adoption of UITFs 37 and 38. See note 4.

Consolidated Balance Sheet
at 30 June 2004
Hiscox plc Interim Statement 2004

	Notes	30 June 2004 (unaudited) £000	30 June 2003 Restated* (unaudited) £000	31 December 2003 (audited) £000
Assets				
Intangible assets				
Goodwill		**6,023**	6,457	6,240
Other intangible assets		**15,005**	15,966	15,513
		21,028	22,423	21,753
Investments				
Land and buildings		**3,890**	415	410
Other financial investments		**878,149**	640,005	773,289
		882,039	640,420	773,699
Reinsurers' share of technical provisions				
Provision for unearned premiums		**83,529**	155,020	63,004
Claims outstanding		**186,667**	192,867	189,183
		270,196	347,887	252,187
Debtors		**473,880**	570,523	376,059
Other assets		**7,544**	7,442	7,332
Cash at bank and in hand		**55,423**	99,025	52,945
Prepayments and accrued income		**153,150**	154,860	115,002
Total assets		**1,863,260**	1,842,580	1,598,977
Liabilities				
Capital and reserves				
Called up share capital	7	**14,581**	14,540	14,565
Share premium account	7	**232,658**	231,903	232,341
Merger reserve	7	**4,723**	4,723	4,723
Capital redemption reserve	7	**33,244**	33,244	33,244
Reserve for own shares	7	**(478)**	(686)	(686)
Profit and loss account	7	**76,507**	15,925	45,650
Shareholders' funds attributable to equity interests		**361,235**	299,649	329,837
Technical provisions				
Provision for unearned premiums		**574,903**	577,050	424,379
Claims outstanding		**727,704**	615,618	656,820
Equalisation provision		**17,000**	15,572	16,438
		1,319,607	1,208,240	1,097,637
Creditors		**131,324**	291,951	126,134
Provisions for other risks and charges		**25,949**	–	15,503
Accruals and deferred income		**25,145**	42,740	29,866
Total liabilities		**1,863,260**	1,842,580	1,598,977
Net asset value (before equalisation provision) pence per share		**129.9**	108.7	119.1

*Restated for the adoption of UITFs 37 and 38. See note 4.

Segmental Information
Hiscox plc Interim Statement 2004

Profit on ordinary activities before taxation – by business division	6 months to 30 June 2004 (unaudited)				6 months to 30 June 2003 (unaudited)				Year to 31 December 2003 (audited)			
	London Market/Group £000	UK Retail £000	International Business £000	Total £000	London Market/Group Restated £000	UK Retail £000	International Business £000	Total Restated £000	London Market/Group £000	UK Retail £000	International Business £000	Total £000
Gross premiums written	407,934	79,942	45,610	533,486	471,703	77,999	40,930	590,632	541,442	174,551	81,387	797,380
Net premium written	347,542	68,996	33,055	449,593	346,496	66,886	26,912	440,294	458,463	145,726	56,777	660,966
Net premiums earned	225,074	65,086	29,217	319,377	178,679	63,844	24,389	266,912	366,810	132,189	48,452	547,451
Investment return, based on longer term rate of return	13,272	4,063	1,523	18,858	9,057	3,298	1,198	13,553	20,671	7,281	2,631	30,583
Net claims incurred	(120,056)	(27,429)	(10,269)	(157,754)	(118,311)	(30,949)	(8,279)	(157,539)	(204,547)	(65,141)	(18,633)	(288,321)
Acquisition costs	(54,355)	(16,384)	(15,839)	(86,578)	(45,149)	(17,745)	(14,385)	(77,279)	(94,882)	(35,230)	(28,446)	(158,558)
Administrative expenses	(10,960)	(13,632)	(3,910)	(28,502)	(4,619)	(10,196)	(268)	(15,083)	(17,453)	(23,092)	(2,545)	(43,090)
Other technical income/(charges)	125	–	–	125	81	–	–	81	(1,265)	–	–	(1,265)
Trading result	53,100	11,704	722	65,526	19,738	8,252	2,655	30,645	69,334	16,007	1,459	86,800
Agency and other income	3,354	309	10,126	13,789	3,205	145	8,491	11,841	6,752	379	15,578	22,709
Profit commission	3,909	–	3	3,912	2,378	–	–	2,378	5,215	–	267	5,482
Expenses	(9,425)	(672)	(9,750)	(19,847)	(7,821)	(614)	(8,387)	(16,822)	(16,400)	(1,371)	(16,702)	(34,473)
Loan interest	(999)	–	–	(999)	(922)	–	–	(922)	(1,946)	–	–	(1,946)
Goodwill and capacity amortisation	(706)	–	(20)	(726)	(702)	–	(20)	(722)	(1,410)	–	(40)	(1,450)
Operating profit based on longer term investment return	49,233	11,341	1,081	61,655	15,876	7,783	2,739	26,398	61,545	15,015	562	77,122
Short term fluctuations in investment return	(8,675)	(979)	(613)	(10,267)	3,041	3,361	323	6,725	2,913	5,238	641	8,792
Movement in equalisation provision	–	(332)	(230)	(562)	–	(1,186)	(454)	(1,640)	–	(1,730)	(776)	(2,506)
Profit on ordinary activities before taxation	40,558	10,030	238	50,826	18,917	9,958	2,608	31,483	64,458	18,523	427	83,408

	6 months to 30 June 2004 (unaudited)				6 months to 30 June 2003 (unaudited)				Year to 31 December 2003 (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	83.9%	87.0%	99.4%	84.4%	99.3%	90.6%	90.2%	95.9%	85.8%	90.3%	98.2%	87.2%

Net asset value per share	Net asset value £000	Number of shares* 000	NAV per share p	Net asset value Restated £000	Number of shares* Restated 000	NAV per share Restated p	Net asset value £000	Number of shares* 000	NAV per share p
Net asset value	361,235	291,216	124.0	299,649	290,123	103.3	329,837	290,630	113.5
Net asset value (before equalisation provision)	378,235	291,216	129.9	315,221	290,123	108.7	346,275	290,630	119.1
Net tangible asset value	340,207	291,216	116.8	277,226	290,123	95.6	308,084	290,630	106.0
Net tangible asset value (before equalisation provision)	357,207	291,216	122.7	292,798	290,123	100.9	324,522	290,630	111.7

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

Net assets by business entity	6 months to 30 June 2004 (unaudited)				6 months to 30 June 2003 (unaudited)				Year to 31 December 2003 (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
Tangible assets	236,734	98,053	5,420	340,207	188,579	83,480	5,167	277,226	209,852	93,722	4,510	308,084
Intangible assets	20,374	654	–	21,028	21,729	694	–	22,423	21,079	674	–	21,753
	257,108	98,707	5,420	361,235	210,308	84,174	5,167	299,649	230,931	94,396	4,510	329,837

Consolidated Cash Flow Statement
for the six month period ended 30 June 2004
Hiscox plc Interim Statement 2004

	6 months to 30 June 2004 (unaudited) £000	6 months to 30 June 2003 Restated* (unaudited) £000	Year to 31 Dec 2003 (audited) £000
Net cash inflow from general business	**27,506**	6,115	31,300
Net shareholders' cash outflow from Lloyd's business	**–**	(7,712)	(7,712)
Net cash inflow/(outflow) from operating activities	**27,506**	(1,597)	23,588
Servicing of finance	**(891)**	(1,312)	(2,233)
Taxation paid	**(263)**	–	(59)
Capital expenditure	**(5,006)**	(1,609)	(3,052)
Acquisitions and disposals	**(200)**	–	(50)
Equity dividends paid	**(8,450)**	(6,963)	(10,744)
Financing	**1,769**	2,043	2,910
	14,465	(9,438)	10,360
Cash flows were invested as follows:			
Increase/(decrease) in cash holding	**8,954**	(20,343)	(25,608)
Net portfolio investment:			
Shares and units in unit trusts	**(30,940)**	38,340	44,586
Debt securities and other fixed interest securities	**22,164**	54,096	59,657
Deposits with credit institutions	**14,287**	(81,531)	(68,275)
Other investments	**–**	–	–
Net investment of cash flows	**14,465**	(9,438)	10,360
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	**61,655**	26,398	77,122
Depreciation and amortisation of fixed assets	**2,150**	1,975	4,125
Increase in general insurance technical provisions, net of reinsurance	**17,135**	12,028	43,482
Increase/(decrease) in amounts owed to agents	**8,160**	15,477	(2,591)
(Increase)/decrease in amounts owed by agents	**(12,215)**	(27,546)	(11,295)
(Increase)/decrease in other debtors	**(12,337)**	(23,012)	(24,979)
Increase/(decrease) in other creditors	**4,094**	16,223	482
Realised and unrealised investment (gains)/losses	**2,452**	(5,321)	(8,004)
Short term fluctuations in investment return	**(10,267)**	6,725	8,792
Interest expense	**999**	922	1,946
Cash transferred (to)/from Lloyd's business	**–**	(7,712)	(7,712)
Profits relating to Lloyd's business	**(34,944)**	(17,020)	(56,516)
Other non-cash transactions	**624**	(734)	(1,264)
Net cash inflow/(outflow) from operating activities	**27,506**	(1,597)	23,588

*Restated for the adoption of UITFs 37 and 38. See note 4.

Notes to the Interim Accounts
Hiscox plc Interim Statement 2004

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 2003 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 2003 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 2003, 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 £43,159,000 (2003: £18,479,000) and on the average number of shares in issue during the current period of 291,006,000 (2003: 289,181,000).

Earnings per share on ordinary activities are based on the profit after taxation of £35,578,000 (2003: £22,034,000) and on the average number of shares in issue during the current period of 291,006,000 (2003: 289,181,000).

Fully diluted earnings per share on ordinary activities are based on the profit after taxation of £35,578,000 (2003: £22,034,000) and on the average number of shares in issue during the period of 294,458,000 (2003: 293,622,000) taking into account the options outstanding under the Employee Share Option Schemes.

3 Dividends
An interim dividend of 1.5p (net) per Ordinary Share has been declared payable on 25 October 2004 to shareholders registered on 1 October 2004 in respect of the six months to 30 June 2004 (30 June 2003: 1.3p (net) per Ordinary Share).

4 Prior year restatement
During the second half of 2003, the Company adopted UITF Abstract 37 relating to purchases and sales of own shares and UITF Abstract 38 relating to own shares held in an ESOP Trust. The net impact on opening shareholders' funds for the six month period to 30 June 2003 is a reduction of £1,170,000. This restatement has been made in respect of 1,094,334 own shares held at 1 January 2003 by a subsidiary undertaking, Hiscox Holdings Limited and 255,466 own shares held in an ESOP Trust. At 30 June 2003, the number of own shares held was 407,500 by Hiscox Holdings Limited and 255,466 in the ESOP Trust.

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 2004 (unaudited)				6 months to 30 June 2003 (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	**626,849**	**79,942**	**45,610**	**752,401**	724,340	77,999	40,930	843,269
Net premiums written	**534,351**	**68,996**	**33,055**	**636,402**	532,659	66,886	26,912	626,457
Net premiums earned	**345,436**	**65,086**	**29,217**	**439,739**	280,695	63,844	24,389	368,928
Net claims incurred	**184,085**	**27,429**	**10,269**	**221,783**	191,839	30,949	8,279	231,067
Claims ratio (%)	**53.3%**	**42.1%**	**35.1%**	**50.4%**	68.3%	48.5%	33.9%	62.6%
Commission	**131,205**	**17,343**	**17,338**	**165,886**	126,970	17,949	14,873	159,792
Operating expenses	**32,551**	**13,632**	**3,910***	**50,093**	38,161	10,196	268*	48,625
Movement in deferred acquisition costs	**(58,828)**	**(959)**	**(1,499)**	**(61,286)**	(84,218)	(204)	(488)	(84,910)
Net expenses	**104,928**	**30,016**	**19,749**	**154,693**	80,913	27,941	14,653	123,507
Commission ratio (%)	**24.5%**	**25.1%**	**52.5%**	**26.1%**	23.8%	26.9%	55.3%	25.5%
Operating expense ratio (%)	**6.1%**	**19.8%**	**11.8%**	**7.9%**	7.2%	15.2%	1.0%	7.8%
Expense ratio (%)	**30.6%**	**44.9%**	**64.3%**	**34.0%**	31.0%	42.1%	56.3%	33.3%
Net longer term investment return	**15,639**	**4,063**	**1,523**	**21,225**	9,086	3,298	1,198	13,582
Technical profit	**72,062**	**11,704**	**722**	**84,488**	17,029	8,252	2,655	27,936
Combined ratio (%)	**83.9%**	**87.0%**	**99.4%**	**84.4%**	99.3%	90.6%	90.2%	95.9%

*Includes an exchange loss of £1.7 million (2003: gain of £1.0 million).

6 Investment Return

a) The total actual investment return comprises:

	6 months to 30 June 2004 (unaudited) £000	6 months to 30 June 2003 (unaudited) £000	Year to 31 Dec 2003 (audited) £000
Investment return on funds at Lloyd's and other corporate funds:			
Investment income	**4,015**	4,202	8,591
Unrealised gains/(losses) on investments	**(1,189)**	1,054	1,778
Realised gains/(losses) on investments	**(57)**	1,028	1,026
	2,769	6,284	11,395
Investment return on syndicate funds:			
Investment income	**7,938**	5,336	12,656
Realised gains/(losses) on investments	**(5,295)**	1,279	974
	2,643	6,615	13,630
Investment return on insurance company funds:			
Investment income	**5,034**	4,858	9,955
Unrealised gains/(losses) on investments	**(648)**	3,503	6,248
Realised gains/(losses) on investments	**(558)**	(264)	(1,048)
	3,828	8,097	15,155
Investment expenses and charges	**(649)**	(718)	(805)
Total investment return	**8,591**	20,278	39,375
Allocation to the technical account based on the longer term rate	**(18,858)**	(13,553)	(30,583)
Short term fluctuations in investment return retained in the non-technical account	**(10,267)**	6,725	8,792

b) Longer term investment return

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

	6 months to 30 June 2004 (unaudited) %	6 months to 30 June 2003 (unaudited) %	Year to 31 Dec 2003 (audited) %
Shares and units in unit trusts	**6.0**	6.0	6.0
Debt securities and other fixed interest securities	**4.0**	4.0	4.0
Deposits with credit institutions	**4.0**	4.0	4.0

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 2004 (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	**407**	**2.0**	**–**	**–**	**451**	**2.0**	**858**	**2.0**
Debt securities and other fixed interest securities	**1,787**	**3.5**	**1,932**	**0.9**	**1,993**	**3.8**	**5,712**	**1.8**
Deposits with credit institutions	**471**	**2.4**	**248**	**0.9**	**1,302**	**3.4**	**2,021**	**2.4**
	2,665	**3.0**	**2,180**	**0.9**	**3,746**	**3.3**	**8,591**	**2.0**
Longer term investment return:								
Shares and units in unit trusts	**1,194**	**6.0**	**–**	**6.0**	**1,327**	**6.0**	**2,521**	**6.0**
Debt securities and other fixed interest securities	**2,022**	**4.0**	**8,793**	**4.0**	**2,077**	**4.0**	**12,892**	**4.0**
Deposits with credit institutions	**776**	**4.0**	**1,118**	**4.0**	**1,551**	**4.0**	**3,445**	**4.0**
	3,992		**9,911**		**4,955**		**18,858**	
Short term fluctuations in investment return	**(1,327)**		**(7,731)**		**(1,209)**		**(10,267)**	

	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	13.6
Debt securities and other fixed interest securities	2,719	7.2	5,281	4.9	5,170	9.3	13,170	6.5
Deposits with credit institutions	916	2.7	1,010	3.1	793	3.2	2,719	3.0
	6,044	6.8	6,291	4.5	7,943	8.5	20,278	6.2
Longer term investment return:								
Shares and units in unit trusts	1,150	6.0	–	6.0	669	6.0	1,819	6.0
Debt securities and other fixed interest securities	1,513	4.0	4,295	4.0	2,232	4.0	8,040	4.0
Deposits with credit institutions	1,337	4.0	1,324	4.0	1,033	4.0	3,694	4.0
	4,000		5,619		3,934		13,553	
Short term fluctuations in investment return	2,044		672		4,009		6,725	

7 Reconciliation of movement in shareholders' funds

	Share capital £000	Share premium reserve £000	Merger reserve £000	Capital redemption reserve £000	Reserve for own shares £000	Profit and loss account £000	Total share-holders' funds £000
At 1 January 2004	14,565	232,341	4,723	33,244	(686)	45,650	**329,837**
Exercise of share options	16	317	–	–	–	–	**333**
UITF 37 and 38 reserve adjustments	–	–	–	–	208	148	**356**
Exchange differences taken to reserves	–	–	–	–	–	(459)	**(459)**
Retained profit for the year	–	–	–	–	–	31,168	**31,168**
At 30 June 2004	14,581	232,658	4,723	33,244	(478)	76,507	**361,235**

Introduction
We have been engaged by the Company to review the financial information for the six months ended 30 June 2004 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 7. 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 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.

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 2004.

KPMG Audit Plc
London
14 September 2004