This year, we've got to confess...

Hiscox plc Report and Accounts 2001

HISCOX

While the events of September 11 have been a disappointing setback to recovery, Syndicate 33 is now benefiting from the subsequent surge of business to the London Market. Our retail business led by the Hiscox Insurance Company continues to grow well.

With rates rising rapidly and terms and conditions tightening we are anticipating an excellent trading environment over the next few years.

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We've enjoyed over £200m of retail therapy

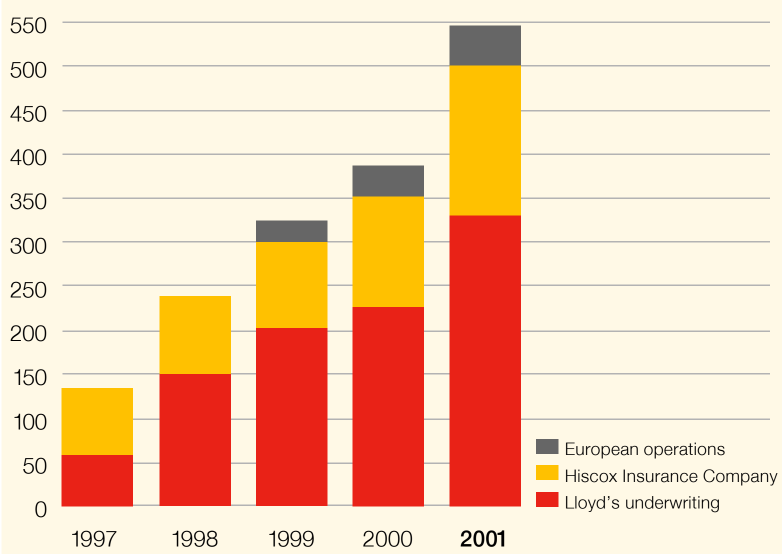
We have achieved £205.6 million of retail income to balance the Lloyd's business.

- Hiscox plc gross written premium income (GWP) up 43% to £549m
- Group controlled GWP up 29% to £780m
- London Market conditions excellent. Syndicate 33 experiencing significant growth in 2002 with reduced exposure. Rate increases continue rising trend
- Continued growth of the Hiscox Insurance Company – GWP up 29% to £164m, combined ratio 97.8%
- £54m raised to finance expansion
- Strategy of balancing London Market business with regional retail business working well

Operating profit/(loss) to Hiscox plc before tax (£000)

	2001	2000
Lloyd's business	**(29,918)**	(3,817)
Retail business	**8,698**	6,767
Total	**(21,220)**	2,950
Earnings per share (Based on operating profit/(loss) after tax)	**(10.2)p**	3.5p

Hiscox plc gross written premium (£million)



Group controlled gross written premium

London Market Reinsurance
Marine, Non-Marine, Whole Account

£124.4m

London Market Direct
Property, Construction, Terrorism, Energy, Marine Hull and Cargo, Liability, Political Risks, Specie, Enterprise Risk

£233.2m

ATMT
Aerospace, Technology, Media, Telecommunications

£51.2m

Affluent Personal Lines
Fine Art, Kidnap and Ransom, Yachts, Bloodstock, Aviation, High Value Household, Contingency, Personal Accident

£291.9m

Professional Insurances
Traditional, Emerging

£79.3m

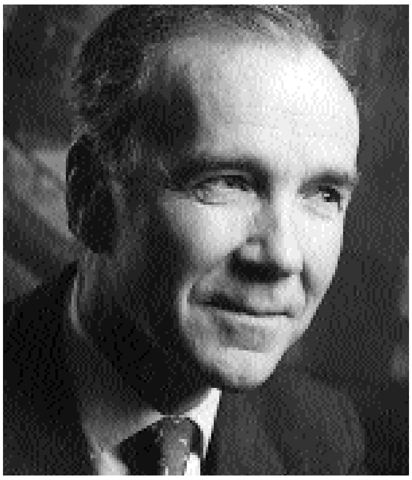
Total

£780m

Most of our underwriters aren't exactly rocket scientists

But two of them are. Two members of our Space and Satellite underwriting team were rocket scientists. Focus and specialist expertise reduces the risk and enhances the potential profit.

Without the effects of September 11 we would be announcing a healthy increase on last year's profit. As it is, the subsequent trading environment is allowing us to build a larger, less volatile and better balanced portfolio. All indications point to a profitable future.



Robert Hiscox Chairman

The result for the year ending 31 December 2001 is an operating loss of £21.2 million (2000: profit £3.0m) and a pre-tax loss of £32.5 million (2000: profit £3.5m). The gross premium income controlled by the Group increased to £780.0 million (2000: £603.3m), and the gross premium income applicable to Hiscox plc increased to £548.9 million (2000: £384.7m).

The result is dominated by losses from the terrorist attack on September 11 on the World Trade Center (WTC). Without that tragic event, we would this year be announcing a reasonable increase on last year's operating profit and a further move towards a decent return on equity.

Our retail business, led by the Hiscox Insurance Company (Hisco), has grown healthily, and our Lloyd's Syndicate 33 is now benefiting from the surge of business to the London Market following the WTC.

However, we acknowledge that the recent results of Hiscox plc have not been good. We have explanations but no excuses as our ambition is to defeat the down cycles, however severe they are, and we take no pride in the fact that others have fared worse. We will do better. Current figures show that we are back on track, and with better margins and a much higher premium income, proper returns should be made in the very near future.

Bronek Masojada reports on the business in detail in his CEO's report that follows. I will just highlight some of the important issues of the year and comment on the future.

World Trade Center

We have not altered our estimate of the final loss to Syndicate 33 from the WTC of $440 million gross, reduced to $90 million after reinsurance recoveries (or approximately £30 million to Hiscox plc). This is based on a detailed analysis of each claim, and on one total loss being paid to the leaseholder.

Uncertainties remain. The site is still being cleared and in some cases the loss adjusters are not yet able to make accurate assessments of business interruption losses. At 31 March 2002 we had received notifications of claims from our insurance and reinsurance accounts totalling $543 million and the US Trust Funds have been appropriately funded. The flow of property claims has now virtually halted. It is our experience that the physical loss following a very large property loss is nearly always exaggerated immediately after the event. It is the liability losses (in which we have no material involvement) that traditionally take years to settle and grow with time.

In the unlikely event that Syndicate 33's loss increases by a further $100m and assuming there are no additional reinsurance recoveries, the net cost to Hiscox plc would increase by approximately £35 million. We do not believe this will happen. Against any loss will be set the proceeds from subrogation against other responsible parties and the profit from the balance of the account, including the profit from the extra £60 million of premium income written after September 11 in 2001.

Hiscox Syndicate 33 at Lloyd's

Syndicate 33 has had some poor years, better than the average in Lloyd's but not up to our standards. After steadily reducing our managed capacity from £437 million in 1995 to £360 million in 1998 due to weak prices, we kept it there until 2002 when we have increased it to £504 million to take advantage of the excellent market conditions.

Prior to the WTC loss, conditions were improving satisfactorily and I said in last year's report that they were better than they had been for years.

“Syndicate 33 has been able to reduce its exposure per risk whilst substantially increasing its income from a less volatile, better balanced portfolio. In other words, much more money for much less risk”

Post WTC, the withdrawal of risk appetite by reinsurers and thereby insurers caused a leap in the cycle with rates rising rapidly and terms and conditions tightening. Syndicate 33 has been able to reduce its exposure per risk whilst substantially increasing its income from a less volatile, better balanced portfolio. In other words, much more money for much less risk. Our current projections are that the premium income for the 2002 account will be in excess of £600 million (net of brokerage), and we will place the surplus over our capacity limit of £504 million with reinsurers with good security.

Given a normal run of claims, the current rates being obtained should yield a very acceptable profit.

Hiscox Insurance Company (Hisco)

Hisco continues its steady progress. The combined loss ratio for 2001 of 97.8% (2000: 97.7%) was within our target of 95% to 98%, with the gross premium income up to £163.9 million (2000: £127.3 million). The UK combined ratio was 95.4% which was highly satisfactory. A reinforcement of the health of Hisco is the inflow of cash. Hisco started the year with technical reserves (Warren Buffett’s "float") of £120.5 million, and ended the year with £152.7 million despite having paid out a considerable sum to settle some old pre-acquisition fully reserved liabilities.

The reason for the low combined ratio for Hisco, apart from having a committed and talented staff, is focus. Hisco focuses on two main areas: higher net worth personal insurances, from the aspiring young executive to the really rich, and commercial insurances of service-based professional firms and media and technology companies. The focus means we are big and expert in the areas in which we specialise, even if we are small as a company in comparison with some of our giant competitors.

The strategy of building a business outside Lloyd’s is working well and has an exciting future. Being small and nimble has two enormous advantages. One, decisions can be implemented immediately, and it is much more fun to work in than being a small cog in a huge wheel. Two, communication is easier, and staff can feel that they are making a significant contribution every time they conclude a successful transaction or reduce an expense. Hisco is turning out to be an excellent balance to the Lloyd’s business.

International business

Our Guernsey office continues to thrive and produce good profits. Our new acquisition in Dublin has made a good profit and has performed ahead of expectations. Our offices in France, Germany, Ireland, the Netherlands and Belgium increased their combined premium income to £20.3 million (2000: £10.3 million). They were not profitable overall this year but continue to grow towards critical mass. After the extraordinary storms in France in December 1999, in 2001 the Balearic Islands were hit by a storm which did considerable damage to the houses of Germans insured there by our German office. We remain convinced that lateral expansion into mainland Europe has enormous potential, but we and they are well aware that we must make a profit from each of those offices. I am confident that we will.

Corporate events

We raised £54 million in a placing of our shares in December 2001. We are extremely grateful to our shareholders who put in the extra money so willingly and we will use it well.

"The strategy of building a business outside Lloyd's is working well and has an exciting future. Hisco is turning out to be an excellent balance to the Lloyd's business"

Dividend
The Board decided that having raised new money, with market conditions giving us fantastic opportunities to use every penny of capital, and having made a loss, we should not pay a dividend out of the 2001 accounts. We expect to resume the dividend payments when profits return this year.

Lloyd's
Lloyd's has lost a considerable amount of money again. By 1999, we had sold the spread capacity on other syndicates and our sister company, Roberts & Hiscox Ltd, had stopped acting as a members agent and closed down that business.

Losses at Lloyd's allow reforms which have never been possible during good times so we now have a good opportunity to finish the rationalisation of the market. If it is to remain a mutual bourse, it needs strong leadership to impose strict underwriting disciplines and low expenses, and we welcome the new proposals to strengthen the management of the franchise. The current Chief Executive has the right ideas and he has our support.

The insurance industry
The property and casualty insurance industry has taken a real battering from weak underwriting on the back of easy investment gains in recent years, culminating in the savage September 11 losses. We always seem to be hit hardest when the coffers are empty at the bottom of the cycle.

However, the consolidation of the reinsurance industry into five major players is arguably a good thing as it will bring sensible price stability. Cheap reinsurance offered to weak insurers always fuels the stupid price-cutting and lack of discipline in the down cycle. Similarly, the consolidation of the insurance industry, combined with the withdrawal from property and casualty insurance by some large composite competitors, gives us remaining players a great opportunity to get it right. We are now able to pick the right business and charge the right price. If we combine that with better use of technology to reduce costs, the future will be good.

People
We have learnt a great deal during the recent difficult years. We have made losses in Lloyd's and will carry the scars for a good many years. Syndicate 33 was losing money when I joined it in 1965, and I so hated the experience that we made money through every downturn until this one. We have all hated these recent losses. We took early action to get the Syndicate back on track and I hope it is a good thirty years before it happens again, if it ever does. We have a very skilful and battle hardened team led by Robert Childs. They have my thanks for pulling it together in very hard times.

We also have an excellent team in Hisco led by Sian Fisher with solid experience in running an insurance company outside the London Market and turning it from losses (not made by us) into profits. I would like to thank them and ask for more of the same.

And behind all the underwriting are some dedicated support staff who make the underwriting possible. As I say every year, and I say it because I mean it, we are only as good as our people, and I think we have the best.

Finally
The setback this year to our recovery towards a decent return to shareholders is intensely disappointing, especially as it was caused by a deliberate and malevolent act. Not every loss is foreseeable. We spend a great amount of time and research analysing disaster

“The consolidation of the insurance industry, combined with the withdrawal from property and casualty insurance by some large composite competitors, gives us remaining players a great opportunity to get it right”

scenarios, and two jets colliding over lower Manhattan was one such. Despite the fact that we did not foresee that it would be done so explosively, the resulting loss has been manageable, if extremely painful. There will always be the possibility of losses of unexpected magnitude, and we must make sufficient margins over a period of time to cover them.

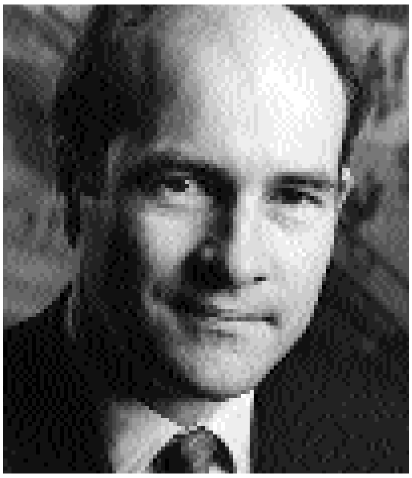
We should reach around £1 billion of managed gross premium income this year. I know turnover is vanity and profit is sanity, but the rates we are achieving make good profits most likely if we have any normal pattern of losses. The strategy is balanced growth, both in building the retail business to balance the London Market wholesale business, and within both business areas. We now basically have a better balance at higher rates, with a highly talented and motivated staff determined to keep it that way and to grow Hiscox plc into the premier UK based insurer, rewarding shareholders with proper returns. I am looking forward to the next few years with relish.

Robert Hiscox
Chairman
16 April 2002

We’ve run riot abroad

Our overseas expansion continues. Our Guernsey operations grew profitably, and a specialist operation in Ireland has been added to our mainland European offices.

A year ago we had the wind at our backs. In September we were hit by a freak squall. With the yacht now upright and her spinnaker raised, we are powering ahead and making the most of the market conditions.



Bronek Masojada Chief Executive

Overview
As Robert said in his Chairman's Statement, 2001 has been dominated by the tragic events of September 11. The human tragedy and its associated financial cost overshadow all achievements in the year. For Hiscox the year began well with further progress by our retail business and a near breakeven result from our Lloyd's business at the half year. At the full year, the cost of WTC has led to a significant overall loss. This setback has had an inevitable positive impact on the rating environment and opportunities for profit in the year ahead.

My report gives an overview of the Group's operations, first in terms of business developments by market segment for the total premium income controlled by Hiscox (see Table 1), followed by detailed commentary on financial performance of components of the Group.

Business trends by segment
During the year the controlled premium income of the Group grew to £780.0m, an increase of 29.3%. Rating increases have been a significant, though not the sole, driver of this growth. Rates were rising in both our retail areas and our Lloyd's business in the first half of the year. The events of September 11 led to rapid rate rises which we exploited, expanding both our London Market Reinsurance and Direct accounts.
The trends in the retail area were only marginally affected by the September 11 attack, and rate increases account for only a third of our growth. The balance has been split equally between organic growth and acquisition.

We expect the higher rating levels to prevail for some time, with some areas seeing further increases, though not at the pace experienced to date. In each major business segment, business trends and expectations differ, so I comment on them individually as follows:

• London Market Reinsurance
Reinsurance rates began increasing at the beginning of 2001. This allowed us to begin expanding the account. The attack on the World Trade Center has caused significant losses. Our exposure is mainly to the reinsurance of property and associated business interruption. The impact of this event has been twofold. It has led to significantly higher rates on January renewals, but these rates have drawn in additional capital to this segment – particularly new start-ups based in Bermuda. There are concerns about future pricing trends but, to date, our experience is that demand continues to exceed supply and prices remain firm. We expect this account to grow significantly in the year ahead.

• London Market Direct
This is the other account significantly affected by the WTC attack. Our primary exposure is to property – both the main building and the surrounding buildings. As with reinsurance, we are experiencing substantial rate rises. Underwriting direct insurance business requires an experienced team and good relationships with brokers across the world. This places Hiscox at a competitive advantage to new start-ups. We took advantage of the rating increases immediately post September 11 to grow the business in the last quarter of 2001. We expect to see significant further growth in this area in the year ahead. One of the areas we are focussing on is insurance against terrorist exposures. Global capacity for this class has diminished, and drawing on our experience of competing with Pool Re in the UK, we are now writing controlled exposures in other territories.

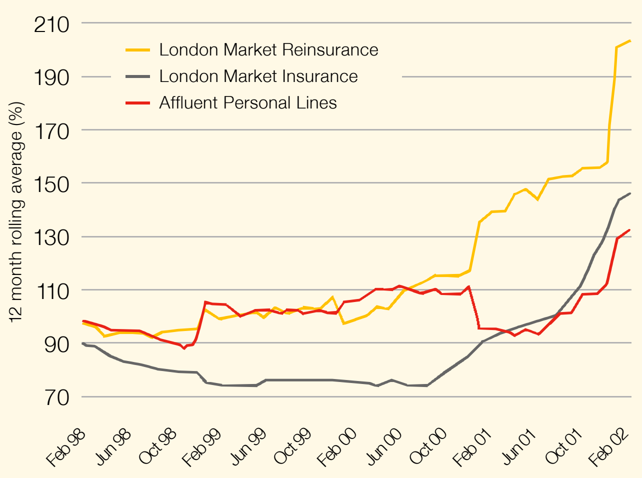
• ATMT
Our experienced underwriting team is able, subject to strict guidelines, to underwrite business both on behalf of Syndicate 33 and Hiscox Insurance

Table 1: Controlled gross written premium by segment

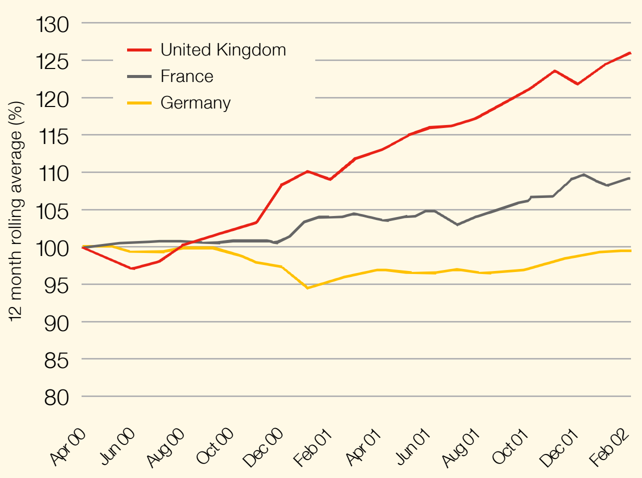
	2001 Syndicate 33 £m	2001 Retail* £m	2001 Total £m	2000 Syndicate 33 £m	2000 Retail* £m	2000 Total £m
London Market Reinsurance Marine, Non-Marine, Whole Account	**124.4**	**–**	**124.4**	79.1	–	79.1
London Market Direct Property, Construction, Terrorism, Energy, Marine Hull & Cargo, Liability, Political Risks, Specie, Enterprise Risk Management	**233.2**	**–**	**233.2**	181.9	–	181.9
ATMT Aerospace, Technology, Media, Telecom	**37.1**	**14.1**	**51.2**	46.2	14.7	60.9
Affluent Personal Lines Fine Art, Kidnap & Ransom, Yachts, Bloodstock, High Value Household, Mass Affluent, Contingency, Personal Accident	**136.4**	**155.5**	**291.9**	104.3	119.6	223.9
Professional Insurances Traditional, Emerging	**43.3**	**36.0**	**79.3**	32.8	24.7	57.5
Total	**574.4**	**205.6**	**780.0**	444.3	159.0	603.3
Proportion owned by Hiscox plc	**60%**	**100%**	**–**	53%	100%	–

*Includes business written by Hiscox Insurance Company and Hiscox Insurance Company (Guernsey) Ltd, net of internal quota share reinsurance

Syndicate 33 business rating index



Retail business rating index



"Our experienced team and good broker relationships give us a competitive advantage"

Company. In the retail area, we have raised our profile with the sponsorship of Tech Track 100 – an award to the 100 fastest growing technology companies in the UK. We already insure 25 of the prize winners, but clearly have an opportunity for further expansion. Growth of our retail technology account has offset the decline in the retail media account where we have suffered from the legal lottery surrounding libel in the UK. In Lloyd's
we are now the major lead for space business. Aerospace income reduced relative to last year, as there were fewer satellites launched. We expect this business unit to grow as, despite the dotcom bust, businesses are realising that they need protection of the sort we can offer.

• Affluent Personal Lines
Across the Group insuring affluent individuals continues to grow and we are active in building our distribution, particularly in the UK and Europe.
In the UK, profit margins are returning to reasonable levels, but further work is required in Europe. Affluent Personal Lines are a core target market for the Group, but not at any price. We have withdrawn from the yacht market, as pricing is inadequate. We have included within our affluent personal lines segment our Affinity business which is now focussed on the mass affluent market. We reach this market through relationships with our traditional insurance broker partners, and also through alternative distribution routes such as IFAs, Hiscox Online our internet business, and via workplace marketing through professional firms. We have withdrawn from Property Owners insurance as this did not fit our long-term focus for the retail business.

• Professional Insurances
Our UK book has grown well, with the introduction of a broader product range to cover not just liability areas, but a client's property coverages as well.
It is taking time to sell this new concept to clients and their brokers, but we anticipate success. In the Syndicate we are insuring a select group of US professional firms.

Retail business, written through our insurance companies, continues to comprise 26% of the controlled premium income (2000: 26%). Hiscox plc owns 60% of Syndicate 33, retail comprises 39% of Hiscox plc's business.

Table 2: Hiscox plc summary results

	2001 £m	2000 £m
Gross written premium	**548.9**	384.7
Trading result	**(16.2)**	6.9
Other income less expenses	**(5.0)**	(3.9)
Operating profit	**(21.2)**	3.0
Equalisation provision, exceptional items and Short term investment fluctuations	**(11.3)**	0.5
Group pre-tax profit	**(32.5)**	3.5
Group post-tax profit	**(23.1)**	5.4
Combined ratio	**109.9%**	103.1%

Our medium term goal is that we grow the retail business to comprise 50% of the whole. In the short term, however, we expect that Syndicate 33 will grow faster than the retail side – reflecting the rapid price movements currently being experienced – but our overall strategic goal remains unchanged. Over the long term a stable base of retail business will smooth our more volatile earnings from Syndicate 33.

Group financial performance
The Group operating result, based on the longer term rates of return, reflects a loss of £21.2m (2000: profit £3.0m). The Group pre-tax result is a loss of £32.5m (2000: profit £3.5m) and after tax is a loss of £23.1m (2000: profit £5.4m). The Group combined ratio increased to 109.9% (2000: 103.1%). The results are broken down in Table 2 and are commented on below:

• Continued growth in operating profits within our UK insurance company and our international businesses from £6.8m to £8.7m mitigated the losses of £29.9m from our Lloyd's business. The Lloyd's business result includes our WTC losses which total approximately £30m. Other income less expenses has increased to a net cost of £5.0m (2000: £3.9m). Overall the operating result was a loss of £21.2m.

• The underlying investment return was less than the longer term rate used in determining operating profit by £8.7m (2000: £1m greater). Contributions to the government mandated Equalisation Provision increased to £2.6m (2000: £2.3m), reflecting the ongoing growth of our business. There were no exceptional gains (2000: £1.8m). The negative contribution of £11.3m from these areas contributed to our pre-tax loss of £32.5m. We take account of a tax credit of £9.4m to reach our final post tax loss of £23.1m.

The operating performance of the Group reflects the underlying performance in our core business areas – our Lloyd's business and our Retail business. I review these in detail below.

Lloyd's business
Our Lloyd's business comprises Hiscox plc's share of the underwriting conducted through Syndicate 33, with fees and profit commissions earned on managing the business and investment returns on the capital supporting the business.

The gross premium received by Syndicate 33 in 2001 in total grew by 29% to £574m. This growth is due to two separate business decisions. At the start of the year, in anticipation of a firmer rating environment we began expanding our book – focusing on those areas where rapidly increasing rates meant good prospects for profit. Post WTC, we sought to take advantage of the step change in the rating environment by writing a further £60m of premium. In order to do this we requested and received specific regulatory clearance. Expansion has continued into 2002. In our business planning we anticipated increasing our underwriting by 40%. At the time of writing we anticipate exceeding this and are working to put in place qualifying quota share reinsurance arrangements to allow us to underwrite a further £100m of premium income. Given the current rating environment and with a normal loss pattern, we anticipate that this underwriting will yield a healthy profit.

The 2001 combined ratio for Syndicate 33 deteriorated to 115.9%, (2000: 105.9%). Excluding WTC, the

"Strong growth and healthy profits – a good year for the retail business"

ratio would have been 98.4%, showing the improving underlying trend. The expense ratio has improved from 46.5% to 32.5% as we have benefited from the economies of scale in the growing business and we have retained more premium income. Other income declined compared with 2000 as 2000 benefited from a one-off fee from the unwinding of a name's conversion scheme inherited with the Hiscox Select acquisition. Loan interest and amortisation costs grew marginally during the year as we drew on our letters of credit used for funds at Lloyd's.

The events of September 11 have tested the Syndicate's claims paying ability. Under US insurance regulation Syndicate 33 is required to lodge monies in trust funds in the USA to meet anticipated claims. In total it has lodged $283m in the USA for WTC. Syndicate 33 met this requirement from its own resources, supported by existing bank facilities and reinsurance arrangements. I would like to thank all those banks and reinsurers who supported us.

Retail businesses

Our retail business is conducted through a variety of legal entities. The most important of these are the Hiscox Insurance Company (Hisco) in the UK, Hiscox Insurance Company (Guernsey) Ltd and underwriting agencies in France, Germany, Holland and Ireland. Table 4 below shows the performance of the businesses.

UK

Our UK business has performed very well. We have grown the aggregate premium income by 23% to £143.6m. The combined ratio has improved to 95.4% (2000: 96.4%), leading to a £9.1m operating profit (2000: £6.1m). This business has two core areas – affluent personal lines and professional insurances. Both have done well. Professional insurances grew significantly at attractive combined ratios, and the affluent personal lines account increased its rates to bring its combined ratio to more acceptable levels.

During 2000 we began to build a branch network, acquiring offices in Birmingham and Glasgow to complement our existing Leeds office. We were well placed to benefit from the

Table 3: Lloyd's business result

	2001 £m	2000 £m
Gross written premium (100%)	**574.4**	444.3
Hiscox plc share of gross written premium	**336.2**	225.5
Trading result	**(25.5)**	(1.1)
Other income less expenses	**(1.9)**	(0.4)
Loan interest and capacity amortisation	**(2.5)**	(2.3)
Operating profit	**(29.9)**	(3.8)
Combined ratio (100% basis)	**115.9%**	105.9%

"In the year ahead we will be working both to deliver further growth and to sustain underlying underwriting performance"

collapse of the Independent Insurance Company during the course of last year, acquiring teams and expanding our regional business. Regional brokers want to see our presence in their markets and we are pleased to serve them.

We have also worked at reducing our expense levels. We have made good incremental progress, both in our own expenses and external brokerage. Our ambition remains to grow the business significantly, but we cannot expect it to double in size and retain our core administration and customer support services in London. Plans for a Business Centre outside London are under consideration. This will allow us to provide better services to our brokers and clients in a more cost-effective way.

Guernsey

Our business in Guernsey has two parts. The first is the provision of insurance for international customers and the second is the location of our group captive, which we established in 2000. The insurance business performed well, with continued growth at attractive profit margins. The captive was adversely affected by the WTC, so in aggregate, profits have declined marginally to £1.2m (2000: £1.4m).

Europe

Our European business is conducted through our underwriting agencies which underwrite on behalf of both Syndicate 33 and Hiscox Insurance Company.

Table 4 combines both the results of their underwriting on behalf of Hiscox Insurance Company together with the associated local agency costs.

During 2001, the businesses increased their gross written premiums |to £20.3m, a growth of 97%. £2.2m of the growth is as a result of the acquisition of the Construction and General Guarantee Insurance Company (CGGI)

in Ireland, with the balance coming from organic growth. In continental Europe organic growth, together with the movement of some expenses to London, gave us an improved local agency result of a loss of £0.3m (2000: loss of £0.7m).

Our combined ratio in Europe increased to 114.6% (2000: 111.1%). A large part of this increase was due to losses caused by storm damage to mainly German holiday homes located in Majorca.

Developing business from scratch is a huge challenge to our local teams.

Table 4: Retail business results

	UK 2001 £m	**Europe 2001 £m**	**Guernsey 2001 £m**	**Retail Total 2001 £m**	UK 2000 £m	Europe 2000 £m	Guernsey 2000 £m	Retail Total 2000 £m
Gross written premium	**143.6**	**20.3**	**48.9**	**212.8**	117.0	10.3	31.9	159.2
Trading profit	**9.1**	**(1.3)**	**1.5**	**9.3**	6.1	(0.1)	2.0	8.0
Local agency results	**–**	**(0.3)**	**(0.3)**	**(0.6)**	–	(0.7)	(0.6)	(1.3)
Operating profit	**9.1**	**(1.6)**	**1.2**	**8.7**	6.1	(0.8)	1.4	6.7

They pit their nimbleness and responsiveness against much larger local players to develop our business. In the year ahead we will be working both to deliver further growth, and to improve the underlying underwriting performance.

Investment management

At Hiscox we oversee the management of £599m of financial assets. £528m of this represents financial assets attributable to Hiscox plc and Syndicate 33. These funds are managed by external fund managers, supervised by our team at Hiscox Investment Management (HIM). The balance represents funds managed for third party investors.

HIM manages the Hiscox Insurance Portfolio, a specialist sub-fund of the S&F Hiscox Open Ended Investment Company. During the year this fund grew from £31.6m to £52.2m. Its total return during the year was 1.4%, putting it fourth out of 266 International Equity Funds (Source: Micropal). This is a second consecutive year of outstanding performance.

During 2001, the Group's own financial investments grew to £344.2m from £263.6m and cash to £62.5m from £38.5m. £59.5m of this was due to positive cash flow within both Syndicate 33 and Hiscox Insurance Company. The balance came from the net proceeds of our fund raising less outgoings elsewhere in the Group. We earned a total return of £9.9m on these funds. Our bond funds generated a total return above our long-term rate of 6%, but weakness in the equity markets contributed to under performance of this component, leading to a negative short-term fluctuation of £8.7m.

FRS17

In preparation for the introduction of FRS 17, the actuarial valuation of the Hiscox Pension fund was updated on a FRS17 basis. As at 31 December 2001, this showed scheme liabilities of £59.8m and assets of £46.6m, a shortfall of £9.2m (net of tax).

The board has taken action to address the pension shortfall with certain of the terms of the Defined Benefit plan being altered during the course of 2001. With effect from 1 January 2001, all new Hiscox employees become members of

Table 5: Investments

	2001 £m	2000 £m
Total financial investments	**344.2**	263.6
Actual investment return	**9.9**	17.2
Investment return at the longer term rates	**18.6**	16.2
Short term fluctuations	**(8.7)**	1.0

“During the year we made significant progress with staff training in underwriting, management and leadership skills. These endeavours will help ensure that Hiscox remains an employer of choice”

a Defined Contribution Pension Plan.

Balance sheet
Hiscox supports its balance sheet through a mixture of equity, letters of credit from banks secured on Group assets, and risk-sharing letters of credit from some major European insurers. Up to 2000 this allowed us to support the continued expansion of the Group. However, strong underlying growth, particularly in Hiscox Insurance Company, was beginning to require further capital. Post WTC, the Group raised £54m net of expenses to strengthen our overall balance sheet position. £20m of the funds raised have been allocated to Hisco, £20m has been allocated to support our underwriting on Syndicate 33, with the balance available at Group level.

People
A service based business such as Hiscox is only as good as its people. In difficult conditions they have worked hard to drive the Group forward and I would like to thank them for their efforts and commitment. A deliberate act of terrorism has diminished the immediate financial effect of their endeavours, but I expect that in the near future the Group’s results will show a proper reflection of their individual and team achievements and we will be able to reward them appropriately.

As an employer, asking for commitment from our staff is insufficient. We need to invest in our staff in return. During the year we made significant progress with the introduction of a structured training programme for all staff. This covers underwriting, management and leadership skills and professional development. Nicholas Thomson, who was previously Group Director of Underwriting, has led the development of a series of computer based underwriting training courses which are truly world class. These endeavours will help ensure that Hiscox remains an employer of choice and delivers its promise to train and develop all of our staff.

Conclusion
Last year I said that we had the wind at our backs. If I continue the yachting analogy, we were hit during 2001 by a freak squall. The yacht has now returned to an upright position, and instead of running with just a mainsail and a jib, has hoisted a spinnaker as well. We are powering ahead and making the most of the market conditions now at hand.

Bronek Masojada
Chief Executive Officer
16 April 2002

We’ve sent our customers a computer virus

Excellent products still need marketing. We used a successful viral internet marketing campaign to promote Hiscox Online.

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Executive directors

Robert Ralph Scrymgeour Hiscox
Chairman (Aged 59)^
Robert Hiscox joined the Group in 1965. He was Deputy Chairman of Lloyd's between 1993 and 1995.

Bronislaw Edmund Masojada
Chief Executive (Aged 40)^
Bronek Masojada joined the Group in 1993. From 1989 to 1993 he was employed by McKinsey and Co. He is currently Deputy Chairman of Lloyd's.

Stuart John Bridges
Group Finance Director (Aged 41)
Stuart Bridges is a qualified chartered accountant, who joined the Group at the start of 1999. He has held posts in various financial service companies including Henderson Investors plc.

Robert Simon Childs
Director of Underwriting (Aged 50)
Robert Childs has been Underwriter of Syndicate 33 since 1993. He joined the Group in 1986.

Non-executive directors

Stephen Hargreaves Hall
(Aged 69)*†F‡^
Senior Independent Director
Stephen Hall was a partner in Ernst & Young from 1962 to 1993 and acted as Director of Finance at Lloyd's from 1993 to 1994. He joined the Group on 24 August 1995.

Anthony Howland Jackson
(Aged 61)*†F‡^
Anthony Howland Jackson was previously Chairman of Bain Hogg plc and Deputy Chairman of Aon UK Holdings Limited.
He is a member of Lloyd's Regulatory Board and Chairman of The General Insurance Standards Council. He joined the Group on 8 May 1997.

Derek Nigel Donald Netherton
(Aged 57)*F‡^
Derek Netherton was previously a Director
of J. Henry Schroder & Co. Limited and is currently a Director of Next plc, Greggs plc, Plantation & General Investments plc and St James's Place Capital plc. He is a member of the Supervisory Board of the Schroder Exempt Property Unit Trust.
He joined the Group on 6 August 1999.

Carol Franklin Engler
(Aged 51)*†F‡^
Carol Franklin Engler was the Chief Executive Officer of the World Wide Fund for Nature in Switzerland until the end of 2001. From 1979 to 1999 she was employed by Swiss Re in a variety of roles including Head of the Aviation Department and Head of Human Resources. She joined the Group on 12 August 1999.

* member of the Audit Committee
† member of Remuneration Committee
F member of Conflicts Committee
‡ independent directors
^ member of the Nominations Committee

Secretary
Stuart John Bridges

Registered Office
1 Great St Helen's
London EC3A 6HX

Registered Number
2837811

Auditors
KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Tax Advisors
PricewaterhouseCoopers
89 Sandyford Road
Newcastle upon Tyne
NE99 1PL

Bankers
Lloyds TSB Bank plc
113-116 Leadenhall Street
London EC3A 4AX

Stockbrokers
ING Barings Limited
60 London Wall
London EC2M 5TQ

Registrars
Northern Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield HD8 0LA

The Combined Code
Hiscox is committed to high standards of corporate governance.

For the year ended 31 December 2001, and the period up to the date of approving the accounts, the Group has applied the principles and complied with the provisions of 'The Combined Code' and 'Internal Control: Guidance for Directors on The Combined Code' with the exception that the Board as a whole has acted as the Nominations Committee to deal with appointments to the Board.
In April 2002 the membership of that Committee was changed to include four independent non-executive directors and two executive directors. No appointments were made to the Board in the year.

The Board of Directors
The Board comprises four executive directors and four independent non-executive directors, including a senior independent director. Brief biographical details for each member of the Board are provided on page 23.

The roles and activities of Chairman and Chief Executive are distinct and separate. The Chairman is responsible for running an effective Board and overall strategy, and the Chief Executive has executive responsibility for running the Group's business.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election by the shareholders at least every three years.

Any director may seek independent professional advice at the Company's expense, although no such fees were incurred during the year.

The Board meets at least four times a year and operates within established terms of reference. It is supplied with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities.

The Board's committees
The Board has appointed and authorised a number of committees to manage aspects of the Group's affairs. Each committee operates within established terms of reference and each chairman reports directly to the Board.

The Audit Committee comprises four independent non-executive directors. It meets four times a year to assist the Board on matters of financial reporting, risk management, internal control and regulatory compliance. The internal and external auditors have unrestricted access to the Audit Committee, which monitors the scope, results and cost effectiveness of the audit, the independence and objectivity of the auditors, and the nature and extent of non-audit work together with the level of related fees.

The Risk Committee comprises two executive directors and the heads of internal audit. It meets monthly to monitor risk management and internal control, and reports directly to the Board and the Audit Committee.

The Remuneration Committee comprises three independent non-executive directors. It meets twice a year to review the Group's remuneration policy and determine all aspects of the executive directors' and other senior executives' remuneration. The Board's remuneration report is presented on pages 25 and 26.

The Conflicts Committee comprises four independent non-executive directors and the Group Compliance Officer.
It meets as and when required. Should a conflict of interest arise between Syndicate 33 and a Hiscox related company, there is a formal procedure to refer the matter to this Committee.

Two key management committees, the Executive Group and the Group Management Team, head the Group's organisational structure. These committees meet weekly and manage the Group's business operations in order to achieve the Board's strategic business objectives.

Shareholder communications
Ongoing communication with private and institutional investors is a top priority for the Board.

The directors communicate and meet directly with shareholders and analysts throughout the year, and do not limit this to the period following the release of financial results or other significant announcements.

In addition to this direct communication, information is continually provided to shareholders via analysts, journalists and the Hiscox website.

The annual report and accounts are sent to all shareholders, and further copies are available directly from Hiscox, via the FT report and accounts service, or through the Hiscox website.

Risk and internal control
The directors are responsible for operating and reviewing the effectiveness of the comprehensive and integrated system of business risk management
and internal control.

The system is designed to identify and assess the risks associated with achieving the Group's business objectives, and to manage these risks on an ongoing basis to acceptable levels. It is not intended or possible to eliminate risk altogether.

This approach supports the overall business philosophy, enabling the Group to respond rapidly to opportunities, while being fully aware of the degree of risk accepted.

The Board is confident that this system provides the Group with a distinct competitive advantage, and is therefore continually seeking ways to refine and enhance it.

A key component in this respect is the Group's internal audit function, which is tasked with assessing the adequacy and appropriateness of the system and advising on its development.

The Board regularly reviews the effectiveness of the system, taking assurance from both internal audit and operational managers. The directors also conduct an annual review, which is both retrospective and forward-looking.

The main elements of the system are as follows:

- Risk identification – Workshops and reviews are used to identify, assess and prioritise business risks.
- Monitoring – Senior executives monitor on a regular basis a range of timely financial and non-financial operating information. Department heads are required to explain significant matters and variances.
- Review – All trading units operate a hierarchical system of review to maintain underwriting standards and disseminate knowledge.
- Authority – Limits to personal authority are clearly defined for all roles and adherence is monitored.
- Competence – Significant effort is devoted to attracting and developing high quality employees. Training is a high priority and performance and competence are carefully managed.
- Financial controls – An established system of financial controls operates to maintain accuracy and safeguard the Group's financial assets.
- Compliance – New regulations are assessed and incorporated into the Group's system of controls as necessary. Compliance with existing regulations is monitored as appropriate.

This report sets out the remuneration policies for the Group's senior executives, including the executive directors. It should be read in conjunction with the details of directors' remuneration on pages 51 to 55. The members of the Remuneration Committee are identified on page 23.

Remuneration policy
The Remuneration Committee determines the Group's remuneration policy and the levels and various elements of remuneration paid to its executive directors and senior executives.

The general philosophy underlying the Group's remuneration policy for its senior executives, including executive directors, is the same as that applied to all employees, i.e. to attract and retain quality staff and to encourage and reward superior performance.

Remuneration elements
There are four components to the remuneration package: base salary and benefits, annual cash bonuses, long term incentive arrangements and pensions.

Base salary and benefits
The Remuneration Committee has utilised the services of independent consultants in its consideration of what comparable companies are paying and in setting annual salaries and other benefits. Using this information as a benchmark, salary levels are determined for each individual which take into account experience, skills, development and performance.

Bonuses
The Remuneration Committee believes that a significant portion of the total remuneration should be attained through an incentive bonus which links rewards directly with performance. A bonus pool is created based on the business profits generated by the major divisions of the Group. This pool is utilised to award annual bonuses to all staff including executive directors based upon the performance of their business area.
The actual amount to be paid to executive directors is determined by the Remuneration Committee based on an assessment of their individual performance. The Remuneration Committee also reviews and confirms the recommendations of management regarding the award of bonuses to senior managers and staff.

Long term awards
The Remuneration Committee believes strongly in the value of employee participation in long term award schemes so that their interests may be aligned with those of shareholders.

The Group has three share option schemes which were set up for this purpose.

Awards were made during the year to executive directors, Hiscox principals and other staff under the Approved and Unapproved share option schemes. The exercise of options under these schemes depends upon the earnings per share of the Group increasing at two per cent more than the rate of inflation over a period of three years. These options are not offered at a discount and conform with institutional investor dilution guidelines.

Awards were also made during the year under the Sharesave Scheme. This scheme provides a medium-term incentive available to all UK staff. Awards depend upon the amount employees are prepared to save out of their salary subject to the maximum figure under the rules.

The UK Sharesave Scheme is not available to overseas employees. In order to give overseas employees access to a scheme on similar terms, a new international sharesave scheme has been set up subject to shareholder approval. Details of the new scheme, for which shareholder approval is sought at Resolution 9 on page 61, are shown on page 26.

The Remuneration Committee is very pleased with the commitment shown by employees in the future of the Group.

The Group has also implemented a performance share plan for senior executives to complement the existing long term incentive arrangements. Awards were made during the year utilising shares in Hiscox plc already held by Hiscox Holdings Limited. The targets applicable to the awards made in the year were subject to the following operational earnings per share ("EPS") growth target:

a) The participants will receive 100% of the award if the Group's operating EPS (note 14) over a 3 year period ending on the 31 December 2004 has increased by 35% ("the maximum target");
b) No award will vest unless the increase in the Group's operating EPS over the period equals or exceeds 15% ("the base target") at which point 40% of the award will vest; and;
c) An award will vest on a straight line basis if the operating EPS growth is between the base target and the maximum target.

Exchanged options
Under the terms of the offers to purchase Hiscox Holdings Ltd and Economic Insurance Holdings Ltd in July 1996 the Company offered to exchange existing options held in the shares of those companies for options on Hiscox plc shares. As a result of this offer, exchanged options were issued to thirty-eight employees and former employees of those companies. The interests of executive directors in such exchanged options is shown in note 26 to the accounts.

Pensions
The non-contributory defined benefit Hiscox Pension Scheme has two sections. The first section provides benefits that accrue at the rate of one sixtieth for each year of service up to retirement age 60 for employees as well as former members of the Economic Insurance Holdings Ltd scheme. The other section provides benefits that accrue at the rate of one thirtieth for each year of service up to retirement age 60 for members of the Hiscox partnership as well as former members of The Hiscox Holdings Ltd scheme. At 1 January 2001, Hiscox introduced a non-contributory defined contribution scheme for all staff joining the Group. Only basic pay is pensionable.
All schemes provide a death in service benefit of four times a member's salary.

Service contracts
No directors have service contracts, but their contracts of employment provide for termination on six months notice by either side.

The Remuneration Committee believes that these notice periods provide an appropriate balance having regard to prevailing market conditions and current practice amongst public companies. No external appointment may be accepted by an executive director where it may give rise to a conflict of interest. The consent of the Chairman is required in any event.

Non-executive directors
Non-executive directors receive an annual fee in respect of their Board and Board committee duties. The fees are reviewed, but not necessarily increased, annually and are set by the Board to attract individuals with a broad range of relevant skills and experience. The non-executive directors receive no other benefits.

The Hiscox International Sharesave Scheme ("the International Sharesave Scheme")

1 General
The International Sharesave Scheme has been designed to replicate the Hiscox Sharesave Scheme ("the UK Sharesave Scheme") for non-UK employees.

2 Eligibility
All employees and full time directors of the Company who are employed outside the UK and who have been employed by the Company for six months prior to the end of the Company's last financial year (or for such other period not exceeding five years as the Board may determine) are eligible to participate in the International Sharesave Scheme. The Board have a discretion to nominate employees who do not satisfy the above conditions to participate in the International Sharesave Scheme.

3 Grant of options
The Board may invite all eligible employees to apply for options to acquire ordinary shares in the Company. Employees applying for options must agree to make regular monthly savings of between £10 and £250 (in local currency) under a savings contract approved by the Board.
It is envisaged that the savings contracts will mirror the equivalent contracts taken out under the UK Sharesave Scheme, although the Board can approve different contracts if this would be desirable in any particular jurisdiction.

The amount saved, plus interest, can be used by employees to exercise their options. The number of shares comprised in an option will be the number of shares that can be acquired, at the exercise price, with the amount intended to be saved, plus the interest expected to be earned under an equivalent savings contract entered in to under the UK Sharesave Scheme.
Invitations to participate in the International Sharesave Scheme may only be issued during the six-week period following:
(a) the date on which the International Sharesave Scheme is adopted by the Company; and
(b) the announcement by the Company of its results for any period;
However, invitations may be issued at any other time when the circumstances are considered by the Board to be sufficiently exceptional to justify this.
No options may be granted more than ten years after the date of adoption of the International Sharesave Scheme. Options are not transferable.

4 Exercise price
The exercise price under an option will be determined by the Board before the option is granted. The exercise price will not be less than 80% of the middle-market quotation of an ordinary share as derived from the London Stock Exchange Daily Official List on the day preceding five dealing days before the date on which invitations to apply for options are sent out. If that day falls outside the period of 30 days ending with the day on which options are granted, the exercise price will be not less than 80% of the middle-market quotation of an ordinary share on the last dealing day before the day on which the options are granted or such other dealing day as may be agreed with the Inland Revenue for the purposes of the UK Sharesave Scheme.

5 Exercise of options
An option granted under the International Sharesave Scheme may not normally be exercised before the maturity date of the relevant savings contract.

Special provisions permitting early exercise of options apply in respect of participants who cease employment with the Group before the maturity of their savings contract because of their death, disability, redundancy, retirement at age 60 or at contractual retirement age, or where the company or business for which they work is transferred out of the Group. If a participant ceases employment for any other reason (other than dismissal for misconduct), he may exercise any options that he has held for at least three years within six months of his so ceasing.

Early exercise of options is also permitted in the exceptional circumstances of a takeover, reconstruction or winding up of the Company.

Where a non-UK participant exercises an option and the total amount of savings and interest that he has available for exercise is less than the amount that he would have received under an equivalent savings contract entered into under the UK Sharesave Scheme, for example because of interest rate differences or exchange rate movements, he may decide to make up the difference from his own funds.

6 Rights attaching to shares
All ordinary shares allotted on the exercise of options under the International Sharesave Scheme will rank equally with
all other ordinary shares of the Company for the time being in issue.

7 Limits on the International Sharesave Scheme
The number of shares which may be issued on the exercise of options granted under the International Sharesave Scheme or under any of the Company's other employee share schemes in any ten year period may not exceed 10% of the issued ordinary share capital of the Company from time to time.

8 Variation of share capital
In the event of any variation in the issued ordinary share capital of the Company, the Board may make such adjustments as it considers appropriate to the number of ordinary shares subject to any option and the exercise price per share under any option.

9 Cash equivalent and phantom options
On the exercise of any option the Board has discretion to pay the employee a "cash equivalent" sum instead of arranging for the issue or transfer of all or any number of the relevant shares to him. The cash equivalent is the difference between the market value of the shares at the time of exercise and the exercise price.

On the grant of an option, the Board may also designate it a "phantom option," in which case, on the exercise of the option, only the cash equivalent will be payable to the participant.

10 Alteration of the International Sharesave Scheme
The Board may at any time alter or add to the International Sharesave Scheme. However, the prior approval of the Company in general meeting must be obtained in the case of any alteration or addition which is to the advantage of participants and which relates to eligibility, individual and overall limits, a participant's entitlement to shares, the terms of such shares and the variation of capital provisions. The approval of the Company in general meeting is not, however, required for any minor alteration or addition to benefit the administration of the International Sharesave Scheme, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the participants, the Company or any member of the Group.

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 December 2001.

Principal activity and business review
The Company is a holding company for subsidiaries involved in the business of insurance in the UK and overseas.

The review of the year and future developments are described further in the Chairman's Statement and the Chief Executive's Report.

Financial results
The results for the year are shown in the profit and loss account on pages 30 and 31.

Dividends
No interim dividend (2000: 1.2p per share) was paid in respect of the year ended 31 December 2001. The directors do not recommend the payment of a final dividend (2000: 2.3p per share).

Directors
The names of the directors of the Company at the date of this report are listed on page 23. Details of their interests in the shares of the Company are set out in note 26 to the accounts. IN Thomson retired from the board of directors on 4 July 2001. SJ Bridges, RS Childs and C Franklin Engler will retire by rotation in accordance with the Articles of Association at the Annual General Meeting and, being eligible, will offer themselves for re-election as directors.

Going concern
After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Employee policies
The Group is committed to regular and timely communication with staff including both briefings and written communications. It is the Group's policy to give employment opportunities to people who are disabled. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and to provide specialised training where this is appropriate.

Personnel policies are reviewed regularly and initiatives are made in all the main areas of personnel policy. Performance related pay systems are well established and are reviewed regularly and refined as necessary to meet changes in business needs.

The business is focused on maintaining and improving standards of customer service and personnel policies which enhance the capability of staff through the implementation of training and development programmes, particularly in relation to technology.

Environmental policy
Hiscox aims to minimise the impact on the environment from its business activities, in particular through the extensive use of computerisation and communications technology. Where possible consumables are recycled.

The way our insureds conduct their business is of paramount importance to us, due to our core philosophy that for high quality underwriting we need high quality insureds. In considering underwriting, the insureds' attitudes to all aspects of their business, including their care of the environment, are considered.

Community involvement
The involvement of Hiscox in the local community has continued this year, thanks to the strong support of our employees.

For example, in addition to the Hiscox Foundation's charitable activities, we participated in a number of other charitable fund raising events during the year.

We have also continued with our scheme at Virginia Primary School in Tower Hamlets where staff assist pupils with their reading development, we finance after hours tuition and assist in the school's governance.

Our Art Café has also held a number of exhibitions of young artists.

Payment of creditors
It is the policy of the Group to agree terms of payment for its business transactions with its suppliers.

Payment is then made on these terms, subject to the terms and conditions being met by the supplier. The Group had 16.5 (2000: 13.4) days purchases outstanding at 31 December 2001 based on the average daily amount invoiced by suppliers during the year ended 31 December 2001. The Company is a holding company and accordingly has no days purchases outstanding at 31 December 2001. Therefore, the Group creditors days are considered to be more representative.

The Group does not follow a specific code with regard to the payment of creditors.

Political and charitable contributions
The Group made no political contributions during the year (2000: £nil). Donations to UK charities amounted to £25,000 (2000: £25,000).

Annual General Meeting
The notice of the Annual General Meeting is contained on page 61. In addition to the ordinary business, the following items of special business will be considered at the meeting.

Resolution 7, which will be proposed as an ordinary resolution, seeks to renew the directors' authority to allot relevant securities pursuant to Section 80 of the Companies Act 1985. The authority contained in the resolution will be limited to the allotment of relevant securities to an aggregate nominal value of £3,179,097.57. This authority will terminate no later than fifteen months after the date of the Annual General Meeting. The directors presently have no intention of exercising this authority.

Resolution 8, which will be proposed as an ordinary resolution, seeks to obtain approval for the Remuneration Report as set out on pages 25 and 26 of this Report and Accounts.

Resolution 9, which will be proposed as an ordinary resolution, seeks to obtain approval for the Hiscox International Sharesave Scheme details of which are set out on page 26 of this Report and Accounts.

Resolution 10, which will be proposed as a special resolution, seeks to renew the authority conferred on the Board to issue equity securities of the Company for cash without application of the pre-emption rights provided by Section 89 of the Companies Act 1985. Other than in connection with a rights or scrip dividend issue, the authority contained in this resolution will be limited to an aggregate nominal value of £481,681.40, representing 5.0% of the issued ordinary share capital as at 26 April 2002.
This authority will terminate no later than fifteen months after the date of the Annual General Meeting.

Auditors
A resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
SJ Bridges
Secretary
1 Great St Helen's
London EC3A 6HX
26 April 2002

Statement of directors' responsibilities
United Kingdom Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that period.
In preparing those financial statements, the directors are required to:
a) select suitable accounting policies and apply them consistently, except where changes are necessary to comply with new legal and accounting requirements;
b) make judgements and estimates that are reasonable and prudent;
c) state whether applicable accounting standards have been followed, subject to any material departures disclosed in the financial statements; and
d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Major interests in shares
The Company has been notified of the following shareholdings of 3% or more in the ordinary shares of the Company as at 17 April 2002.

	Number of shares Beneficial	Number of shares Non-beneficial	Total	% of total Hiscox plc shares
Chubb Investment Services Ltd	54,529,566	–	54,529,566	28.3
AN Foster	2,720,000	12,372,026*	15,092,026	7.8
IN Thomson	8,590,260	170,311*	8,760,571	4.5
RRS Hiscox	7,849,046	835,311*	8,684,357	4.5
Fidelity International Limited	6,793,472	–	6,793,472	3.5
Landsdowne Partners Limited Partnership	5,845,000	–	5,845,000	3.0

*4,690,000 of AN Foster's non-beneficial shareholding is held by a trust and is also included in RRS Hiscox's beneficial shareholding. Hiscox Trustees Ltd is the trustee of the Hiscox plc Group employee share ownership plan trust (ESOP) and is interested in 170,311 ordinary shares in the Company. IN Thomson, AN Foster and RRS Hiscox are potential beneficiaries of the ESOP and are deemed to have an interest in these shares.

We have audited the financial statements on pages 30 to 60.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 28 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider the Board's statements on internal control over all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual report, including the corporate governance statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2001, and the effect of the movement in those provisions during the year on the general business technical result and profit before tax, are disclosed in note 8.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of disclosures made in note 4 to the financial statements concerning the uncertainty over the material exposure that the Group faces to the terrorist attack in the United States of America on 11 September 2001.
In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
London
Chartered Accountants
Registered Auditor
26 April 2002

Consolidated Profit and Loss Account

Technical Account – General Business for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
Earned premiums, net of reinsurance			
Gross premiums written	5(d)	**548,926**	384,736
Outward reinsurance premiums		**(136,349)**	(124,049)
Net premiums written		**412,577**	260,687
Change in the gross provision for unearned premiums		**(77,806)**	(23,838)
Change in the provision for unearned premiums, reinsurers' share		**9,428**	4,601
Change in the net provision for unearned premiums		**(68,378)**	(19,237)
Earned premiums, net of reinsurance	5(d)	**344,199**	241,450
Allocated investment income transferred from the non-technical account	9(a), 9(c)	**18,562**	16,222
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(253,041)**	(220,628)
Reinsurers' share		**113,463**	104,887
Net claims paid		**(139,578)**	(115,741)
Change in the provision for claims:			
Gross amount		**(247,646)**	(20,181)
Reinsurers' share		**154,469**	8,556
Change in the net provision for claims		**(93,177)**	(11,625)
Claims incurred, net of reinsurance	4, 5(d)	**(232,755)**	(127,366)
Other technical income	5(d)	**1,324**	1,184
Net operating expenses	7	**(141,362)**	(120,462)
Movement in equalisation provision	5(d), 8	**(2,582)**	(2,309)
Balance on the technical account		**(12,614)**	8,719

All operations of the Group are continuing.

Consolidated Profit and Loss Account
Non-Technical Account for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
Balance on the technical account		**(12,614)**	8,719
Investment income	9(a)	**15,005**	14,688
Net realised gains/(losses) on investments	9(a)	**126**	238
Unrealised gains/(losses) on investments	9(a)	**(4,703)**	3,005
Investment management expenses and charges	9(a)	**(560)**	(666)
	9(a), 9(c)	**9,868**	17,265
Allocated investment return transferred to the technical account	9(a), 9(c)	**(18,562)**	(16,222)
		(8,694)	1,043
Other income	10	**3,333**	8,340
Other expenses		**(14,521)**	(14,615)
(Loss)/profit on ordinary activities before tax	5(d)	**(32,496)**	3,487
Comprising:			
Operating (loss)/profit based on longer term investment return	5(d)	**(21,220)**	2,950
Short term fluctuations in investment return	9(a), 9(c)	**(8,694)**	1,043
Exceptional item: sale of long term business		**–**	846
Exceptional item: sale of non-managed Lloyd's capacity		**–**	957
Movement in equalisation provision	5(d), 8	**(2,582)**	(2,309)
		(32,496)	3,487
Tax on (loss)/profit on ordinary activities	13	**9,389**	1,943
(Loss)/profit on ordinary activities after tax		**(23,107)**	5,430
Dividends – Interim paid		**–**	(1,708)
Dividends – Final payable		**–**	(3,404)
		–	(5,112)
Retained (loss)/profit for the year		**(23,107)**	318
Loss/earnings per share:			
– Basic, based on operating (loss)/profit after tax (on longer term investment return)	14	**(10.2)p**	3.5p
– Basic, based on (loss)/profit on ordinary activities after tax	14	**(15.5)p**	3.8p–
Diluted, based on (loss)/profit on ordinary activities after tax	14	**(15.5)p**	3.8p

In accordance with the amendment to Financial Reporting Standard ('FRS') 3 "Reporting financial performance" in relation to the revaluation of investments, no note of historical cost profits or losses has been prepared as the Group's only material gains and losses on assets relate to the holding and disposal of investments.

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
(Loss)/profit on ordinary activities after tax		**(23,107)**	5,430
Exchange differences taken to reserves		**(35)**	50
Total recognised gains and losses		**(23,142)**	5,480

Consolidated Balance Sheet
at 31 December 2001

	Notes	2001 £000	2000 £000
Assets			
Intangible assets			
Goodwill	15(a)	**6,997**	6,634
Other intangible assets	15(b)	**16,800**	17,773
		23,797	24,407
Investments			
Land and buildings	16(a)	**430**	437
Other financial investments	16(b)	**344,402**	263,655
		344,832	264,092
Reinsurers' share of technical provisions			
Provision for unearned premiums		**39,166**	27,197
Claims outstanding	4	**333,358**	148,746
		372,524	175,943
Debtors			
Debtors arising out of direct insurance operations	17	**130,689**	135,830
Debtors arising out of reinsurance operations		**168,320**	65,662
Other debtors	20	**36,726**	47,407
		335,735	248,899
Other assets			
Tangible assets	18	**7,018**	6,132
Cash at bank and in hand	32(f)	**62,520**	38,466
		69,538	44,598
Prepayments and accrued income			
Accrued interest		**2,221**	2,465
Deferred acquisition costs		**66,699**	51,721
Other prepayments and accrued income		**20,844**	5,199
		89,764	59,385
Total assets		**1,236,190**	817,324

	Notes	2001 £000	2000 £000
Liabilities			
Capital and reserves			
Called up share capital	24, 25(a)	**9,633**	7,400
Share premium account	25(a)	**124,612**	72,474
Merger reserve	25(a)	**4,723**	4,723
Capital redemption reserve	25(a)	**33,244**	33,244
Profit and loss account	25(a)	**(7,421)**	15,721
Shareholders' funds attributable to equity interests	25(a)	**164,791**	133,562
Technical provisions			
Provision for unearned premiums		**258,124**	167,596
Claims outstanding	4	**616,164**	303,352
Equalisation provision		**11,229**	8,647
		885,517	479,595
Provisions for other risks and charges	23	**926**	655
Creditors: amounts falling due within one year			
Creditors arising out of direct insurance operations		**45,850**	75,547
Creditors arising out of reinsurance operations		**72,608**	87,123
Other creditors including taxation and social security	21	**42,444**	30,775
		160,902	193,445
Creditors: amounts falling due after one year			
Other creditors	22	**394**	762
Accruals and deferred income		**23,660**	9,305
Total liabilities		**1,236,190**	817,324

The financial statements were approved by the Board of directors on 26 April 2002 and were signed on its behalf by:

RRS Hiscox Chairman
SJ Bridges Finance Director

Company Balance Sheet
at 31 December 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Tangible assets	19(a)	**381**	346
Investment in subsidiary undertakings	19(b)	**115,457**	115,457
Investments	19(c)	**43,813**	31,026
		159,651	146,829
Current assets			
Other debtors	20	**86,241**	49,971
Cash at bank and in hand		**759**	684
Prepayments and accrued income		**4,237**	238
		91,237	50,893
Creditors: Amounts falling due within one year	21	**(14,771)**	(16,433)
Net current assets		**76,466**	34,460
Total assets less current liabilities	**236,117**	181,289	
Provisions for liabilities and charges		23	**(144)**
(648)			
Total net assets		**235,973**	180,641
Capital and reserves			
Called up share capital	24, 25(b)	**9,633**	7,400
Share premium account	25(b)	**124,612**	72,474
Merger reserve	25(b)	**58,970**	58,970
Capital redemption reserve	25(b)	**33,244**	33,244
Capital reserve	25(b)	**351**	1,078
Profit and loss account	25(b)	**9,163**	7,475
Shareholders' funds attributable to equity interests		**235,973**	180,641

The financial statements were approved by the Board of directors on 26 April 2002 and were signed on its behalf by:
RRS Hiscox Chairman
SJ Bridges Finance Director

Consolidated Cash Flow Statement
for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
Cash Flow Statement			
Net cash inflow from general business		**15,295**	40,019
Net shareholders' cash (outflow)/inflow from Lloyd's business	32(d)	**(12,489)**	1,284
Net cash flow from operating activities	32(a)	**2,806**	41,303
Interest paid	32(e)	**(680)**	(982)
Taxation paid		**(499)**	(6,654)
Capital expenditure	32(e)	**(2,774)**	(4,394)
Acquisitions and disposals	32(e)	**1,380**	846
Equity dividends paid		**(3,453)**	(4,982)
Financing	32(e)	**55,368**	3,345
		52,148	28,482
Cash flows were invested as follows:			
Increase/(decrease) in cash holding	32(f)	**6,369**	895
Net portfolio investment:			
Shares and units in unit trusts	32(f)	**(1,937)**	18,019
Debt securities and other fixed income securities	32(f)	**2,792**	(19,132)
Deposits with credit institutions	32(f)	**44,924**	28,891
Other investments	32(f)	**–**	(191)
Net investment of cash flows		**52,148**	28,482

1 Basis of preparation
The financial statements of the Group and the Company have been prepared in accordance with applicable accounting standards as at 31 December 2001 and under historical cost accounting rules, modified by the revaluation of investments.

The financial statements have been prepared in accordance with the provisions set out in Section 255 of, and Schedule 9A to, the Companies Act 1985. The Group has adopted all material recommendations of the revised Statement of Recommended Practice "Accounting for Insurance Business" issued by the Association of British Insurers in December 1998.

The Group has adopted FRS17 "Retirement Benefits" and FRS18 "Accounting Policies" during the year. The adoption of FRS17 has had no material impact on the current year's results, as only the transitional disclosure requirements have been included. The adoption of FRS18 has required more detailed disclosure of the Group's accounting policies.

The balance sheet of the parent company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985.

As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the parent company is presented. The profit after taxation for the Company for the year was £1,688,000 (2000: loss of £933,000).

Results are determined on an annual basis, except for the results of the underwriting participations of the Hiscox Select subsidiaries on non-managed syndicates, which are accounted for on a three-year basis. This is because of accounting practices at Lloyd's whereby this data is not available on an annual basis for most non-managed syndicates.

2 Basis of consolidation
The consolidated financial statements include the assets, liabilities and results of the Company and its subsidiary undertakings up to 31 December each year. Profits or losses of subsidiary undertakings sold or acquired during the period are included in the consolidated results up to the date of disposal or from the date of acquisition.

Hiscox Dedicated Corporate Member Limited underwrites as a corporate member of Lloyd's on the syndicate managed by Hiscox Syndicates Limited (the "managed syndicate"). Subsidiaries of Hiscox Select Holdings Limited underwrite as corporate members of Lloyd's on the managed syndicate as well as on other non-Hiscox managed syndicates. In view of the several liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, the attributable share
of the transactions, assets and liabilities of the syndicates has been included in the financial statements.

3 Accounting policies
The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

3(a) Premiums
Written premiums comprise the premiums on contracts entered into during the accounting period, irrespective of whether they relate in whole or in part to a later accounting period. Written premiums are disclosed gross of commission payable to intermediaries and exclude taxes and duties levied on premiums.

Premiums written include adjustments to premiums written in prior accounting periods and estimates for "pipeline" premiums. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

3(b) Unearned premiums
For general business accounted for on the annual basis, the provision for unearned premium comprises the proportion of gross premiums written, which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method. Where the incidence of risk varies during the period covered by the contract, the provision is calculated taking into account the risk profile of the contracts.

3(c) Acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the acquisition of insurance contracts.

Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which is unearned at the balance sheet date.

3(d) Claims
Claims incurred in respect of general business consist of claims and claims handling expenses paid during the financial year, together with the movement in the provision for outstanding claims and future claims handling expenses.

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred but unpaid up to the balance sheet date whether reported or not, together with related claims handling expenses. Anticipated reinsurance recoveries, and estimates of salvage and subrogation recoveries, are disclosed separately as assets.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts
of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

The provision for outstanding claims is actuarially calculated using the Chain Ladder and Bornhuetter-Ferguson methods. In exceptional cases the required provision is calculated with reference to the actual exposures. There is close communication between the actuaries and underwriters and allowance is made for the rating environment. Ultimate claims are projected both gross and net of reinsurance using reinsurance recovery rates based on historical experience, adjusted for the current reinsurance programme.

3(e) Unexpired risk
Provision is made for unexpired risks arising from general business where the expected value of the claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by classes of business which are managed together, after taking into account the relevant investment return.

3(f) Equalisation provision

An equalisation provision has been established and calculated in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 to mitigate exceptionally high loss ratios for classes of business displaying a high degree of claims volatility.

3(g) Hiscox Select non-managed syndicate participations
These participations are accounted for on a three-year basis and have been calculated according to the provisions of Schedule 9A to the Companies Act 1985 as follows:

The excess of premiums written over claims and expenses paid in respect of business commencing in an underwriting year is carried forward as a technical provision as part of outstanding claims. Premiums include a provision for "pipeline" premiums. Profits arising from underwriting are normally recognised at the end of the second year following the end of the underwriting year when the underwriting account is usually closed by reinsurance into the following year of account. The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and other elements of the Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims. The directors consider that the likelihood of such a failure of the reinsurance to close is remote, and consequently the reinsurance to close has been deemed to settle liabilities outstanding at the closure of an underwriting account. Where appropriate, provision is made for losses in respect of open underwriting years on a syndicate by syndicate basis.

Syndicate investment income is accounted for on a receivable basis. Interest income is accrued up to the relevant 31 December. Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year. Investment income and all investment gains and losses relating to syndicate investments and cash are included in the non-technical account, with an allocation made to the technical account as described in section 3(j).

3(h) Investments Group
Investments are stated at their current value. Listed investments comprise those quoted on the London and other International Stock Exchanges. These investments are stated at mid-market prices on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

Company
Investments in group undertakings and associates are stated at cost less provisions for impairment in value.

3(i) Investment return
All investment return is recognised in the non-technical account.

Dividends on ordinary shares are recognised as income on the date the ordinary shares are marked ex-dividend. Other investment income and interest receivable are included in income on an accruals basis.

Realised gains or losses represent the difference between net sales proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

3(j) Allocation of investment return
An allocation is made from the non-technical account to the general business technical account of the longer term investment return on investments supporting the general insurance technical provisions and all the relevant shareholders' funds. The longer term investment return is an estimate of the long term trend investment return for Hiscox plc and its subsidiaries, together with the Hiscox Managed Syndicate, having regard to past performance, current trends and future expectations.

3(k) Depreciation
Depreciation is provided to write off the cost less the estimated residual value of tangible assets on a straight-line basis over their estimated useful economic lives or length of lease, if less, as follows:

Short leasehold, fixtures and fittings	10–15 years
Computer hardware and software	3–5 years
Motor vehicles	3 years
All other fixed assets	4 years

3(l) Goodwill
Goodwill arising on the acquisition of subsidiaries has been written off directly to reserves in the year of acquisition up to 31 December 1997. From 1 January 1998, in accordance with FRS 10 "Goodwill and intangible assets", goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of net assets acquired, is capitalised in the balance sheet and amortised on a straight-line basis over its useful economic life which is considered to not exceed 20 years.

3(m) Other intangible assets
Other intangible assets are the cost of purchasing the Group's participation in Lloyd's insurance syndicates.
In accordance with FRS 10, this capacity is capitalised at cost in the balance sheet and amortised over its useful economic life which the directors consider to not exceed 20 years.

3(n) Rates of exchange
Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. At the balance sheet date, monetary assets and liabilities are translated at the year-end rates of exchange. Any exchange profits or losses arising are taken directly to the profit and loss account.

Investments in foreign enterprises are translated using the net investment method. All exchange profits or losses arising on the translation of these investments are taken to reserves.

3(o) Pension costs
Pension contributions in respect of defined benefit schemes are charged against profits, with pension surpluses and deficits allocated over the remaining service periods of current employees. Differences between the amounts charged to the profit and loss account and payments made to the pension schemes are treated as assets or liabilities in the balance sheet.

Pension contributions for defined contribution schemes are charged to the profit and loss account on an accruals basis.

3(p) Leases
Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight-line basis over the period of the lease.

3(q) Taxation
Investment income is shown exclusive of any tax credit and the current tax charge similarly excludes any tax credit on investment income.

Deferred taxation, calculated on the liability method, is provided on all material timing differences to the extent that it is probable that the liability will crystallise.

4 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 the extent of the gross and net losses to the Group is difficult to assess with the degree of confidence which is usual for insurance losses; facts or circumstances will come to light which may affect these estimates. The current projected estimate of net loss to Hiscox plc is £30 million for which provision has been made in these financial statements.
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. Aviation hull losses have already largely been settled. There is no significant liability exposure.

As part of the process for the setting of the loss reserves included in these accounts, the directors have undertaken a comprehensive review of the Group's exposures in respect of insurance and reinsurance policies issued by Syndicate 33 to identify all those exposed directly or indirectly to losses from the events of 11 September 2001. No material new exposures have been identified during the last six months. This review has been supplemented by details of the notifications received from the Lloyd's Claims Office which amounted to $543 million as at 31 March 2002. Hiscox has considered the insureds' computations of their own losses. The directors of Hiscox plc believe that the insureds' computations are likely to prove unreliable. Hiscox has estimated what the directors believe is an appropriate discount or premium on these notifications, based on their past experience of large property losses and additional information received.

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

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

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

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

As at 31 March 2002, 97% of Syndicate 33's WTC reinsurance is placed with counterparties which are rated A grade or better and 65% of the total is placed with companies rated AA or AAA. 89% of this reinsurance is placed outside Lloyd's. Syndicate 33 has made a general provision for bad debts of $4.5 million against their reinsurance recoveries in relation to the WTC losses. It has been assumed that no major reinsurer will fail. Syndicate 33 has already collected 38%
of this reinsurance in the form of letters of credit or cash advances as part of our required funding of the US Trust Funds. Syndicate 33 has had no need to make a cash call.

5 Segmental Information

a) Underwriting result

Year ended 31 December 2001

	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance Balance £000	Underwriting Result* £000
Fire and other damage to property	**169,675**	**(198,735)**	**(56,767)**	**71,685**	**(14,142)**
Third party liability	**95,956**	**(67,179)**	**(27,616)**	**2,400**	**3,561**
Marine, aviation and transport	**52,407**	**(61,504)**	**(12,880)**	**8,194**	**(13,783)**
Reinsurance acceptances	**66,496**	**(96,638)**	**(16,772)**	**43,293**	**(3,621)**
Other	**86,586**	**(76,631)**	**(30,222)**	**18,334**	**(1,933)**
	471,120	**(500,687)**	**(144,257)**	**143,906**	**(29,918)**

Year ended 31 December 2000

	Gross Premiums Earned £000	Gross Claims Paid £000	Gross Operating Expenses £000	Reinsurance Balance £000	Underwriting Result* £000
Fire and other damage to property	111,224	(76,043)	(45,767)	5,947	(4,639)
Third party liability	57,824	(35,870)	(20,850)	(797)	307
Marine, aviation and transport	44,930	(28,986)	(16,892)	(2,412)	(3,360)
Reinsurance acceptances	92,924	(71,453)	(12,055)	(4,654)	4,762
Other	53,996	(28,457)	(25,882)	(3,105)	(3,448)
	360,898	(240,809)	(121,446)	(5,021)	(6,378)

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

5 Segmental Information continued

b) 100% level technical account

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

	2001 Managed Syndicate £000	**2001 Insurance Company £000**	**2001 International Operations £000**	**2001 Total £000**	2000 Managed Syndicate £000	2000 Insurance Company £000	2000 International Operations £000	2000 Total £000
Gross premiums written	**590,652**	**163,861**	**48,872**	**803,385**	457,213	127,347	31,866	616,426
Net premiums written	**406,752**	**139,166**	**28,456**	**574,374**	247,592	111,597	16,863	376,052
Net premiums earned	**338,207**	**126,578**	**25,495**	**490,280**	257,403	100,995	15,133	373,531
Net claims incurred	**282,152**	**67,461**	**6,328**	**355,941**	152,772	52,998	20	205,790
Claims ratio (%)	**83.4%**	**53.3%**	**24.8%**	**72.6%**	59.4%	52.5%	0.1%	55.1%
Commission	**100,307**	**43,087**	**19,980**	**163,374**	86,202	35,561	14,859	136,622
Expenses	**31,691**	**18,842**	**495**	**51,028**	28,861	14,931	9	43,801
Movement in deferred acquisition costs	**(8,420)**	**(2,778)**	**(2,528)**	**(13,726)**	14,568	(1,603)	(1,541)	11,424
Net expenses	**123,578**	**59,151**	**17,947**	**200,676**	129,631	48,889	13,327	191,847
Expense ratio (%)	**32.5%**	**44.5%**	**72.0%**	**37.3%**	46.5%	45.2%	88.2%	48.0%
Net longer term investment return	**11,362**	**7,093**	**1,062**	**19,517**	10,278	6,433	661	17,372
Technical profit/(loss)* (Note 5c)	**(56,161)**	**7,059**	**2,282**	**(46,820)**	(14,722)	5,541	2,447	(6,734)
Combined ratios (%)	**115.9%**	**97.8%**	**96.8%**	**109.9%**	105.9%	97.7%	88.3%	103.1%

*Before movement in equalisation provision.

The impact of a 1% change in the combined ratios of each business division on technical profit/(loss) are:

	2001 Managed Syndicate £000	**2001 Insurance Company £000**	**2001 International Operations £000**	2000 Managed Syndicate £000	2000 Insurance Company £000	2000 International Operations £000
At 100% level						
1% change in claims ratio	**3,382**	**1,266**	**255**	2,574	1,010	151
1% change in expense ratio	**4,068**	**1,392**	**285**	2,476	1,116	169
At Group level						
1% change in claims ratio	**1,799**	**1,266**	**255**	1,357	1,010	151
1% change in expense ratio	**2,164**	**1,392**	**285**	1,305	1,116	169

c) Reconciliation of 100% level technical results to Group results

	2001 £000	2000 £000
Technical (loss)/profit for 100% of continuing operations (Note 5b)	**(46,820)**	(6,734)
Notional share attributable to Group at current level of capacity ownership		**(25,051)**
(96)		
Adjustments to reflect lower levels of capacity in prior years:		
1999 (1998) year of account	**1,065**	(500)
2000 (1999) year of account	**2,001**	502
Investment return on Group underwriting capital		**4,479**
4,893		
Amounts applicable to quota share reinsurers*	**1,324**	–
Conversion scheme adjustment	**–**	1,184
Trading (loss)/profit for Group share of continuing operations (Note 5d)	**(16,182)**	5,983

*For the 2001 year of account, the Group owned 60% of the Syndicate. 7% of that capacity was reinsured to two leading European reinsurers via a quota share arrangement.

5 Segmental Information continued

d) Profit on ordinary activities before taxation

	2001 Lloyd's Business/ Group* £000	2001 Insurance Company £000	2001 International Operations £000	2001 Total £000	2000 Lloyd's Business/ Group* £000	2000 Insurance Company £000	2000 International Operations £000	2000 Total £000
Gross premiums written	**336,193**	**163,861**	**48,872**	**548,926**	225,523	127,347	31,866	384,736
Net premiums earned	**192,126**	**126,578**	**25,495**	**344,199**	125,322	100,995	15,133	241,450
Investment return, based on longer term rate of return	**10,407**	**7,093**	**1,062**	**18,562**	9,128	6,433	661	16,222
Net claims incurred	**(158,966)**	**(67,461)**	**(6,328)**	**(232,755)**	(74,348)	(52,998)	(20)	(127,366)
Acquisition costs	**(64,514)**	**(40,309)**	**(17,452)**	**(122,275)**	(58,776)	(33,958)	(13,318)	(106,052)
Expenses	**(5,900)**	**(18,842)**	**(495)**	**(25,237)**	(3,561)	(14,931)	(9)	(18,501)
Other technical income	**1,324**	**–**	**–**	**1,324**	1,184	–	–	1,184
Trading result:**								
Aligned capacity	**(25,523)**	**7,059**	**2,282**	**(16,182)**	(2,005)	5,541	2,447	5,983
Non-aligned capacity	**–**	**–**	**–**	**–**	954	–	–	954
Agency and other income	**3,173**	**1**	**6,150**	**9,324**	5,049	–	5,192	10,241
Profit commission	**159**	**–**	**–**	**159**	387	–	–	387
Expenses	**(5,258)**	**–**	**(6,754)**	**(12,012)**	(5,938)	–	(6,413)	(12,351)
Loan interest	**(1,099)**	**–**	**–**	**(1,099)**	(951)	–	–	(951)
Goodwill and capacity amortisation	**(1,370)**	**(40)**	**–**	**(1,410)**	(1,313)	–	–	(1,313)
Operating profit/(loss)	**(29,918)**	**7,020**	**1,678**	**(21,220)**	(3,817)	5,541	1,226	2,950
Short term fluctuations in investment return	**(3,990)**	**(4,184)**	**(520)**	**(8,694)**	(764)	1,742	65	1,043
Profit on sale of long-term business 846		**–**	**–**	**–**	**–**	–	846	–
Profit on sale of non-managed Lloyd's capacity	**–**	**–**	**–**	**–**	957	–	–	957
Movement in equalisation provision	**–**	**(2,582)**	**–**	**(2,582)**	–	(2,309)	–	(2,309)
Profit/(loss) on ordinary activities before taxation 3,487		**(33,908)**	**254**	**1,158**	**(32,496)**	(3,624)	5,820	1,291
Net assets								
Tangible assets	**68,599**	**72,727**	**(332)**	**140,994**	59,972	50,231	(1,048)	109,155
Intangible assets	**23,043**	**754**	**–**	**23,797**	24,407	–	–	24,407
Total	**91,642**	**73,481**	**(332)**	**164,791**	84,379	50,231	(1,048)	133,562

*Including Hiscox Dedicated Corporate Member Ltd, Hiscox Syndicates Ltd, Hiscox Select A to J, Hiscox Investment Management Ltd and Hiscox plc.
**Based on longer term investment return, before movement in equalisation provision and elimination of inter company transactions.

Net asset value per share

	2001 Net asset value £000	2001 Number of shares* 000	2001 NAV per share p	2000 Net asset value £000	2000 Number of shares* 000	2000 NAV per share p
Net asset value	**164,791**	**192,667**	**85.5**	133,562	148,001	90.2
Net asset value (before equalisation provision)	**176,020**	**192,667**	**91.4**	142,209	148,001	96.1
Net tangible asset value	**140,994**	**192,667**	**73.2**	109,155	148,001	73.8
Net tangible asset value (before equalisation provision)	**152,223**	**192,667**	**79.0**	117,802	148,001	79.6

*The number of shares is the number of shares in issue as at 31 December of the relevant financial year.

6 Movement in Prior Years' Claims Provision

	2001 £000	2000 £000
Net loss provision brought forward as at 1 January	**133,932**	85,904
Net payments during the year in respect of those provisions		**(31,547)**
(16,270)		
Net loss provision carried forward in respect of claims provided at 1 January	**(92,954)**	(56,202)
Over provision in prior years	**9,431**	13,432

The figures in respect of aligned capacity relate to closed years of account at 1 January 2001 only.

7 Net Operating Expenses

	2001 £000	2000 £000
Acquisition costs	**133,924**	103,484
Change in deferred acquisition costs		**(13,677)**
662		
Reinsurance commission	**(4,122)**	(2,185)
Administrative expenses, including profit commission	**25,237**	18,501
	141,362	120,462

8 Equalisation Provision

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions at the balance sheet date notwithstanding
that they do not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £11,229,000 (2000: £8,647,000). The movement in equalisation provision during the year resulted in a decrease in the technical account and the Group profit before taxation of £2,582,000 (2000: £2,309,000).

9 Investment Return

a) The total actual investment return before taxation comprises:

	2001 £000	2000 £000
Investment return on funds at Lloyd's and other corporate funds:		
Investment income	**3,507**	3,636
Unrealised gains/(losses) on investments	**(2,775)**	1,631
Realised gains/(losses) on investments	**115**	(944)
	847	4,323
Investment return on syndicate funds:		
Investment income	**5,045**	4,660
Realised gains/(losses) on investments	**1,404**	498
	6,449	5,158
Investment return on insurance company funds:		
Investment income	**6,453**	6,392
Unrealised gains/(losses) on investments	**(1,928)**	1,374
Realised gains/(losses) on investments	**(1,393)**	684
	3,132	8,450
Investment management expenses	**(560)**	(666)
Total investment return	**9,868**	17,265
Allocation to the technical account based on the longer term rate	**(18,562)**	(16,222)
Short term fluctuations in investment return retained in the non-technical account	**(8,694)**	1,043

b) Longer term investment return

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

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

9 Investment Return continued

c) Comparison of longer term investment return with actual returns

The actual return on investments is compared below with the longer term investment return over the year ended 31 December 2001 and for the five year period from 1 January 1997 to 31 December 2001.

	2001 Funds at Lloyd's and other Corporate Assets £000	%	2001 Share of Syndicate £000	%	2001 Insurance Company £000	%	2001 Total £000
Actual investment return:							
Shares and units in unit trusts	(2,028)	(7.2)	302	8.1	(2,394)	(10.4)	(4,120)
Debt securities and other fixed interest securities	1,904	6.1	3,992	6.6	4,237	5.6	10,133
Deposits with credit institutions	807	2.9	1,983	5.8	1,065	5.1	3,855
Other	–	–	–	–	–	–	–
	683		6,277		2,908		9,868
Longer term investment return:							
Shares and units in unit trusts	1,985	7.0	260	7.0	1,608	7.0	3,853
Debt securities and other fixed interest securities	1,864	6.0	3,609	6.0	4,380	6.0	9,853
Deposits with credit institutions	1,692	6.0	2,059	6.0	1,105	6.0	4,856
Other	–	–	–	–	–	–	–
	5,541		5,928		7,093		18,562
Short term fluctuations in investment return	(4,858)		349		(4,185)		(8,694)

	2000 Funds at Lloyd's and other Corporate Assets £000	%	2000 Share of Syndicate £000	%	2000 Insurance Company £000	%	2000 Total £000
Actual investment return:							
Shares and units in unit trusts	213	0.9	574	15.7	447	2.5	1,234
Debt securities and other fixed interest securities	2,897	7.7	3,142	6.1	6,991	9.8	13,030
Deposits with credit institutions	1,014	5.7	945	4.1	737	5.1	2,696
Other	–	–	305	3.9	–	–	305
	4,124		4,966		8,175		17,265
Longer term investment return:							
Shares and units in unit trusts	1,740	7.0	256	7.0	1,268	7.0	3,264
Debt securities and other fixed interest securities	2,264	6.0	3,072	6.0	4,294	6.0	9,630
Deposits with credit institutions	1,062	6.0	1,395	6.0	871	6.0	3,328
Other	–	–	–	–	–	–	–
	5,066		4,723		6,433		16,222
Short term fluctuations in investment return	(942)		243		1,742		1,043

	1997-2001 £000	1996-2000 £000
Longer term investment return credited to operating profit/(loss) and to the general business technical account	**75,373**	65,320
Actual investment return included in profit/(loss) on ordinary activities in the non-technical account	**73,541**	69,845
Effect of short term fluctuations over the period	**(1,832)**	4,525

10 Other income and expenses

	2001 £000	2000 £000
Agency salaries	**2,176**	2,908
Profit commission	**159**	387
Profit on sale of long-term business		–
846		
Profit on sale of non-managed Lloyd's capacity	**–**	957
Other	**998**	3,242
Total other income	**3,333**	8,340

Operating (loss)/profit is stated after charging:		
Loan interest payable	**1,099**	951
Amortisation of goodwill and Lloyd's capacity costs	**1,410**	1,313
Finance lease charges	**121**	172
Operating lease charges (net of recharges to the managed syndicate)	**1,793**	1,670
Depreciation (net of recharges to the managed syndicate) on tangible fixed assets:		
– Owned assets	**1,151**	518
– Leased assets	**190**	222
Exchange losses/(gains)	**385**	(823)
Provisions for bad and doubtful debts (including share of syndicate)	**1,100**	1,058

11 Auditors' Remuneration

	2001 Group £000	2001 Company £000	2000 Group £000	2000 Company £000
Remuneration – Audit fees	**204**	**83**	199	64
Remuneration – Other fees paid to the auditor and its associates	**360**	**333**	66	28
	564	**416**	265	92

12 Employees' Remuneration

Their aggregate remuneration and associated costs were:

	2001 £000	2000 £000
Wages and salaries	**18,753**	17,600
Social security costs	**2,348**	1,922
Other pension costs	**3,046**	2,529
	24,147	22,051

The average monthly number of staff employed by the Group was 363 (2000: 361) comprising 123 underwriting and 240 administrative staff (2000: 144 and 217 respectively). Of the total remuneration shown above an amount of £11,421,000 was re-charged to the syndicate managed by Hiscox Syndicates Limited (2000: £11,884,000).

13 Taxation

	2001 Group £000	2001 Company £000	2000 Group £000	2000 Company £000
UK corporation tax at 30.0% (2000: 30.0%)	**534**	**(141)**	1,204	(692)
Adjustment in respect of prior years		**350**	**–**	(1,373)
–				
Deferred tax at 30.0% (2000: 30.0%)	**(9,276)**	**(7)**	3,078	–
Adjustment in respect of prior years		**(997)**	**–**	(4,852)
–				
	(9,389)	**(148)**	(1,943)	(692)

14 Loss/earnings per ordinary share

	2001 Loss £000	Average number of shares 000	2001 LPS p	2000 Earnings £000	Average number of shares 000	2000 EPS p
Basic, based on operating (loss)/profit after tax (on longer term investment return)	**(15,090)**	**148,665**	**(10.2)**	5,054	142,472	3.5
Basic, based on (loss)/profit on ordinary activities after tax	**(23,107)**	**148,665**	**(15.5)**	5,430	142,472	3.8
Diluted, based on (loss)/profit on ordinary activities after tax*	**(23,107)**	**148,665**	**(15.5)**	5,430	144,577	3.8

*In accordance with FRS 14 "Earnings per share", potential ordinary shares are only included in the calculation of diluted loss/earnings per share to the extent that they are dilutive ie those that on conversion to ordinary shares would decrease net profit per share or increase net loss from continuing operations.

Loss/earnings per share has also been calculated based on the operating (loss)/profit before exceptional items and after taxation as the directors believe this loss/earnings per share figure provides a better indication of operating performance.

The reconciliation of basic loss/earnings per share based on (loss)/profit on ordinary activities after tax to basic loss/earnings per share based on operating (loss)/profit after tax is as follows:

	2001 LPS p	2000 EPS p
Basic based on (loss)/profit on ordinary activities after tax	**(15.5)**	3.8
Short term fluctuations in investment return	**4.1**	(0.5)
Exceptional items	**–**	(0.9)
Movement in equalisation provision	**1.2**	1.1
Basic based on operating (loss)/profit after tax	**(10.2)**	3.5

Diluted loss/earnings per share has been calculated taking into account nil (2000: 1,816,000) options under employee share schemes and nil (2000: 289,000) options under SAYE share schemes.

15 Intangible assets

a) Goodwill	£000
Cost	
At 1 January 2001	**7,793**
Goodwill acquired	**794**
At 31 December 2001	**8,587**
Amortisation	
At 1 January 2001	**1,159**
Charge for the year	**431**
At 31 December 2001	**1,590**
Net book value at 31 December 2001	**6,997**
Net book value at 31 December 2000	**6,634**

On 31 January 2001, the Group acquired 100% of the issued share capital of The Construction and General Guarantee Insurance Company Ltd (CGGI) for a consideration of IR£2,988,000. The goodwill acquired above represents the difference between the consideration and the fair value of the net assets of CGGI acquired.

15 Intangible assets continued

b) Other intangible assets	£000
Cost	
At 1 January 2001	**19,628**
Additions	**6**
At 31 December 2001	**19,634**
Amortisation	
At 1 January 2001	**1,855**
Charge for the year	**979**
At 31 December 2001	**2,834**
Net book value at 31 December 2001	**16,800**
Net book value at 31 December 2000	**17,773**

Other intangible assets represent the cost of acquiring syndicate capacity at the Lloyd's auctions.

16 Investments – Group

a) Land and buildings	Freehold £000	Short Leasehold £000	Total £000
Valuation or cost			
At 1 January 2001	407	109	**516**
Disposals	–	–	**–**
At 31 December 2001	407	109	**516**
Depreciation			
At 1 January 2001	–	79	**79**
Charge for the year	–	7	**7**
Disposals	–	–	**–**
At 31 December 2001	–	86	**86**
Net book value at 31 December 2001	407	23	**430**
Net book value at 31 December 2000	407	30	**437**

None of the freehold land and buildings were occupied by the Group for its own use during the current financial year.

16 Investments – Group continued

b) Other financial investments

2001

	Funds at Lloyd's and other Corporate Assets		Share of Syndicate		Insurance Company		Total	
	Market Value £000	Cost £000	Market Value £000	Cost £000	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and units in unit trusts	**26,732**	**25,294**	**3,594**	**1,510**	**15,723**	**15,304**	**46,049**	**42,108**
Debt securities and other fixed income securities	**30,130**	**30,356**	**102,690**	**102,192**	**83,336**	**83,745**	**216,156**	**216,293**
Deposits with credit institutions	**31,008**	**30,983**	**3,062**	**3,062**	**47,887**	**47,882**	**81,957**	**81,927**
Other*	**240**	**272**	**–**	**–**	**–**	**–**	**240**	**272**
	88,110	**86,905**	**109,346**	**106,764**	**146,946**	**146,931**	**344,402**	**340,600**

*Includes an investment in an associated undertaking.

2000

	Funds at Lloyd's and other Corporate Assets		Share of Syndicate		Insurance Company		Total	
	Market Value £000	Cost £000	Market Value £000	Cost £000	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and units in unit trusts	28,387	24,285	4,346	1,747	20,977	19,184	53,710	45,216
Debt securities and other fixed income securities	32,831	32,943	57,468	56,225	78,819	77,647	169,118	166,815
Deposits with credit institutions	17,970	17,937	4,576	4,106	16,005	15,802	38,551	37,845
Other	73	73	2,203	1,823	–	–	2,276	1,896
	79,261	75,238	68,593	63,901	115,801	112,633	263,655	251,772

Of the above investments, all of the shares and units in unit trusts, and all the debt securities and other fixed income securities are listed on a recognised stock exchange.

The total market value of investments purchased and disposed of in the year was £303,094,000 (2000: £210,680,000) and £217,965,000 (2000: £182,618,000) respectively.

17 Debtors arising out of direct insurance operations

	2001 £000	2000 £000
Policyholders	**152**	137
Intermediaries	**130,537**	135,693
	130,689	135,830

18 Tangible Assets – Group

Cost	Computer Equipment £000	Fixtures Fittings and Equipment £000	Motor Vehicles £000	Total £000
At 1 January 2001	3,783	5,402	1,848	**11,033**
Additions	2,756	80	342	**3,178**
Disposals	–	(3)	(464)	**(467)**
At 31 December 2001	6,539	5,479	1,726	**13,744**
Depreciation				
At 1 January 2001	2,895	1,430	576	**4,901**
Charge for the year	1,183	399	272	**1,854**
Disposals	–	–	(29)	**(29)**
At 31 December 2001	4,078	1,829	819	**6,726**
Net book value at 31 December 2001	2,461	3,650	907	**7,018**
Net book value at 31 December 2000	888	3,972	1,272	**6,132**

Assets held under finance leases account for £1,261,000 of the net book value of the assets above (2000: £1,455,000). The total depreciation for
the period relating to these assets amounted to £357,000 (2000: £430,000).

19 Fixed Assets – Company

a) Tangible Assets	Art £000
Cost at 1 January 2001	**346**
Additions	**38**
Disposals	**(3)**
Cost at 31 December 2001	**381**

b) Investment in subsidiary undertakings	2001 £000	2000 £000
Hiscox Dedicated Corporate Member Limited	**1,500**	1,500
Hiscox Holdings Limited	**38,647**	38,647
Hiscox Insurance Holdings Limited	**29,983**	29,983
Hiscox Select Insurance Fund PLC	**45,102**	45,102
Hiscox Investment Management Limited	**225**	225
	115,457	115,457

For details of principal subsidiary undertakings see note 31.

c) Investments	Shares and units in unit trusts £000	Debt securities and other fixed income securities £000	Deposits with credit institutions £000	Other £000	Total £000
Cost at 1 January 2001	11,551	7,259	10,442	39	**29,291**
Purchases	1,099	1,275	14,040	–	**16,414**
Sales	–	(2,406)	–	–	**(2,406)**
Cost at 31 December 2001	**12,650**	**6,128**	**24,482**	**39**	**43,299**
Market value at 31 December 2001	**13,123**	**6,153**	**24,498**	**39**	**43,813**
Market value at 31 December 2000	13,211	7,325	10,451	39	31,026

The Company has given a fixed and floating charge over its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiaries. Further details are given in note 28.

20 Other Debtors

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Due from Group companies	**–**	–	**85,072**	49,058
Taxation recoverable	**2,912**	6,724	**1,164**	887
Other debtors	**14,296**	5,273	**5**	26
Share of syndicate	**19,518**	35,410	**–**	–
	36,726	47,407	**86,241**	49,971

21 Other Creditors including taxation and social security

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Proposed dividend	**–**	3,404	**–**	3,404
Due to Group companies	**–**	–	**14,321**	12,766
Taxation payable	**2,424**	3,101	**–**	–
Amounts owed to credit institutions		**2,059**	681	**–**
–				
Obligations under finance leases	**648**	753	**–**	–
Other creditors	**14,845**	21,671	**450**	263
Share of syndicate	**22,468**	1,165	**–**	–
	42,444	30,775	**14,771**	16,433

22 Creditors: Amounts falling due after more than one year

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Obligations under finance leases	**394**	762	**–**	–

23 Provision for other risks and charges

	Group Deferred Tax £000	Group Other £000	Group Total £000	Company Deferred Tax £000
At 1 January 2001	–	655	**655**	648
Adjustment to provisions during the year	908	(637)	**271**	(504)
At 31 December 2001	908	18	**926**	144

There is no unprovided deferred tax liability for the Company or the Group.

24 Share Capital

Called up share capital	Number of shares	£000
Authorised		
At 1 January 2001	172,000,000	**8,600**
6 December 2001 Increase in share capital	28,000,000	**1,400**
17 December 2001 Open Offer	60,000,000	**3,000**
At 31 December 2001	**260,000,000**	**13,000**
Issued and fully paid		
At 1 January 2001: Ordinary shares of 5p each	148,000,785	**7,400**
At 31 December 2001: Ordinary shares of 5p each	192,667,249	**9,633**

During the year 205,029 Ordinary Shares of 5p each were issued on exercise of share options. 44,461,435 shares were issued at a price of 126.0p per share on 18 December 2001 as part of the Open Offer. The mid-market price of Hiscox plc shares at close on 18 December 2001 was 153.5p.

25 Reconciliation of Movement in Shareholders' Funds

a) Total shareholders' funds **Group**	Total Issued Share Capital 2001 £000	Share Premium Reserve 2001 £000	Merger Reserve 2001 £000	Capital Redemption Reserve 2001 £000	Capital Reserve 2001 £000	Profit and Loss Account 2001 £000	**Total Share-holders' Funds 2001 £000**	Total Share-holders' Funds 2000 £000
At 1 January	7,400	72,474	4,723	33,244	–	15,721	**133,562**	129,585
Exercises of share options (note 26)	10	133	–	–	–	–	**143**	84
Shares issued from open offer	2,223	52,005	–	–	–	–	**54,228**	3,525
Exchange differences taken to reserves	–	–	–	–	–	(35)	**(35)**	50
Retained (loss)/profit for the year	–	–	–	–	–	(23,107)	**(23,107)**	318
At 31 December	9,633	124,612	4,723	33,244	–	(7,421)	**164,791**	133,562

b) Total shareholders' funds **Company**	Total Issued Share Capital 2001 £000	Share Premium Reserve 2001 £000	Merger Reserve 2001 £000	Capital Redemption Reserve 2001 £000	Capital Reserve 2001 £000	Profit and Loss Account 2001 £000	**Total Share-holders' Funds 2001 £000**	Total Share-holders' Funds 2000 £000
At 1 January	7,400	72,474	58,970	33,244	1,078	7,475	**180,641**	182,930
Exercises of share options (note 26)	10	133	–	–	–	–	**143**	84
Shares issued from open offer	2,223	52,005	–	–	–	–	**54,228**	3,525
Unrealised gains/(losses)	–	–	–	–	(727)	–	**(727)**	147
Retained profit/(loss) for the year	–	–	–	–	–	1,688	**1,688**	(6,045)
At 31 December	9,633	124,612	58,970	33,244	351	9,163	**235,973**	180,641

26 Directors' Emoluments

a)	**2001 Basic salary/fees £000**	**2001 Benefits £000**	**2001 Bonus £000**	**2001 Total £000**	2000 Basic salary/fees £000	2000 Benefits £000	2000 Bonus £000	2000 Total £000
Executive directors								
RRS Hiscox	244	23	–	267	260	26	–	286
BE Masojada	225	16	–	241	230	16	–	246
RS Childs	238	18	–	256	230	19	–	249
SJ Bridges	186	18	–	204	173	18	–	191
IN Thomson*	116	10	–	126	230	21	–	251
Non-executive directors								
SH Hall	35	–	–	35	30	–	–	30
AGC Howland Jackson	30	–	–	30	25	–	–	25
DND Netherton	30	–	–	30	30	–	–	30
C Franklin Engler	24	–	–	24	20	–	–	20

*Directors' emoluments relate to the period they served as directors of Hiscox plc. IN Thomson resigned as a director of Hiscox plc on 4 July 2001.

26 Directors' Emoluments continued

b) Pension Entitlements

The pension entitlements of the directors on the Hiscox defined benefit scheme were as follows:

	Increase in accrued pension during the year 31 December 2001 £000	Accumulated total accrued pension at year end £000	Transfer value of the increase in accrued pension £000
RRS Hiscox	4	171	70
BE Masojada	2	17	22
RS Childs	5	97	70
SJ Bridges	3	9	29

Notes

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The increase in accrued pension for the year excludes any increase for inflation. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11: Retirement Benefit Schemes – Transfer Values. No contractual contributions were due or have been paid by the directors during the year.

c)

Total directors' remuneration of which £981,000 was recharged to the managed syndicates (2000: £901,000) was:

	2001 £000	2000 £000
Salaries, benefits and bonuses	**1,094**	1,223
Pension contributions to defined benefit schemes	**403**	225
Fees to non-executive directors	**119**	105
	1,616	1,553

No directors exercised their share options during the year (2000: nil).

The total remuneration of the highest paid director was:

	2001 £000	2000 £000
Salaries, benefits and bonus	**267**	286
Accrued pension at end of the year on the defined benefit scheme (per annum)	**171**	159

d)

(i) Directors' share interests

	31 December 2001 5p Ordinary Shares Number of shares Beneficial	**31 December 2001 5p Ordinary Shares Number of shares Non Beneficial**	31 December 2000 5p Ordinary Shares Number of shares Beneficial	31 December 2000 5p Ordinary Shares Number of shares Non Beneficial
Executive directors				
RRS Hiscox	7,849,046	835,311*	7,825,546	835,311*
BE Masojada	1,119,691	170,311*	1,123,191	170,311*
RS Childs	570,271	170,311*	495,888	170,311*
SJ Bridges	65,000	170,311*	30,000	170,311*
Non-executive directors				
SH Hall	28,000	–	23,000	–
AGC Howland Jackson	33,060	–	15,431	–
DND Netherton	26,000	–	–	–
C Franklin Engler	–	–	–	–

*Hiscox Trustees Ltd is the trustee of the Hiscox plc group Employee Share Ownership Plan Trust (ESOP) and at 31 December 2001 was interested in 170,311 (2000: 170,311) ordinary shares of the company. The executive directors are potential beneficiaries of the ESOP and are deemed to have an interest in these shares.

Subsequent to the year end C Franklin Engler acquired 11,000 shares.

26 Directors' Emoluments continued

d) continued

(ii) Share Options

The share options disclosed below include replacement options in Hiscox plc relating to Hiscox Holdings Ltd and Hiscox Insurance Holdings Ltd share options granted prior to acquisition by Hiscox plc, plus options under the Hiscox plc Approved and Unapproved Share Options Schemes.

	No. of options at 1 January 2001†	No. of options granted	No. of options exercised	**No. of options at 31 December 2001**	Exercise Price £	Market price at date of exercise	Date from which exercisable	Expiry date
SJ Bridges	75,000	–	–	**75,000**	1.45	–	13 Oct 02	12 Oct 09
	100,000	–	–	**100,000**	1.15	–	15 Jun 03	14 Jun 10
	–	50,000	–	**50,000**	1.98	–	03 May 04	02 May 11
	–	125,000	–	**125,000**	0.91	–	27 Sep 04	26 Sep 11
	175,000	175,000	–	**350,000**				
RS Childs	100,727	–	–	**100,727**	0.22	–	7 May 96	6 May 03
	151,091	–	–	**151,091**	0.33	–	29 Jun 97	28 Jun 04
	201,454	–	–	**201,454**	1.15	–	13 May 99	12 May 03
	80,000	–	–	**80,000**	1.92	–	17 Dec 00	16 Dec 04
	80,000	–	–	**80,000**	1.78	–	20 Oct 01	19 Oct 05
	100,000	–	–	**100,000**	1.45	–	13 Oct 02	12 Oct 09
	150,000	–	–	**150,000**	1.15	–	15 Jun 03	14 Jun 10
	–	70,000	–	**70,000**	1.98	–	03 May 04	02 May 11
	–	125,000	–	**125,000**	0.91	–	27 Sep 04	26 Sep 11
	863,272	195,000	–	**1,058,272**				
RRS Hiscox	80,000	–	–	**80,000**	1.92	–	17 Dec 00	16 Dec 04
	65,000	–	–	**65,000**	1.78	–	20 Oct 01	19 Oct 05
	15,000	–	–	**15,000**	1.78	–	20 Oct 01	19 Oct 08
	50,000	–	–	**50,000**	1.15	–	15 Jun 03	14 Jun 10
	–	50,000	–	**50,000**	1.98	–	03 May 04	02 May 11
	210,000	50,000	–	**260,000**		–		
BE Masojada	503,635	–	–	**503,635**	1.15	–	13 May 99	12 May 03
	80,000	–	–	**80,000**	1.92	–	17 Dec 00	16 Dec 04
	15,000	–	–	**15,000**	1.78	–	20 Oct 01	19 Oct 08
	65,000	–	–	**65,000**	1.78	–	20 Oct 01	19 Oct 05
	100,000	–	–	**100,000**	1.45	–	13 Oct 02	12 Oct 09
	150,000	–	–	**150,000**	1.15	–	15 Jun 03	14 Jun 10
	–	70,000	–	**70,000**	1.98	–	03 May 04	02 May 11
	–	125,000	–	**125,000**	0.91	–	27 Sep 04	26 Sep 11
	913,635	195,000	–	**1,108,635**				
IN Thomson	15,000	–	–	**15,000**	1.92	–	17 Dec 00	16 Dec 07
	65,000	–	–	**65,000**	1.92	–	17 Dec 00	16 Dec 04
	80,000	–	–	**80,000**	1.78	–	20 Oct 01	19 Oct 05
	50,000	–	–	**50,000**	1.15	–	15 Jun 03	14 Jun 10
	210,000	–	–	**210,000**				
Sub-total	2,371,907	615,000	–	**2,986,907**				

26 Directors' Emoluments continued

d) continued

(ii) Share Options continued

	No. of options at 1 January 2001†	No. of options granted	No. of options exercised	No. of options at 31 December 2001	Exercise Price £	Market price at date of exercise	Date from which exercisable	Expiry date
Sub-total b'fwd	2,371,907	615,000	–	**2,986,907**				
Other Employees	40,290	–	20,145	**20,145**	0.19	1.91	01 May 95	30 Apr 02
	70,508	–	20,145	**50,363**	0.22	1.91	07 May 96	06 May 03
	231,673	–	60,436	**171,237**	0.33	1.91	29 Jun 97	28 Jun 04
	453,271	–	50,364	**402,907**	1.15	1.91	13 May 99	12 May 03
	325,000	–	–	**325,000**	1.92	–	17 Dec 00	16 Dec 04
	204,500	–	–	**204,500**	1.92	–	17 Dec 00	16 Dec 07
	390,000	–	–	**390,000**	1.78	–	20 Oct 01	19 Oct 05
	203,000	–	–	**203,000**	1.78	–	20 Oct 01	19 Oct 08
	788,000	–	–	**788,000**	1.45	–	13 Oct 02	12 Oct 09
	1,413,000	–	–	**1,413,000**	1.15	–	15 Jun 03	14 Jun 10
	105,000	–	–	**105,000**	1.13	–	09 Nov 03	08 Nov 10
	–	100,000	–	**100,000**	1.90	–	14 Feb 04	13 Feb 11
	–	832,500	–	**832,500**	1.98	–	03 May 04	02 May 11
	–	1,625,000	–	**1,625,000**	0.91	–	27 Sep 04	26 Sep 11
	4,224,242	2,557,500	151,090	**6,630,652**				
Total	**6,596,149**	**3,172,500**	**151,090**	**9,617,559**				

†These figures are stated net of a total of 533,436 share options which lapsed during the year ended 31 December 2001.

The interests of directors and employees under the SAYE share option schemes of the Group are set out below:

	No. of options at 1 January 2001†	No. of options granted	No. of options exercised	No. of options at 31 December 2001	Exercise Price £	Market price at date of exercise	Date from which exercisable	Expiry date
SJ Bridges	10,049	–	–	**10,049**	0.96	–	01 Aug 03	31 Jan 04
RS Childs	10,049	–	–	**10,049**	0.96	–	01 Aug 03	31 Jan 04
RRS Hiscox	8,209	–	–	**8,209**	1.18	–	01 Dec 02	31 May 03
BE Masojada	–	13,049	–	**13,049**	0.73	–	01 Dec 04	31 May 05
IN Thomson	8,209	–	–	**8,209**	1.18	–	01 Dec 02	31 May 03
Other employees	43,962	–	43,962	**–**	1.06	1.58-1.91	01 Oct 00	31 Mar 01
	17,515	–	1,030	**16,485**	1.50	1.56	01 Nov 01	30 Apr 02
	108,695	–	4,126	**104,569**	1.18	1.87	01 Dec 02	31 May 03
	435,085	–	4,821	**430,264**	0.96	1.84-1.87	01 Aug 03	31 Jan 04
	–	1,492,743	–	**1,492,743**	0.73	–	01 Dec 04	31 May 05
Total	641,773	1,505,792	53,939	**2,093,626**				

† These figures are stated net of 667,017 SAYE share options which lapsed during the year.

The Company has taken advantage of the exemptions conferred in UITF 17 "Employee share schemes" in relation to the charging of notional losses to the profit and loss account.

The aggregate gains made by the directors on exercise of the above options (based on market price at date of exercise less the exercise price) was £nil (2000: £nil). The market price of Hiscox plc shares at 31 December 2001 was 155.5p. The highest and lowest values of Hiscox shares during 2001 was 226p and 72.5p (2000: 144p and 83p).

26 Directors' Emoluments continued

d) continued

(iii) Performance share plan

The following conditional awards have been made under the performance share plan:

	No. of shares at 1 January 2001†	No. of shares awarded	No. of shares at 31 December 2001	Date from which exercisable	Expiry date
SJ Bridges	75,000	–	**75,000**	1 April 03	31 Dec 09
	25,000	–	**25,000**	1 April 04	31 Dec 10
	–	10,000	**10,000**	1 April 05	31 Dec 11
	100,000	10,000	**110,000**		
RS Childs	100,000	–	**100,000**	1 April 03	31 Dec 09
	25,000	–	**25,000**	1 April 04	31 Dec 10
	–	10,000	**10,000**	1 April 05	31 Dec 11
	125,000	10,000	**135,000**		
RRS Hiscox	25,000	–	**25,000**	1 April 04	31 Dec 10
	–	10,000	**10,000**	1 April 05	31 Dec 11
	25,000	10,000	**35,000**		
BE Masojada	100,000	–	**100,000**	1 April 03	31 Dec 09
	25,000	–	**25,000**	1 April 04	31 Dec 10
	–	10,000	**10,000**	1 April 05	31 Dec 11
	125,000	10,000	**135,000**		
Other employees	357,500	–	**357,500**	1 April 03	31 Dec 09
	267,500	–	**267,500**	1 April 04	31 Dec 10
	–	158,000	**158,000**	1 April 05	31 Dec 11
	625,000	158,000	**783,000**		
Total	**1,000,000**	**198,000**	**1,198,000**		

† These figures are stated net of a total of 80,000 shares awarded which lapsed during the year ended 31 December 2001.

27 Pension Contributions

During the year, the Group contributed to the two sections of the Hiscox defined benefit pension scheme. The majority of Group employees are members of the scheme which is non contributory. The funds of the scheme are administered by trustees and are independent of the Group's finances. The adequacy of the pension funds is assessed by triennial valuations carried out by independent actuaries.

Defined benefit schemes

A full actuarial valuation was carried out at 1 January 2000 by a qualified independent actuary. The valuation was updated on an FRS 17 basis as at 31 December 2001.
The major assumptions used by the Actuary were as follows:

Rate of increase in salaries	3.5% p.a.
Rate of increase in RPI linked pensions in payment	2.5% p.a.
Discount rate	6.0% p.a.
Inflation assumption	2.5% p.a.

The scheme is invested primarily in a unitised fund held with Fidelity Pension Management. The split of assets and funding position at 31 December 2001, measured in accordance with the requirements of FRS 17, were as follows:

	£000
Equities and properties	37,262
Bonds	6,399
Cash	2,949
Total market value of assets	46,610
Present value of scheme liabilities	(59,800)
Surplus/(deficit)	(13,190)
Related deferred tax (liability)/credit	3,957
Surplus/(deficit) in the scheme – pension asset/(liability)	(9,233)

The impact on the net assets and retained profits of the Group at 31 December 2001 of adopting FRS17 would be:

	Net assets £000
Current position at 31 December 2001	164,791
Pension (asset)/liability on a SSAP24 basis	276
Pension asset/(liability) on a FRS17 basis	(9,233)
Restated position at 31 December 2001	155,834

As a result of the actuarial valuations as at 1 January 2000, the Group is making contributions to the scheme at the rate of 23.1% of pensionable salaries.

Where a deficit needs to be funded, a proportion of the additional contributions will be recharged to Syndicate 33 in accordance with the Group's normal recharging procedures.

Defined contribution scheme

At 1 January 2001, Hiscox introduced a non contributory defined contribution scheme for all staff joining the Group.

The total pension charge for the year amounted to £2,856,000 (2000: £2,351,000) of which £1,696,000 was recharged to managed syndicates (2000: £1,759,000).

28 Guarantees and Contingencies

i) The Company entered into a deed of covenant in respect of its corporate member subsidiaries, Hiscox Select B and C Ltd, to meet the subsidiaries' obligations to Lloyd's. The total guarantee given by the Company under this deed of covenant (subject to limited exceptions) amounts to £15,875,563 (2000: £15,155,636). Hiscox Select Insurance Fund PLC has entered into identical deeds of covenant in respect of its corporate member subsidiaries Hiscox Select A, D to J Ltd totalling £35,813,004 (2000: £36,474,589). The obligations under these deeds of covenant are secured by a fixed and floating charge over certain of the investments and other assets of the Company and of Hiscox Select Insurance Fund PLC in favour of Lloyd's. Lloyd's has a right to retain the income on the charged investments in circumstances where it considers there to be a risk that the covenant might need to be called and might not be met in full.

ii) The Company has an agreement with Chase Manhattan International Ltd, an agent for a syndicate of banks, for a £75,000,000 irrevocable standby Letter of Credit facility. Commencing 1 January 2002, £66,500,000 was drawn down to support part of the Group's underwriting activities for the 2002 account. Hiscox plc has a fixed and floating charge over the Group's assets as a guarantee to the group of banks led by Chase Manhattan plc in connection with their Letter of Credit.

iii) Hiscox Insurance Company Limited has arranged a letter of credit of £700,000 with Natwest Bank plc to support its consortium activities with Lloyd's.

29 Lease Commitments

a) Operating Leases

The Group has the following commitments under operating leases:

	Land and buildings 2001 £000	Other 2001 £000	Total 2001 £000	Land and buildings 2000 £000	Other 2000 £000	Total 2000 £000
Operating leases which expire:						
Within one year	**2**	**282**	**284**	7	46	53
From two to five years inclusive	**681**	**57**	**738**	845	370	1,215
Over five years	**2,577**	**–**	**2,577**	2,452	–	2,452
	3,260	**339**	**3,599**	3,304	416	3,720

The Company has no operating lease commitments.

b) Finance Leases

The finance lease obligations to which the Group is committed are:

	2001 £000	2000 £000
In one year or less	**648**	753
Between two and five years	**394**	762
	1,042	1,515

30 Related Parties

The operations listed below are related parties within the definition of FRS 8. Hiscox Syndicates Limited, a wholly owned subsidiary of the Company received management fees and profit commissions for providing a range of management services to Syndicate 33 in which Hiscox Dedicated Corporate Member Limited and the corporate member subsidiaries of Hiscox Select Insurance Fund PLC participated.

The value of services provided to the syndicate in the year was as follows:

	2001 £000	2000 £000
Services provided by Hiscox Syndicates Limited to the undertakings below:		
Lloyd's Syndicate 33	**2,888**	2,402
Balances due to the Hiscox Group at the balance sheet dates were as follows:		
Due from respective related parties as at 31 December:		
Lloyd's Syndicate 33	**1,449**	3,675

31 Principal subsidiary companies
As at 31 December 2001

Company	Nature of business	Country of Incorporation
Hiscox Assurances Services SARL†	Underwriting agent	France
Hiscox Insurance Company Limited†	General insurance	England
Hiscox Insurance Company (Guernsey) Limited†*	General insurance	Guernsey
Hiscox Dedicated Corporate Member Limited	Lloyd's corporate name	England
Hiscox Select Insurance Fund PLC	Insurance holding company	England
Hiscox Select Holdings Limited†	Insurance holding company	England
Hiscox Select A to J Limited†	Lloyd's corporate name	England
Hiscox Holdings Limited	Insurance holding company	England
Hiscox Insurance Holdings Limited	Insurance holding company	England
Hiscox International Holdings BV†	Insurance holding company	Netherlands
Hiscox Syndicates Limited†	Lloyd's managing agent	England
Hiscox Underwriting Ltd†	Lloyd's underwriting agent	England
Hiscox AG†	Underwriting agent	Germany
Hiscox BV†	Underwriting agent	Netherlands
Hiscox Investment Management Limited	Investment management	England
Hiscox Connect Limited	Online intermediary	England
Hiscox Underwriting Group Services Limited	Service company	England

All companies are wholly owned. The proportion of voting rights of subsidiaries held is the same as the proportion of equity shares held.
†Held indirectly.

Hiscox Holdings Limited held 1,094,334 shares (2000: 2,154,770 shares) in Hiscox plc at 31 December 2001 with a market value of £1,701,689 (2000: £2,992,000). These shares are included within other financial investments.

*Hiscox Insurance Company (Guernsey) Limited has subscribed cellular share capital of $250,000 in a cell in Harlequin Insurance PCC Limited, a protected cell company incorporated in Guernsey under the Protected Cell Companies Ordinance, 1997 (as amended). This cell, Cell Hiscox, incurred a loss for the year of US$1,020,147 which has been included in the figures of Hiscox Insurance Company (Guernsey) Limited and consolidated in these report and accounts.

32

a) Reconciliation of operating (loss)/profit to net cash inflow from operating activities:	2001 £000	2000 £000
Operating (loss)/profit before taxation after interest, based on longer term investment return	**(21,220)**	2,950
Depreciation and amortisation of fixed assets	**3,274**	2,959
Increase in general insurance technical provisions, net of reinsurance	**37,115**	23,451
Increase/(decrease) in amounts owed to agents	**(6,280)**	20,794
(Increase)/decrease in amounts owed by agents	**(4,713)**	(34,634)
(Increase)/decrease in other debtors	**(35,779)**	780
Increase/(decrease) in other creditors	**12,775**	11,061
Cash transferred (to)/from Lloyd's business (note d)	**(12,489)**	1,284
Realised and unrealised investment (gains)/losses	**5,991**	(2,690)
Short term fluctuations in investment return	**(8,694)**	1,043
Interest expense	**1,099**	951
(Profits)/losses relating to Lloyd's business	**31,641**	12,866
Other non-cash transactions	**86**	488
Net cash inflow from operating activities	**2,806**	41,303

b) Movement in opening and closing portfolio investments net of financing	Notes	2001 £000	2000 £000
Net cash inflow/(outflow) for the period	32(f)	**6,369**	895
Portfolio investments	32(f)	**45,779**	27,587
Decrease/(increase) in loans	32(f)	**(905)**	129
Movement arising from cash flows		**51,243**	28,611
Movement in long term and Lloyd's business	32(f)	**57,035**	10,177
Changes in market value and exchange rate effects	32(f)	**(4,549)**	6,881
Increase in portfolio investments net of financing		**103,729**	45,669
Total portfolio investments net of financing at 1 January		**299,925**	254,256
Total portfolio investments net of financing at 31 December		**403,654**	299,925

c) Cash flows of the long term business	2001 £000	2000 £000
Premiums received	**–**	89
Claims paid	**–**	(605)
Net portfolio investments	**–**	436
Other net cash flows	**–**	(94)
Taxation	**–**	(809)
Net cash flow before retention and transfers out of the fund	**–**	(983)
Schedule 2c transfer of long term business	**–**	(18,889)
Cash retained in long term business	**–**	(19,872)

d) Cash flows of the Lloyd's business	2001 £000	2000 £000
Premiums received	**124,051**	201,740
Claims paid	**(52,881)**	(90,052)
Net portfolio investments	**6,011**	5,238
Other net cash flows	**(32,635)**	(84,704)
Net cash flow before retention and transfer from/(to) the Group	**44,546**	32,222
Transfer from/(to) the Group	**12,489**	(1,284)
Cash retained in the Lloyd's business	**57,035**	30,938

32 continued

e) Analysis of cash flows for headings netted in the cash flow statement	2001 £000	2000 £000
Servicing of finance		
Interest paid	**(559)**	(784)
Interest paid element of finance leases	**(121)**	(198)
	(680)	(982)
Capital expenditure		
Payments to acquire tangible fixed assets	**(2,772)**	(429)
Receipts from sales of tangible fixed assets	**4**	60
Payments to acquire intangible fixed assets	**(6)**	(4,025)
	(2,774)	(4,394)
Acquisitions and disposals		
Net cash proceeds on sale of long term business	**–**	846
Payments to acquire investment in associated undertaking	**(199)**	–
Acquisition of subsidiary undertaking	**(2,527)**	–
Net cash and investments acquired with subsidiary	**4,106**	–
	1,380	846
Financing		
Proceeds from share issues*	**54,371**	3,609
New bank loan	**1,378**	285
Capital element of finance leases	**(381)**	(549)
Net cash flow from financing	**55,368**	3,345

*Net of expenses of £1,779,633 (2000: £nil).

	2001 £000	2000 £000
Portfolio investment		
Purchase of shares and units in unit trusts	**8,402**	18,143
Purchase of debt securities and other fixed income securities	**120,564**	143,244
Sale of shares and units in unit trusts	**(10,339)**	(124)
Sale of debt securities and other fixed income securities	**(117,772)**	(162,376)
Increase/(decrease) in deposits with credit institutions	**44,924**	28,891
Increase/(decrease) in other investments	**–**	(191)
	45,779	27,587

f) Movement in cash, portfolio investments and financing*	At 1 Jan 2001 £000	Cash flow £000	Changes in other business £000	Changes to market value and currencies £000	At 31 Dec 2001 £000
Cash at bank and in hand	38,466	6,369	17,685	–	62,520
Shares and units in unit trusts	53,710	(1,937)	(1,042)	(4,682)	46,049
Debt securities and other fixed income securities	169,118	2,792	44,109	137	216,156
Deposits with credit institutions	38,551	44,924	(1,514)	(4)	81,957
Other investments	2,276	–	(2,203)	–	73
	302,121	52,148	57,035	(4,549)	406,755
Loans due within 1 year	(681)	(1,378)	–	–	(2,059)
Finance leases	(1,515)	473	–	–	(1,042)
Total	299,925	51,243	57,035	(4,549)	403,654

*These amounts are the same as the balance sheet amounts reported. They include amounts relating to syndicate participations.

g) Scope of cash flow

The consolidated cash flow statement excludes cash flows relating to underwriting on Lloyd's syndicates.

Notice is hereby given that the Annual General Meeting of Hiscox plc will be held at 1 Great St Helen's London EC3A 6HX on 2 July 2002 at 11.00 am for the following purposes:

Ordinary business

1) To receive the accounts of the company for the year ended 31 December 2001 together with the directors' and auditor's reports thereon.

To re-appoint the following who retire as directors in accordance with the Articles of Association:

2) SJ Bridges

3) RS Childs

4) C Franklin Engler

5) To re-appoint KPMG Audit Plc as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which accounts are laid.

6) To authorise the directors to determine the level of auditor's remuneration.

Special business

To consider, and if thought fit, pass the following resolutions, of which resolution 7, 8 and 9 will be proposed as ordinary resolutions and resolution 10 will be proposed as a special resolution.

Ordinary resolutions

7) That the directors be generally and unconditionally authorised (in substitution for all existing authorities) pursuant to Section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (within the meaning of that Section) up to a maximum aggregate nominal value of £3,179,097.57 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) fifteen months from the date of the passing of this resolution provided that the authority of the directors shall extend to the making of any offer or agreement before the expiration or revocation of the authority which would or might require relevant securities to be allotted after the expiration or revocation of this authority and the directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry or revocation of this authority.

8) That the Remuneration Report contained within the Report and Accounts for the year ended 31 December 2001 be approved.

9) That the Hiscox International Sharesave Scheme be approved, the main features of which are summarised in the Remuneration report on pages 25 and 26, and that the directors be authorised to do all such acts and things as may be necessary or desirable to carry the same into effect and to make such changes as they may consider appropriate for that purpose.

Special resolution

10) That the directors be empowered (in addition to all existing authorities) pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 7 as if Section 89(1) of the Act did not apply to the allotment. This power will expire fifteen months after the date of the passing of this Resolution, but the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the directors may allot equity securities in pursuance of that offer or agreement as if the authority conferred by this resolution had not expired provided that this power is limited to:

(i) allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in proportion (as nearly as may be) to their existing holdings of ordinary shares but subject to the directors having a right to make such exclusions or other arrangements in connection with the offer as they deem necessary or expedient:
   (a) to deal with equity securities representing fractional entitlements; and
   (b) to deal with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange, in any territory; and

(ii) the allotment of ordinary shares for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount of £481,681.40.

By order of the Board
SJ Bridges
Secretary
26 April 2002

Note

A member entitled to attend and vote may appoint one or more proxies to attend and vote instead of him. The instrument appointing a proxy must be in writing and a form of proxy for use at the meeting is enclosed.

A proxy need not also be a member of the Company.

Enquiries

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