Hiscox plc Interim Statement 2005

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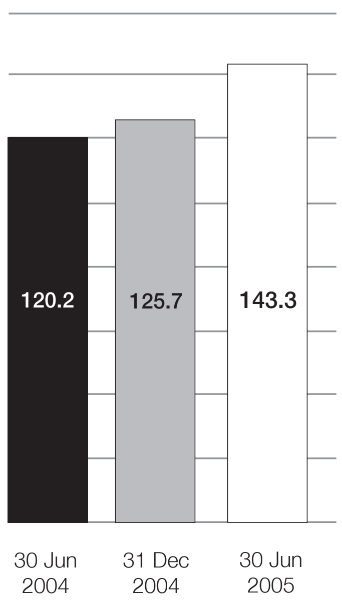
Independent Review Report by KPMG Audit Plc

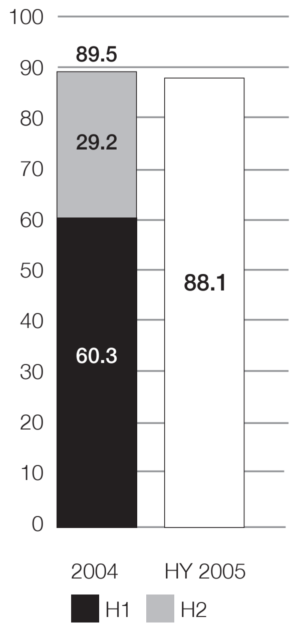
Corporate Highlights

- Record pre-tax profit up **46%** to **£88.1 million**.
- Interim dividend increased **50%** to **2.25p (net) per share**.
- Annualised return on equity of **36%**.
- Strategy of expansion in UK and international businesses succeeding
  - UK profits doubled to **£21.1 million**.
  - Increased international profits from £0.5 to **£3.0 million**.
- New senior appointments to management team.

Net Asset Value per share (p)



Hiscox plc Profit before Tax (£m)



Chairman's Statement

"A strong first half-year with highly satisfactory increases in profit from our UK and international businesses. We have a spread of flourishing business opportunities outside the London Market in our specialist areas and new good people to help run them. Hurricane Katrina may well halt the slide in rates in the London Market and will definitely strengthen reinsurance rates. A time of great possibilities for Hiscox."

The results for the half-year to 30 June 2005 were a record pre-tax profit of £88.1 million (2004: £60.3m). The group written premium income for the period was £437.2 million (2004: £489.0m) and the net earned premium income was £345.7 million (2004: £349.7m). The group combined ratio was 83.5% (2004: 84.6%). Earnings per share were 20.8p (2004: 14.9p) and the net assets per share rose to 143.3p (2004: 120.2p).

Dividend
The interim dividend is increased to 2.25p (net) per ordinary share (2004: 1.5p) and will be paid on 24 October 2005 to shareholders on the register at the close of business on 30 September 2005. This 50% uplift is a material increase to bring the interim dividend more in line with the underlying profitability of the company.

Overall comment
We have had a strong first half with good underwriting helped by few large losses, good investment conditions and favourable exchange rates. Overall market conditions remained above average, but were increasingly competitive in the London Market where the high rates charged in recent years continue to fall in areas where there is strong competition. Despite Hurricane Katrina's impact on our catastrophe book, underwriting is still healthily profitable, reserves are prudently set, the old years are benign, and positive cash flow is giving us more to invest at slightly higher interest rates.

Our strategy for some time has been to build our retail businesses to counteract the cyclicality and volatility of our London Market business: the market conditions today are exactly those for which that strategy was formed. The profits from our underwriting in the UK have more than doubled in this half-year and we are focussed on continuing that trend. We have developed a network of 6 offices in the UK, and 5 in mainland Europe. We are opening an office in the USA where we will concentrate on a specialist book of stable small to medium sized business. We have also stepped up the marketing of our direct business having established a satisfactory underwriting and business model for it.

Our retail business expansion is designed to complement, not replace, our London Market underwriting for which we retain a great appetite. Losses such as Hurricane Katrina strengthen the need for catastrophe and major risk insurance, and there are always opportunities for profit where others fear to tread. We have shown discipline in reducing the amount of London Market business and the basic business remains well priced. We expect and budget for catastrophes. It is a bonus if we are not hit by any, but last year we suffered an epic run of hurricanes and our London Market business remained profitable. We are ready to make the most of any opportunities that arise from the turmoil following this major loss.

Global Markets
This division underwrites London Market risks and retail business from around the world. London Market risks with big premiums are most competed for by international competitors, by new capital and also by brokers, with the resultant pressure on prices. The cycle is sadly alive and well in the large risk sector so a drop in premium income is to be expected. However, there are definitely still opportunities for intelligent and creative underwriting for clients who appreciate that cheapest is not always best. The division achieved a combined ratio of 82.8% (2004: 82.4%) which leaves a substantial margin for the perils of the second half year.

As always, I am writing this report in the eye of the hurricane season, this time as Hurricane Katrina has just ravaged New Orleans and the surrounding area with tragic loss of life and also serious damage to off-shore oil installations. This is a large catastrophe to the insurance market which will have an effect on catastrophe and energy rates, and maybe other commercial rates in the US.

We write a book of catastrophe business which has been very profitable over the past decade. Unlike other classes which have attritional losses slowly leading to a combined ratio perhaps in the region of 90%, the catastrophe book can be loss free until the big one happens. Therefore the big loss to us is not necessarily an overall loss in excess of the premium income, but it does attract great publicity. We buy reinsurance to keep the accumulated loss within budgeted boundaries. It is too soon to quantify accurately the exact cost to us of Hurricane Katrina, but our estimate based on current information is a loss of £55 million which is within our expected net loss from a major Gulf of Mexico hurricane. Given the likely upward effect on rates, we anticipate that we will not reduce the premium limit for Syndicate 33 to £650 million for 2006 as previously announced, but will keep the current £775 million limit in place.

The advantage of being able to use the Lloyd's platform is that we can underwrite business virtually worldwide using its licences, credit rating and brand and with great capital efficiency. However, there is no reason for us to sit and wait in Lloyd's for business to be shown to us. That was a very effective business model when Lloyd's brokers scoured the world for business and brought it all back to London, and we kept costs low by underwriting from one place with shared back-office costs. Now local markets are stronger and local business is increasingly placed locally and it tends to be the most volatile, catastrophic or very large business that comes to London. To increase our spread of medium-sized business, we have been joined in the USA by Ed Donnelly who has an excellent underwriting track record. He is opening an office there to find and underwrite business that does not come to London.

UK and European Businesses
UK Retail has performed very well with a combined ratio of 81.6% (2004: 89.3%) on a small increase in income. We are clearly selling at the right price, so we need to sell more. Marketing for our direct business is growing in success and has an effective spin-off in awareness of the Hiscox brand which helps the whole group. We have just appointed Steve Langan, who has a strong marketing background, to be head of Hiscox UK and Group Marketing.

European Retail has achieved a combined ratio of 95.4% (2004: 103.8%) which justifies our faith in this market which we believe has great potential. Again we have strengthened our management team with Marc van der Veer, who also has an excellent track record in our business, joining us to lead the expansion of our European businesses.

Investments
Slightly higher UK interest rates, a good equity market and the strong cashflows from all areas of the business generating a larger investment pool have increased our investment return to £22.9m for the six months (2004: £8.7m). We continue to keep the portfolio balanced taking relatively little risk with short duration and high credit quality on the bond portfolios and wait patiently for opportunities.

Conclusion
The largest division in our group, Global Markets, has sensibly reduced its income but opportunities will arise following Hurricane Katrina. We constantly seek new ways of finding business through our regional and overseas offices, and the new office in the USA should tap into a huge market where we have always done business and have considerable expertise.

Outside the London Market our regional business through brokers in the UK continues to grow its profits, while our direct marketing campaign is producing good quality business which would be uneconomic to underwrite (or broke) through conventional channels. Our European offices have come of age and should show increased growth and profitability.

We have worked on new technology to improve the costs of writing retail business through brokers and this is now proving a success, reducing costs and increasing distribution. We have been joined by strong new leaders for our operations and IT departments which are a vital part of our future and we have also recently announced that Jeremy Pinchin, recently head of claims at Lloyd's, is joining to lead our claims teams and increase our commitment to that crucially important area.

Given that this business is only as good as its people, it is highly satisfactory to be able to report the addition of a number of very high quality individuals. They have joined what we all believe to be a business on the threshold of a new era. We have worked hard in recent years to develop new distribution channels to access new profitable business and new technology to process it efficiently. We will not flinch from underwriting a sensible catastrophe book as it is capable of substantial profit, and the best margins are to be found in areas others fear. But we will also continue to build the fundamental profitability of the group in retail and other non-catastrophe areas, so that when the catastrophe occurs we will have decent, growing profitability, and when it doesn't, we will do very well indeed.

Robert Hiscox

Robert Hiscox, Chairman
12 September 2005

Summary Consolidated Income Statement

for the six month period ended 30 June 2005

	Notes	6 months to 30 June 2005 (unaudited) £000	6 months to 30 June 2004 Restated* (unaudited) £000	Year to 31 Dec 2004 Restated* (audited) £000
Income				
Gross premiums written		**437,160**	489,038	816,609
Net premiums written		**345,047**	396,457	704,085
Net premiums earned		**345,668**	349,663	714,852
Investment return	4	**22,922**	8,654	33,084
Other operating income	5	**48,970**	8,883	15,112
Net Income		**417,560**	367,200	763,048
Expenses				
Claims and claim adjustment expenses		**(186,207)**	(159,939)	(382,063)
Expenses for the acquisition of insurance contracts		**(99,378)**	(91,733)	(177,960)
Expenses for marketing, administration and asset management services rendered		**(17,779)**	(20,972)	(43,198)
Other operating costs and expenses	5	**(25,218)**	(33,283)	(68,718)
Total expenses		**(328,582)**	(305,927)	(671,939)
Results of operating activities		**88,978**	61,273	91,109
Finance costs		**(1,009)**	(988)	(1,977)
Share of profit of associates		**151**	19	390
Profit before tax		**88,120**	60,304	89,522
Income tax expense		**(27,040)**	(17,041)	(25,574)
Profit for the period		**61,080**	43,263	63,948
Earnings per share:				
– Basic, based on profit for the period		**20.8p**	14.9p	21.9p
– Diluted, based on profit for the period		**20.6p**	14.7p	21.7p

*Restated for the adoption of International Financial Reporting Standards. See note 10.

Summary Consolidated Balance Sheet

at 30 June 2005

	Notes	30 June 2005 (unaudited) £000	30 June 2004 Restated* (unaudited) £000	31 December 2004 Restated* (audited) £000
Assets				
Property, plant and equipment		**10,837**	11,442	10,691
Intangible assets		**32,370**	26,583	29,989
Deferred acquisition costs		**114,875**	117,919	109,970
Investments in associated enterprises		**1,013**	742	1,109
Financial assets	7	**1,368,989**	1,230,287	1,308,213
Reinsurance contract receivables		**290,342**	270,847	238,871
Cash and cash equivalents	7	**200,919**	92,748	119,563
Total assets		**2,019,345**	**1,750,568**	**1,818,406**
Equity and liabilities				
Shareholders' equity				
Share capital		**14,717**	14,581	14,685
Share premium		**234,899**	232,658	234,267
Currency translation reserve		**(144)**	(473)	(468)
Other reserves		**37,967**	37,967	37,967
Retained earnings		**134,246**	65,453	82,375
Total equity		**421,685**	350,186	368,826
Liabilities				
Insurance contracts		**1,373,869**	1,198,360	1,246,903
Financial liabilities		**2,167**	1,598	57
Trade and other payables		**149,588**	150,889	145,530
Deferred tax liabilities		**33,322**	13,884	14,517
Employee benefit obligations		**25,964**	33,851	34,718
Current tax liabilities		**12,750**	1,800	7,855
Total liabilities		**1,597,660**	1,400,382	1,449,580
Total equity and liabilities		**2,019,345**	1,750,568	1,818,406
Net asset value per share		**143.3p**	120.2p	125.7p

*Restated for the adoption of International Financial Reporting Standards. See note 10.

Consolidated Statement of Changes in Equity

for the six month period ended 30 June 2005

	Share capital (unaudited) £000	Share premium (unaudited) £000	Currency translation reserve (unaudited) £000	Other reserves (unaudited) £000	Retained earnings (unaudited) £000	2005 Total (unaudited) £000	2004 Total (unaudited) £000
Balance at 1 January	14,685	234,267	(468)	37,967	82,375	**368,826**	314,685
Currency translation differences	–	–	324	–	–	**324**	(473)
Net income recognised directly in equity	–	–	324	–	–	**324**	(473)
Profit for the period	–	–	–	–	61,080	**61,080**	43,263
Total recognised income for the period	–	–	324	–	61,080	**61,404**	42,790
Employee share options:							
- Proceeds from shares issued	32	632	–	–	–	**664**	333
- Equity settled share-based payments	–	–	–	–	825	**825**	472
Change in own shares	–	–	–	–	252	**252**	356
Dividends paid to shareholders	–	–	–	–	(10,286)	**(10,286)**	(8,450)
Balance at 30 June	14,717	234,899	(144)	37,967	134,246	**421,685**	350,186

Summary Consolidated Cash Flow Statement

for the six month period ended 30 June 2005

	Notes	**6 months to 30 June 2005 (unaudited) £000**	6 months to 30 June 2004 Restated* (unaudited) £000	Year to 31 Dec 2004 Restated* (audited) £000
Cash generated from operations	9	**97,307**	3,939	40,138
Interest paid		**(774)**	(879)	(1,409)
Current tax paid		**(3,339)**	(263)	(206)
Net cash flows from operating activities		**93,194**	2,797	38,523
Cash flows from the acquisition and sale of consolidated enterprises		**–**	(200)	(1,091)
Cash flows from the purchase of property, plant and equipment		**(1,530)**	(5,001)	(5,565)
Cash flows from the purchase of intangible assets		**(2,401)**	–	(3,406)
Loans repaid by related parties		**–**	320	320
Net cash used in investing activities		**(3,931)**	(4,881)	(9,742)
Proceeds from the issue of ordinary shares		**664**	333	2,046
Proceeds from the sale of treasury shares		**252**	356	254
Proceeds from borrowings		**–**	1,121	–
Repayments of borrowings		**(233)**	(42)	(521)
Dividends paid to company's shareholders		**(10,286)**	(8,450)	(12,833)
Net cash used in financing activities		**(9,603)**	(6,682)	(11,054)
Net increase/(decrease) in cash and cash equivalents		**79,660**	(8,766)	17,727
Cash and cash equivalents at beginning of period		**119,563**	102,712	102,712
Net increase/(decrease) in cash and cash equivalents		**79,660**	(8,766)	17,727
Effect of exchange rate fluctuations on cash and cash equivalents		**1,696**	(1,198)	(876)
Cash and cash equivalents at end of period		**200,919**	92,748	119,563

*Restated for the adoption of International Financial Reporting Standards. See note 10.

Cash flows from operating activities are stated net of cash outflows of £54,259,000 (30 June 2004: £131,271,000; 31 December 2004: £230,913,000) from the acquisition, sale and maturity of investments which form part of the operating assets of the Group.

Segment Information - by business division

6 months to 30 June 2005 (unaudited)

	London Market/Group £000	UK Retail £000	International Business £000	Total £000
Gross premiums written	306,168	84,093	46,899	437,160
Net premiums written	233,279	75,031	36,737	345,047
Net premiums earned	235,743	77,661	32,264	345,668
Investment return	13,157	7,271	2,494	22,922
Net claims incurred	(143,808)	(31,921)	(10,478)	(186,207)
Acquisition costs	(66,620)	(24,424)	(16,848)	(107,892)
Administration expenses	(8,125)	(7,746)	(2,760)	(18,631)
Other technical income/(expenses)	36,977	645	(697)	36,925
Trading result	67,324	21,486	3,975	92,785
Agency and other income	8,207	1,306	9,953	19,466
Profit commission	2,744	–	–	2,744
Asset management services and other expenses	(13,410)	(1,682)	(10,925)	(26,017)
Results of operating activities	64,865	21,110	3,003	88,978
Finance costs	(1,009)	–	–	(1,009)
Share of profit of associates	151	–	–	151
Profit before tax	64,007	21,110	3,003	88,120

6 months to 30 June 2004 restated (unaudited)

	London Market/Group £000	UK Retail £000	International Business £000	Total £000
Gross premiums written	364,424	79,024	45,590	489,038
Net premiums written	295,317	68,095	33,045	396,457
Net premiums earned	256,343	64,105	29,215	349,663
Investment return	4,642	3,084	928	8,654
Net claims incurred	(120,532)	(28,325)	(11,082)	(159,939)
Acquisition costs	(64,299)	(19,850)	(15,839)	(99,988)
Administration expenses	(10,492)	(9,094)	(2,149)	(21,735)
Other technical income/(expenses)	(13,124)	62	(1,254)	(14,316)
Trading result	52,538	9,982	(181)	62,339
Agency and other income	3,459	989	10,430	14,878
Profit commission	3,909	–	3	3,912
Asset management services and other expenses	(9,414)	(672)	(9,770)	(19,856)
Results of operating activities	50,492	10,299	482	61,273
Finance costs	(988)	–	–	(988)
Share of profit of associates	19	–	–	19
Profit before tax	49,523	10,299	482	60,304

Year to 31 December 2004 restated (unaudited)

	London Market/Group £000	UK Retail £000	International Business £000	Total £000
Gross premiums written	549,458	174,128	93,023	816,609
Net premiums written	485,538	149,778	68,769	704,085
Net premiums earned	517,497	136,380	60,975	714,852
Investment return	18,902	11,202	2,980	33,084
Net claims incurred	(292,389)	(65,682)	(23,992)	(382,063)
Acquisition costs	(120,275)	(42,283)	(32,434)	(194,992)
Administration expenses	(19,234)	(18,251)	(4,025)	(41,510)
Other technical income/(expenses)	(32,996)	50	368	(32,578)
Trading result	71,505	21,416	3,872	96,793
Agency and other income	7,138	2,019	21,134	30,291
Profit commission	3,539	–	(31)	3,508
Asset management services and other expenses	(16,187)	(2,155)	(21,141)	(39,483)
Results of operating activities	65,995	21,280	3,834	91,109
Finance costs	(1,977)	–	–	(1,977)
Share of profit of associates	390	–	–	390
Profit before tax	64,408	21,280	3,834	89,522

	London Market	UK Retail	International Business	Total
100% level net combined ratio – 6 months to 30 June 2005	82.8%	81.6%	95.4%	83.5%
100% level net combined ratio – 6 months to 30 June 2004 restated	82.4%	89.3%	103.8%	84.6%
100% level net combined ratio – Year to 31 December 2004 restated	92.1%	92.5%	98.5%	92.6%

Earnings per share

	Period	Earnings £000	Average number of shares* 000	EPS per share p
Basic, based on profit for the period	6 months to 30 June 2005	61,080	293,788	20.8
Diluted, based on profit for the period	6 months to 30 June 2005	61,080	297,051	20.6
Basic, based on profit for the period	6 months to 30 June 2004 restated	43,263	291,006	14.9
Diluted, based on profit for the period	6 months to 30 June 2004 restated	43,263	294,458	14.7
Basic, based on profit for the period	Year to 31 December 2004 restated	63,948	291,755	21.9
Diluted, based on profit for the period	Year to 31 December 2004 restated	63,948	295,130	21.7

Net asset value per share

	Period	Net asset value £000	Number of shares** 000	NAV per share p
Net asset value	6 months to 30 June 2005	421,685	294,193	143.3
Net tangible asset value	6 months to 30 June 2005	389,315	294,193	132.3
Net asset value	6 months to 30 June 2004 restated	350,186	291,216	120.2
Net tangible asset value	6 months to 30 June 2004 restated	323,603	291,216	111.1
Net asset value	Year to 31 December 2004 restated	368,826	293,306	125.7
Net tangible asset value	Year to 31 December 2004 restated	338,837	293,306	115.5

*Diluted earnings per share has been calculated after taking into account 3,263,000 (30 June 2004: 3,452,000; 31 December 2004: 3,375,000) employee share options.

** The number of shares outstanding at the period end as adjusted for own shares held.

"London Market/Group" comprises Hiscox plc's share of the results of Syndicate 33 and the results of non-underwriting entities of the Group, net of any business written between Group companies.

"UK Retail" comprises all of the UK retail business of Hiscox Insurance Company Limited, together with the result of the online agency business Hiscox Connect Limited).

"International Business" comprises the results of Hiscox Insurance Company (Guernsey) Limited, the results of the Hiscox overseas agencies and the underwriting results of the international retail business written by Hiscox Insurance Company Limited.

1 Basis of preparation and audit status

European Union ('EU') law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the company, for the year ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the EU ("adopted IFRSs").

This interim consolidated financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2005, the group's first annual reporting date at which it is required to use adopted IFRSs.

The adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 December 2005.

The interim consolidated financial statements for the 2005 and 2004 half years are unaudited but have been subject to a review by the independent auditors.

The unaudited interim consolidated financial information and the comparative figures for the year ended 31 December 2004 contained within, do not constitute statutory accounts of the group within the meaning of Section 240 of the Companies Act 1985.

The independent auditors have reported on the Statutory Report and Accounts for the year ended 31 December 2004 prepared under UK GAAP, their report was not qualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The independent auditors have also issued a special purpose audit report on the restated consolidated financial information for the year ended 31 December 2004 under IFRSs (as presented as comparatives in this interim report). Their report was included in the restated financial information that was published on 26 July 2005 and is available on the company's website www.hiscox.com.

2 Accounting policies

This interim consolidated financial information has been prepared in accordance with the accounting policies in the restated consolidated financial information that was published on 26 July 2005, which is available on the company's website www.hiscox.com.

A summary of the key differences between IFRS and UK GAAP is presented in note 10.

3 Return on Equity

	6 months to 30 June 2005 (unaudited) £000	6 months to 30 June 2004 Restated (unaudited) £000	Year to 31 Dec 2004 Restated (audited) £000
Profit for the period	**61,080**	43,263	63,948
Opening shareholders' equity	**368,826**	314,685	314,685
Adjusted for the time weighted impact of:			
- Distributions of capital	**(170)**	(92)	(5,085)
- Change in own shares	**92**	14	113
Adjusted opening shareholders' equity	**368,748**	314,607	309,713
Annualised return on equity (%)	**35.9%**	29.4%	20.6%

4 Investment Return

i) Analysis of investment return

	6 months to 30 June 2005 (unaudited) £000	6 months to 30 June 2004 Restated (unaudited) £000	Year to 31 Dec 2004 Restated (audited) £000
Investment income	**22,657**	17,148	35,051
Net realised gains/(losses) on financial assets	**(1,629)**	(5,910)	(6,608)
Net unrealised gains/(losses) on financial assets at fair value through income	**2,465**	(1,780)	6,015
Investment expenses	**(571)**	(804)	(1,374)
	22,922	8,654	33,084

ii) Annualised investment yields

	6 months to 30 June 2005 (unaudited) Return £000	**Yield %**	6 months to 30 June 2004 Restated (unaudited) Return £000	Yield %	Year to 31 Dec 2004 Restated (unaudited) Return £000	Yield %
Debt securities at fair value through income	**14,874**	3.5	5,692	1.8	19,088	2.7
Equities at fair value through income	**3,729**	8.9	933	2.2	8,529	10.3
Deposits with credit institutions/cash and cash equivalents	**4,319**	4.5	2,029	2.4	5,467	2.9
	22,922	4.0	8,654	2.0	33,084	3.4

5 Other operating income and expenses

	6 months to 30 June 2005 (unaudited) £000	6 months to 30 June 2004 Restated (unaudited) £000	Year to 31 Dec 2004 Restated (unaudited) £000
Agency and other income	**8,511**	4,166	6,212
Profit commission	**2,744**	3,912	3,508
Exchange gains	**36,925**	–	–
Other technical income	**790**	680	3,087
Other income	**–**	125	2,305
Other operating income	**48,970**	8,883	15,112
Managing agency expenses	**10,022**	7,146	7,447
Overseas underwriting agency expenses	**10,905**	9,750	21,141
Connect agency expenses	**1,682**	672	2,155
Exchange losses	**–**	14,316	34,228
Other group expenses	**2,609**	1,399	3,747
Other operating expenses	**25,218**	33,283	68,718

6 Dividends

	6 months to 30 June 2005 (unaudited) £000	6 months to 30 June 2004 Restated (unaudited) £000	Year to 31 Dec 2004 Restated (audited) £000
Final dividend for the year ended:			
- 31 December 2004 of 3.5p (net) per share	**10,286**	–	–
- 31 December 2003 of 2.9p (net) per share	**–**	8,450	8,450
Interim dividend for the year ended:			
- 31 December 2004 of 1.5p (net) per share	**–**	–	4,383
	10,286	8,450	12,833

An interim dividend of 2.25p (net) per ordinary share has been declared payable on 24 October 2005 to shareholders registered on 30 September 2005 in respect of the six months to 30 June 2005 (30 June 2004: 1.5p (net) per ordinary share). The dividend was approved by the Board on 6 September 2005 and accordingly has not been included as a distribution or liability in this interim consolidated financial information in accordance with IAS10 'Events after the Balance Sheet Date'.

7 Financial Assets

i) Analysis of financial assets

	30 June 2005 (unaudited) £000	30 June 2004 Restated (unaudited) £000	31 Dec 2004 Restated (unaudited) £000
Debt securities at fair value through income	**865,005**	740,319	833,963
Equities at fair value through income	**93,427**	78,069	86,783
Deposits with credit institutions	**79,561**	55,604	58,637
Investments	**1,037,993**	873,992	979,383
Trade and other receivables	**330,996**	356,295	327,482
Derivative financial instruments	**–**	–	1,348
	1,368,989	1,230,287	1,308,213

ii) Investment and cash allocation

	30 June 2005 (unaudited) £000	30 June 2005 (unaudited) %	30 June 2004 Restated (unaudited) £000	30 June 2004 Restated (unaudited) %	31 Dec 2004 Restated (unaudited) £000	31 Dec 2004 Restated (unaudited) %
Debt securities at fair value through income	**865,005**	**69.8**	740,319	76.6	833,963	75.9
Equities at fair value through income	**93,427**	**7.5**	78,069	8.1	86,783	7.9
Deposits with credit institutions/cash and cash equivalents	**280,480**	**22.7**	148,352	15.3	178,200	16.2
	1,238,912		966,740		1,098,946	

iii) Investment allocation by currency

	30 June 2005 (unaudited) %	30 June 2004 Restated (unaudited) %	31 Dec 2004 Restated (unaudited) %
Sterling	**36.4**	38.4	36.5
Dollars	**49.5**	49.1	46.2
Euro and other currencies	**14.1**	12.5	17.3

8 100% Level Combined Ratio

The underwriting activities which are managed by the Group are shown below at the 100% level regardless of ownership of capacity. All ratios disclosed are calculated by reference to net premiums earned. Under previously reported UK GAAP figures the net expense ratio was calculated by reference to net premiums written. The net combined ratio remains as the total of the net claims and net expense ratios.

	6 months to 30 June 2005 (unaudited)				6 months to 30 June 2004 (unaudited)			
	London Market £000	UK Retail £000	International Business £000	Total £000	London Market £000	UK Retail £000	International Business £000	Total £000
Net premiums earned	**348,014**	**77,661**	**32,264**	**457,939**	393,918	64,105	29,215	487,238
Net claims incurred	**218,469**	**31,921**	**10,478**	**260,868**	184,568	28,325	11,082	223,975
Net claims ratio (%)	**62.8%**	**41.1%**	**32.5%**	**57.0%**	46.9%	44.2%	37.9%	46.0%
Net expenses	**69,545**	**31,525**	**20,305**	**121,375**	139,968	28,882	19,242	188,092
Net expense ratio (%)	**20.0%**	**40.5%**	**62.9%**	**26.5%**	35.5%	45.1%	65.9%	38.6%
Investment return	**14,799**	**7,271**	**2,494**	**24,564**	3,111	3,084	928	7,123
Trading result	**74,799**	**21,486**	**3,975**	**100,260**	72,493	9,982	(181)	82,294
Net combined ratio (%)	**82.8%**	**81.6%**	**95.4%**	**83.5%**	82.4%	89.3%	103.8%	84.6%

9 Cash generated from operations

	6 months to 30 June 2005 (unaudited) £000	6 months to 30 June 2004 Restated (unaudited) £000	Year to 31 Dec 2004 Restated (unaudited) £000
Profit before tax	**88,120**	60,304	89,522
Realised and unrealised investment (gains)/losses	**(836)**	7,690	593
Depreciation	**1,534**	1,420	2,932
Charges in respect of retirement benefits	**(8,754)**	517	1,384
Charges in respect of employee share schemes	**826**	472	1,194
Foreign exchange (gains)/losses on cash and cash equivalents	**(1,696)**	1,198	876
Other non-cash transactions	**1,215**	498	428
Changes in operational assets and liabilities:			
- Deferred acquisition costs	**(4,905)**	(18,545)	(10,596)
- Trade and other receivables	**(3,401)**	(16,083)	(24,169)
- Insurance and reinsurance contracts	**76,555**	97,437	204,187
- Trade and other payables	**2,908**	302	4,700
- Investments	**(54,259)**	(131,271)	(230,913)
Cash generated from operations	**97,307**	3,939	40,138

10 Explanation of transition to IFRSs

The principles underpinning the group's first-time adoption of IFRSs are described in the restated consolidated financial information for the year ended 31 December 2004 published on 26 July 2005. The restated consolidated financial information contained reconciliations of equity at 1 January 2004 (date of transition to IFRSs) and at 31 December 2004 (date of last UK GAAP financial statements) and also the reconciliation of profit for 2004, as required by IFRS 1 'First-time Adoption of International Financial Reporting Standards'. It also sets out the significant accounting policies applied by the group under IFRSs.

Reconciliations of profit after tax and total equity are included below to enable a comparison of the comparative information included in this interim consolidated financial information with those published in previous financial periods.

Reconciliation of profit after tax from IFRS to UK GAAP

	Notes	6 months to 30 June 2004 (unaudited) £000	Year to 31 Dec 2004 (audited) £000
Profit after tax under IFRS		43,263	63,948
Amortisation of intangible assets	10a	(725)	(1,453)
Valuation of financial assets	10b	(45)	(987)
Income tax	10c	(974)	(554)
Insurance contracts	10d	(783)	(1,442)
Employee benefits	10f	(224)	(1,768)
Rates of exchange	10g	(4,927)	(3,046)
Other adjustments		(7)	(124)
Profit after tax under UK GAAP		35,578	54,574

Reconciliation of total equity from IFRS to UK GAAP

	Notes	30 June 2004 (unaudited) £000	31 Dec 2004 (audited) £000
Total equity under IFRS		350,186	368,826
Intangible assets	10a	(5,555)	(6,283)
Financial assets	10b	139	(803)
Income tax	10c	(2,156)	(1,736)
Insurance contracts	10d	(12,316)	(12,975)
Dividend recognition	10e	(4,374)	(10,281)
Employee benefits	10f	27,996	25,729
Rates of exchange	10g	7,462	9,385
Other adjustments		(147)	(263)
Total equity under UK GAAP		361,235	371,599

10 Explanation of transition to IFRSs continued

The principal changes on either profit for the period or total equity are explained further below:

(a) Intangible assets

Goodwill

Goodwill acquired in a business combination is no longer amortised but is tested for impairment on at least an annual basis. Up to 31 December 1997, under UK GAAP goodwill arising on the acquisition of subsidiaries was written off directly to reserves in the year of acquisition. From 1 January 1998, in accordance with FRS 10 'goodwill and intangible assets', goodwill was capitalised and amortised on a straight-line basis over its useful economic life which was deemed to be 20 years. Any goodwill previously amortised or written-off has not been reinstated on adoption of IFRS and thus the value of goodwill has been taken as the carrying amount on adoption.

Syndicate capacity

In accordance with IAS 38 'Intangible Assets', the useful lives of all of the group's recognised intangible assets have been reviewed on adoption of IFRS. Following this review it has been concluded that syndicate capacity has an indefinite useful life and so will no longer be amortised but will be subject to an at least annual impairment test. Syndicate capacity previously amortised has been reinstated on adoption of IFRS.

(b) Financial assets

Valuation

In the group's previously reported UK GAAP financial statements, financial assets were stated at their current value. For listed investments, comprising those quoted on the London and other international stock exchanges, current value was deemed to be the mid-market prices on the balance sheet date, or on the last stock exchange trading day before the balance sheet date. All realised or unrealised gains and losses were taken to the income statement.

For the purposes of measuring financial assets under IAS 39 'Financial Instruments : Recognition and Measurement' all financial assets are classified into the following four categories :

(i) Financial assets at fair value through income;
(ii) Held-to-maturity investments;
(iii) Loans and receivables; and
(iv) Available-for-sale financial assets.

A full review of the group's investments has been performed as part of the adoption of IFRS and all equities and debt securities have been classified as financial assets at fair value through the income statement. The accounting for this category of financial asset is similar to the group's previous accounting policy under UK GAAP. However, under IFRS listed investments are valued at bid price on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

Derivative financial instruments

The group has entered into a small number of foreign exchange contracts in order to manage its exposure to business denominated in a currency other than its presentational currency. In accordance with IAS 39 these contracts have been recognised in the balance sheet at their fair value.

(c) Income tax

Current income tax was provided in the group's previously reported UK GAAP financial statements for amounts expected to be paid (or recovered) using the tax rates and laws that had been enacted or substantively enacted at the balance sheet date.

Deferred income tax was recognised in respect of all timing differences, with certain exceptions, that had originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future had occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the UK GAAP financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred income tax was measured at the average tax rates that are expected to apply in periods in which the timing differences are expected to reverse. The group did not discount its UK GAAP deferred tax assets or liabilities.

IAS 12 'Income Taxes' takes a balance sheet approach with deferred income tax being calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply in periods in which the timing differences are expected to reverse. IAS 12 explicitly states that deferred tax assets and liabilities shall not be discounted.

(d) Insurance contracts

Equalisation provision

In the group's previously reported UK GAAP financial statements an equalisation provision was established for Hiscox Insurance Company Limited in accordance with the requirements of PRU 7.5 of the Integrated Prudential Sourcebook (Insurance and other amendments) Instrument 2004. This provision, which was in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, was required by Schedule 9A to the Companies Act 1985 to be included within technical provisions at the balance sheet date notwithstanding that it does not represent liabilities at the balance sheet date.

Under IFRS 4 'Insurance Contracts', provisions for possible future claims arising from insurance contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions) are not recognised.

(e) Dividend recognition
Under UK GAAP dividends are recognised in the income statement in the period to which they relate irrespective of when they are declared and approved. IAS 10 'Events after the Balance Sheet Date' does not allow the recognition of dividends to holders of equity instruments after the balance sheet date because they do not meet the criteria of a present obligation in IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Accordingly only dividends declared (i.e. appropriately authorised and no longer at the discretion of the group) are recognised in the statement of changes in equity.

(f) Employee benefits
Retirement benefit obligations
Under IAS 19 'Employee Benefits' the present value of the defined benefit obligation is matched against the fair value of the plan assets out of which the obligations are to be settled directly and other unrecognised actuarial gains and losses. The resulting pension scheme asset or liability is recognised in the balance sheet. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives. Past service costs arising in the period are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Previously under UK GAAP the assets and liabilities of defined benefit pension schemes were off-balance sheet items which were only disclosed by way of a footnote. Under SSAP 24 'Accounting for Pension Costs', pension contributions were charged to the income statement so as to spread the cost of pensions over employees' working lives with the group. Differences between these amounts charged and payments made to the group's pension schemes were treated as an asset or liability in the UK GAAP balance sheet.
The standard also allows the recognition of a right to reimbursement from other parties of some of the expenditure required to settle the defined benefit obligation.

Share-based payments
IFRS 2 'Share-based Payment' requires the recognition of an expense representing the fair value of employee services rendered in exchange for the grant of options. The amount to be expensed has been determined by reference to the fair value of the options granted. The impact of any non-market vesting conditions is not included in the calculation of the fair value but is included in the assumptions about the number of options that are expected to become exercisable. The fair value is expensed over the vesting period which is three years for all of the group's share option schemes.

In accordance with the transitional arrangements contained in the standard, only share options granted after 7 November 2002 but not yet vested at 1 January 2005 were included in the calculations.

Sabbatical leave
After ten years of service, all permanent employees of the group are eligible to take an eight week paid sabbatical leave. The present value of the cost of this compensated absence is expensed in the income statement over the period of service in accordance with IAS 19.

(g) Rates of exchange
Functional currency
The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of all entities in the group has been deemed to be Sterling with the exception of the entities operating in France, Germany, Holland and Benelux whose functional currency is Euros and Hiscox Insurance Company (Guernsey) Limited whose functional currency is US Dollars.

IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires that foreign currency transactions are recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition in the functional currency during the period or in previous financial statements are recognised in the income statement when they arise. Under IFRS all monetary assets and liabilities are retranslated at the prevailing rates of exchange at the closing balance sheet date. Unearned premium and deferred acquisition costs are non monetary assets and liabilities and accordingly are not retranslated from the historic rates.

Presentational currency
The presentational currency of the group, which is the currency used in the presentation of the consolidated financial statements, is Sterling. The results and financial position of those entities whose functional currency is not Sterling have been translated to the presentational currency as follows:

- All assets and liabilities are translated at the closing rate at the balance sheet date;

Notes to the Interim Accounts continued

- Income and expenses are translated at the exchange rates prevailing on the dates of transactions; and
- All resulting exchange differences are recognised as a separate component of equity.

Previously under UK GAAP, investments in foreign enterprises were translated using the net investment method which applies the closing rate to all assets and liabilities and income and expenses. All resulting exchange differences were similarly taken to reserves.

Daily transactional rates
As part of the system improvements made on adoption of IFRS the group has moved to daily transactional rates of exchange as it believes that this provides more accurate financial information. The only exception to this is for business whose functional currency is not denominated in pounds Sterling for which average monthly rates continue to be adopted for the translation into the presentational currency.

Independent Review Report by KPMG Audit Plc to Hiscox plc

Introduction
We have been engaged by the company to review the financial information for the six months ended 30 June 2005 which comprise the summary consolidated income statement, the summary consolidated balance sheet, the consolidated statement of changes in equity, the summary consolidated cash flow statement, segment information and related notes 1 to 10, all prepared on an International Financial Reporting Standards (IFRS) basis. 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.

As disclosed in note 1 to the financial information, the next annual financial statements of the group will be prepared in accordance with IFRSs adopted for use in the European Union. The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union.

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 2005.

KPMG Audit Plc
London
12 September 2005

HISCOX

Hiscox plc
1 Great St Helen's
London EC3A 6HX
United Kingdom

Telephone: +44 (0)20 7448 6000
Facsimile: +44 (0)20 7448 6900
Email: enquiry@hiscox.com
Website: www.hiscox.com