

THE
HISCOX
ANNUAL 2002



DARING TO BE DIFFERENT

*This book
belongs to*

Contents

- 2 *Corporate Highlights*
- 5 *Chairman's Statement*
- 10 *Chief Executive's Report*
- 23 *Directors and Advisors*
- 24 *Corporate Governance*
- 26 *Directors' Remuneration Report*
- 28 *Directors' Report*
- 30 *Statement of Directors' Responsibilities*
- 31 *Independent Auditors' Report*
- 32 *Consolidated Profit and Loss Account,
Technical Account – General Business*
- 33 *Consolidated Profit and Loss Account,
Non-Technical Account*
- 34 *Consolidated Balance Sheet*
- 36 *Company Balance Sheet*
- 37 *Consolidated Cash Flow Statement*
- 38 *Notes to the Accounts*
- 63 *Notes to the Consolidated Cash
Flow Statement*
- 65 *Five Year Summary*
- 66 *Notice of Annual General Meeting*
- 67 *Key Shareholder Information*



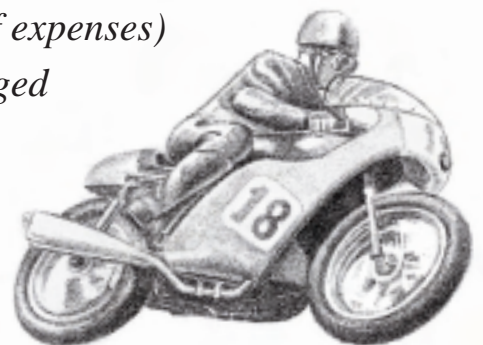


THE
HISCOX
ANNUAL
2002

*Heroic performance – a quality for
which Hiscox has always been renowned.
This year, our annual report looks back
on another twelve months of sterling
achievement, and celebrates the spirit of
classic British heroism that has made
Hiscox a worldwide success story.
Now read on...*

★ CORPORATE HIGHLIGHTS ★

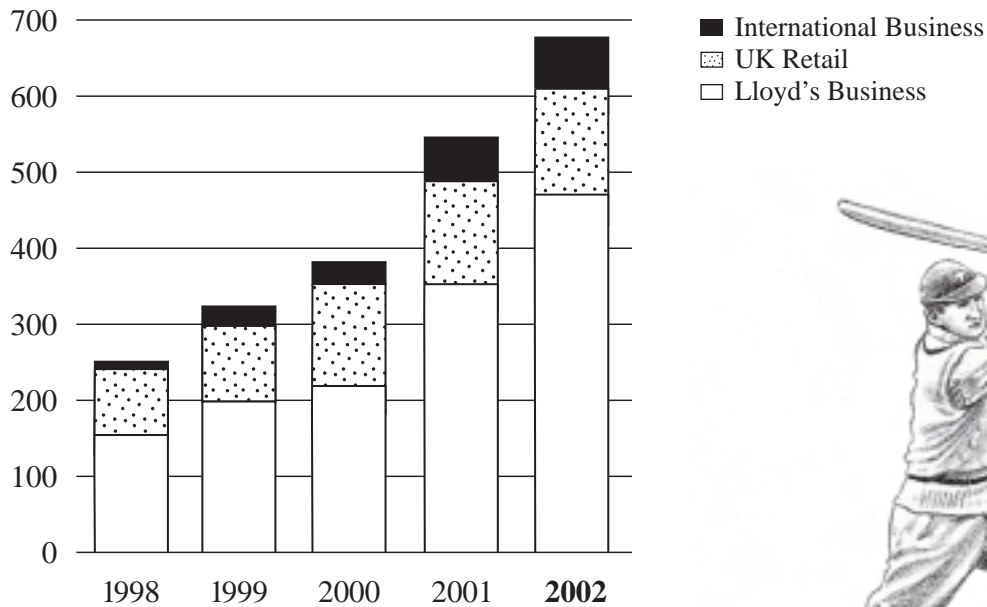
- ★ *Rapid turnaround to operating profit £34.5 million (2001: £21.2m loss). Pre-tax profit £20.3 million (2001: £32.5m loss)*
- ★ *Hiscox plc gross written premium income up 23% to £676.7 million*
- ★ *Group controlled gross written premium income up 21% to £941.3 million*
- ★ *Excellent performance from Lloyd's Syndicate 33. Gross written premium applicable to Hiscox plc up 35% to £461.8 million (2001: £343.2m). Operating profit £21.2 million (2001: £29.4m loss). 2003 capacity increased to £842 million from £504 million*
- ★ *UK Retail operating profit up 54% to £11.7 million (2001: £7.6m). Gross written premium £148 million (2001: £144m). Product range expansion and broadening of distribution continues in 2003*
- ★ *International Retail business operating profit £1.6 million (2001: £0.6m). Gross written premium £67.4 million (2001: £62.1m). New opportunities for expansion as competitors withdraw*
- ★ *Successful rights issue raised £110 million (net of expenses) to fund expansion. Capital committed and leveraged*
- ★ *Final dividend of 2.4p*



OPERATING PROFIT/(LOSS) TO HISCOX PLC BEFORE TAX (£000)

	2002	2001
Lloyd's business	21,228	(29,414)
Retail business	13,254	8,194
Total	34,482	(21,220)
Earnings/loss per share (Based on operating profit/(loss) after tax)	11.3p	(9.7)p

HISCOX PLC GROSS WRITTEN PREMIUM (£MILLION)



GROUP CONTROLLED GROSS WRITTEN PREMIUM

London Market Reinsurance
Marine, Non-Marine, Whole Account

£162.8m

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

£281.5m

ATMT
Aerospace, Technology, Media, Telecommunications

£69.0m

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

£336.0m

Professional Insurances
Traditional, Emerging

£92.0m

Total

£941.3m

EXPLORING NEW TERRITORIES



HISCOX HAS ONCE AGAIN PROVED ITS BOLDNESS, DARING AND DYNAMISM. THIS YEAR, WE WERE THE DRIVING FORCE BEHIND THE FIRST EVER CAT BOND TRANSACTION FOR A LLOYD'S SYNDICATE. THE \$33 MILLION PRIVATE PLACEMENT PROVIDED HISCOX SYNDICATE 33 WITH A NEW SOURCE OF CATASTROPHE REINSURANCE PROTECTION FOR EARTHQUAKE EVENTS IN THE USA, ENABLING US TO UNDERWRITE PROFITABLE NEW BUSINESS IN THIS AREA.

CHAIRMAN'S STATEMENT

It's been a splendid year for Hiscox with our successful rights issue and increase in capacity. Our Lloyd's business has demonstrated a tremendous return to form as we capitalised on the excellent market conditions. Our growing retail insurance operations continue their highly satisfying performance, both in the UK and worldwide.

BY ROBERT HISCOX, CHAIRMAN



THE result for the year ending 31 December 2002 is a rapid and welcome return to profit. The operating profit was £34.5 million (2001: £21.2m loss) and the pre-tax profit was £20.3 million (2001: £32.5m loss). The gross premium income controlled by the Group rose to £941.3 million (2001: £780.0m), and the gross premium income applicable to Hiscox plc increased to £676.7 million (2001: £548.9m). Hiscox plc benefits from fees and profit commission earned on the income written for third parties.

2002 was an exceptional year for our Lloyd's Syndicate 33. Such major losses that occurred during the year, especially in the marine market, were in the main avoided by the syndicate. Our underwriters kept their nerve after 9/11 and increased the premium income dramatically. The resulting 2002 profit has more than covered the poor run-off of some of the earlier years.

There was another satisfactory profit from our UK retail division and from our overseas operations.

CAPITAL RAISING

With the interim results in September 2002 we announced a rights issue. In the event, £110 million (net of expenses) was provided by shareholders on a 1 for 2 basis at 120p per share. Our largest shareholder, the Chubb Corporation, did not participate. This, together with other shareholders who were not able to participate, meant that around 50% of the shares had to be placed with new shareholders or with existing ones in excess of their pro-rata share. The fact that all shares were taken up was a great show of support and we are determined to justify it with good returns.

DIVIDEND

The directors propose a final dividend of 2.40p net (2001: nil) per ordinary share, making a total distribution for the year of 3.54p (2001: nil). This is a small increase on the amount paid in 2000, and on the larger amount of shares in issue this year. The dividend will be paid on 30 June 2003 to shareholders on the register on 22 April 2003.

HISCOX SYNDICATE 33 AT LLOYD'S

The result this year is dominated by the excellent performance of Syndicate 33 in 2002. The performance and results for 1998-2000 were below the standards we set

for ourselves (albeit better than the Lloyd's average). 2001 would have been back on track if it were not for the WTC loss, and 2002 has had the best calendar year underwriting loss ratios in my working life. I am seriously proud of the work done by Robert Childs and his team. Battered by poor results and then smacked by 9/11, the Syndicate 33 underwriters went straight back to the floor of Lloyd's and underwrote into the ensuing bull market with tremendous skill and courage. They added an extra £65 million income to the last three months of 2001, then continued the expansion in the 2002 year of account, writing around £850 million of premiums at 2002 monitoring rates of exchange.

We increased the capacity of the Syndicate for 2003 to £842 million (2002: £504m) and Hiscox plc provides 65% of it.

WTC

We have increased the net reserve for this loss to Hiscox plc by £10 million. Our Syndicate 33 gross reserve has increased by \$35 million to \$475 million, of which \$275 million had been paid by 28 February 2003. Gross notifications have increased from \$576 million to

\$591 million. There is obviously a spotlight on the WTC loss as it is the biggest individual loss we and others have ever incurred. However, Syndicate 33 has a number of large losses at any one time, and occasional catastrophes covering a multitude of losses, some of which are settled below expectations and some above. What matters is to get our overall reserves for the business right.

UK RETAIL

The UK Retail business made a highly satisfactory operating profit of £11.7 million (2001: £7.6m). The premium income increased to £147.6 million (2001: £143.6m) despite jettisoning some non-core business. Sian Fisher and her team are demonstrating discipline and self-control in focusing on their two main areas of business; speciality commercial and affluent personal lines. This specialisation gives them expertise and clout in the market. The brokers produce the vast majority of our business and our stability in turbulent times should increase the flow of their business to us.

We continue to concentrate on organic growth with small add-on acquisitions of books of business that fit into our two core areas.



Lloyd's is fulfilling its role as the hub of the world insurance market

Our retail business continues to develop its position as the UK's leading specialist insurer of high-value homes



Our internet business grows rapidly and I believe that it will be a major earner in the future as people get used to buying insurance online.

The strategy of growing the retail business outside Lloyd's is well on track and will pay even more handsome dividends in the future if the Lloyd's business has to be cut back when the cycle turns.

INTERNATIONAL RETAIL BUSINESS

Overall, our overseas operations made an operating profit of £1.6 million (2001: £0.6m). The Hiscox Insurance Co (Guernsey) made another excellent profit, as did our small venture in Ireland. Our three offices in Europe (France, Germany and the Netherlands) increased their aggregate income to Euros 45 million. They have now reached critical mass; they have excellent staff; market conditions are in their favour with rates up and the competition withdrawing, so I am confident that Europe will produce a good return in the future.

LLOYD'S

As the new chairman, Lord Levene, so elegantly put it, Lloyd's is one of the few certainties in a very uncertain insurance world at present. The extensive housekeeping done in the crisis years and completed in 1996, resulting

in the reserves for all losses prior to 1993 being thoroughly scrutinised and then centralised into Equitas, has insulated the Lloyd's Market from the recent deterioration in old year losses hitting the rest of the insurance industry.

Business has poured back into the London Market as the worldwide insurance industry, with very few exceptions, suffers from a shortage of capital and courage. Lloyd's is fulfilling its role as the hub of the international market.

MARKET TRENDS

How long will the bull market last? The established international insurance market remains in disarray. We are in the time-honoured position in the insurance cycle when current underwriting figures are excellent, but the losses and under-reserving of the past are eroding or destroying profits. There remains a delicious shortage of capacity and risk appetite for insurance, and an increasing demand for reinsurance due to shortage of capital.

Traditionally, one of the curses of the insurance industry has been the ease of entry that allows new entrants to soften hard markets and fuel the downturn.

However, this bottom of the cycle has had low interest rates and a difficult investment climate. This has not



Hiscox places strong focus on the well-being of our employees, resulting in our acknowledgement as the tenth best company to work for in the UK

only limited the inflow of new capital – the \$30 billion estimated to have been fed in is nowhere near the \$200 billion estimated to have been eaten by losses and capital erosion – but is also forcing insurance companies to focus on underwriting returns, and to stop being investment trusts with an expensive habit. This concentration on decent returns from underwriting should prolong the hard market for a good few years longer than would be the case with higher interest rates and easier investment markets. With our background training in Lloyd's, where underwriting has always been paramount as the shareholders' funds were held by the Names, and where proper reserving has been vital due to the annual venture, we are able to take full advantage of the hard market.

CORPORATE GOVERNANCE

Most of those in government and regulation have very little practical business experience. It is easy for them to believe that a proper board of directors will stop all corporate scandals, and that there is a simple formula for the perfect board. Anyone who has been in the business battlefield will know that what you need are people with integrity, good judgement and common sense (why did anyone call it common when it is so rare?). And they need to be united in the pursuit of profit for shareholders, not split into formulaic groups. Some will get better the

longer they serve, and some will run out of steam after a while. Good directors will act on behalf of the Company whatever their perceived conflicts. There can be no rigid rules as long as we deal with human beings.

I have no objection to the Government regularly asking an individual or group to set down one view of how businesses should be run. It can be a useful guide. But when it goes beyond a guide and becomes a code that must be followed, it can be destructive. Form will dominate substance. And the tick-box activities of the burgeoning proxy agencies that use no intelligence but just recommend votes slavishly according to blind obedience to the various reports are a complete abrogation of responsibility of any shareholder who uses them. Businesses need directors who help to guide the company into profit and away from danger, and also shareholders who can spot good business people from bad.

PEOPLE

We are lucky to have excellent non-executive directors and a board membership that complies with the recent Higgs Report, so my remarks above are without an axe to grind. We also have a wonderful staff throughout the Company. I have always believed that if we treat each other with respect and kindness, we will be a better company and one that will be a pleasure to deal with and thereby more profitable. I was therefore extremely gratified that Hiscox plc came tenth in the recent Sunday Times '100 Best Companies to Work For' list, above any other financial services company. Given the poor results we have had in previous years and the stress of the insurance business when losses thud in, it was a considerable achievement. I would like to thank everyone at Hiscox, and wish them the rewards that their recent endeavours deserve.

FINALLY

Hiscox plc last year underwrote almost £1 billion income. It also reached the FTSE 250 which we know was due to the decline of others as well as our rise in value. However, we will keep striving to grow the business organically with small incremental acquisitions, avoiding the black holes of major acquisitions, and to give good returns to our shareholders. We have felt strongly supported by them during the recent hard times and now it is payback time. There is only one way of building a first class company and that is through profits. We will all focus 100% on producing them.

– Robert Hiscox, 26 March 2003

REACHING NEW HEIGHTS



HISCOX HAS RISEN TO NEW HIGH LEVELS OF GROWTH AND DEVELOPMENT THIS YEAR. OUR SHAREHOLDERS APPROVED THE RIGHTS ISSUE OF OVER 96 MILLION NEW SHARES, RAISING OVER £110 MILLION. TO MAKE THE MOST OF THE STRONG TRADING CONDITIONS AT LLOYD'S, HISCOX SECURED REINSURANCE ARRANGEMENTS FOR £202M TO INCREASE THE CAPACITY OF SYNDICATE 33 FOR 2002 FROM £504M TO £706M. CAPACITY IS EXPECTED TO RISE EVEN FURTHER IN 2003 TO £850M, OR 6% OF THE TOTAL LLOYD'S MARKET.

Chief Executive's Report



Our return to profit and our increase in gross written premium in 2002 is the combined result of our long experience, underwriting wisdom, strategic focus and the courage to take advantage of world market conditions

BY BRONEK MASOJADA, CHIEF EXECUTIVE

A strong rating environment, selective underwriting and good claims experience have contributed to a swift return to profit in 2002. The proceeds of our £110 million (net of expenses) rights issue have grown our balance sheet, and allowed us to expand our underwriting in 2003. We will be able to continue to take advantage of current market conditions.

Hiscox continues to grow as a leading insurer of specialty commercial and affluent personal lines customers. By focusing on a few well defined areas, we can provide excellent products and services to our customers and their brokers. It is this focus and responsiveness to the needs of our clients that has allowed us to grow our aggregate gross written premium so significantly this year.

BUSINESS TRENDS

The controlled gross premium income in the Group has grown to £941.3 million, an increase of 21%. Rating con-

ditions are good across all lines of business. In our Syndicate business, as shown in chart 1, rates remain firm. In our retail business, as shown in chart 2, rates have increased, but not by the same degree as the syndicate business.

Hiscox Insurance Company achieved a combined ratio of 97.9% (2001: 97.8%) – the third successive year of sub 98% combined ratio (chart 3). Since 1997 we have grown this business at a compound rate of 18.8% per annum. Achieving growth with good combined ratios makes Hiscox Insurance Company a top quartile performer.

Hiscox focuses on a number of well defined business areas. Current trends in each are reviewed below:

– **Affluent Personal Lines:** In our Syndicate business, we have significantly grown our US business with local managing general agents. This is a great current opportunity, but it may shrink in the future once domestic US

TABLE 1: CONTROLLED GROSS WRITTEN PREMIUM BY SEGMENT

Controlled Gross Written Premium £m	Year ended 31 December					
	2002 Lloyd's	2002 Retail*	2002 Total	2001 Lloyd's	2001 Retail*	2001 Total
Affluent Personal Lines Fine Art, Kidnap & Ransom, Yachts, Bloodstock, High Value Household, Mass Affluent, Contingency, Personal Accident	186.6	149.4	336.0	136.4	155.5	291.9
Professional Insurances Traditional, Emerging	44.1	47.9	92.0	43.3	36.0	79.3
ATMT Aerospace, Technology, Media, and Telecommunications	51.3	17.7	69.0	37.1	14.1	51.2
London Market Reinsurance Marine, Non-Marine, Whole Account	162.8	–	162.8	124.4	–	124.4
London Market Insurance Property, Construction, Terrorism, Energy, Marine Hull & Cargo, Liability, Political Risks, Specie, Enterprise, Risk Management	281.5	–	281.5	233.2	–	233.2
Total	726.3	215.0	941.3	574.4	205.6	780.0
% owned by Hiscox plc	63%	100%	–	60%	100%	–

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

CHART 1: SYNDICATE 33 BUSINESS RATING INDEX

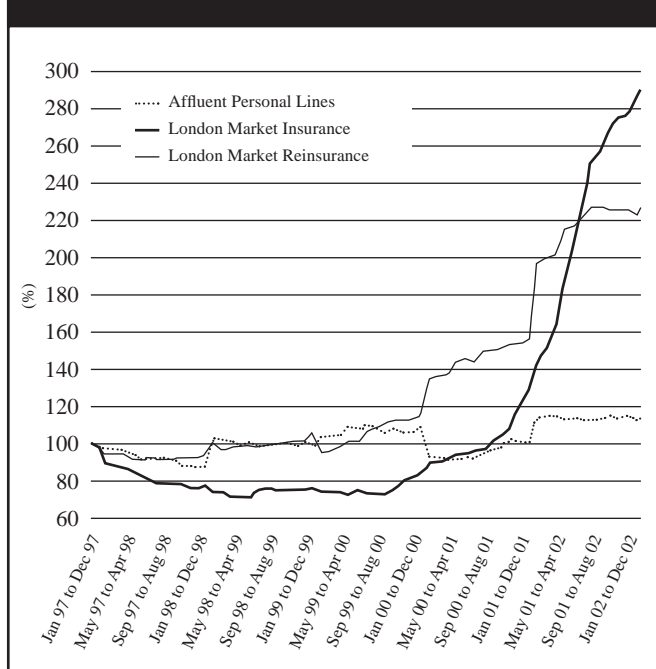


CHART 2: RETAIL BUSINESS RATING INDEX

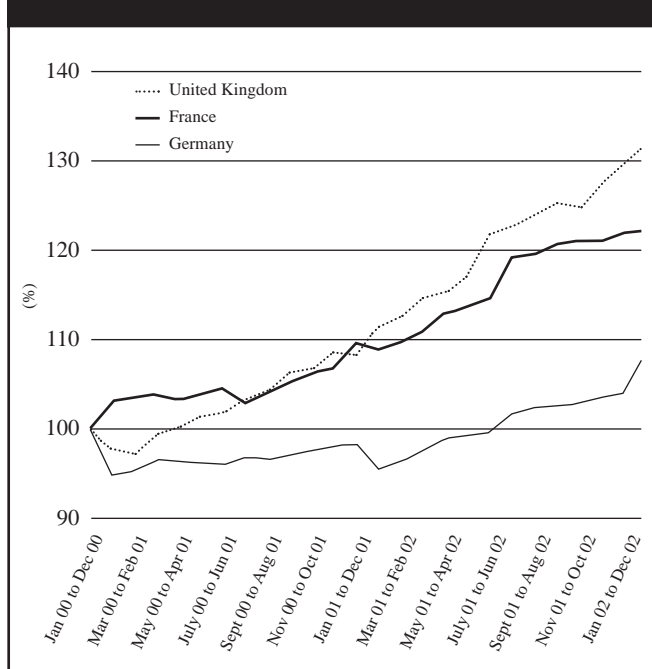
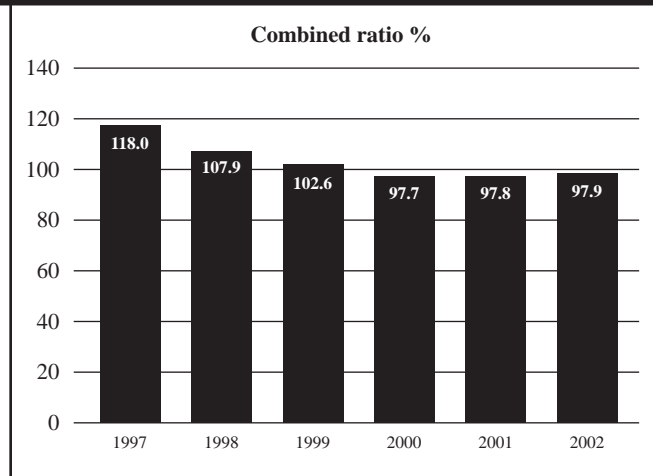
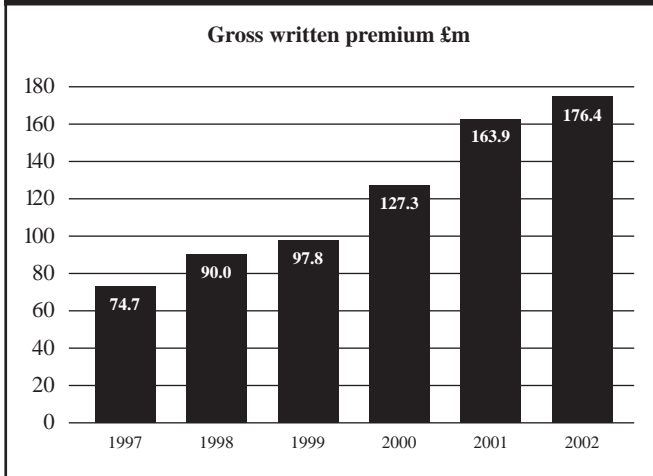


CHART3: HISCOX INSURANCE COMPANY LIMITED



companies return to this segment. In our retail business we are seeing good growth, mostly driven by rating increases, though we expect that this year we will see policy count growth as well. The UK Property owners book which we exited at the beginning of 2002 has now run off. The retreat from personal lines business by some of our major competitors, particularly in mainland Europe, is benefiting us and should enable us to reinforce our market position in the forthcoming year.

– **Professional Insurances:** In the retail business we focus on the insurance of service based firms. We continue to invest in this business, and are benefiting both from organic policy count growth and from rate increases. In the UK, growth has been particularly strong. Late last year we acquired the renewal rights to Denham Direct and we have decided to provide underwriting capacity to several underwriting agencies. In Europe we are just beginning to develop business in this area. In the Syndicate, the business is mainly US focused serving major law firms. We are benefiting from the significant rate rises and capacity withdrawals within the professional indemnity market.

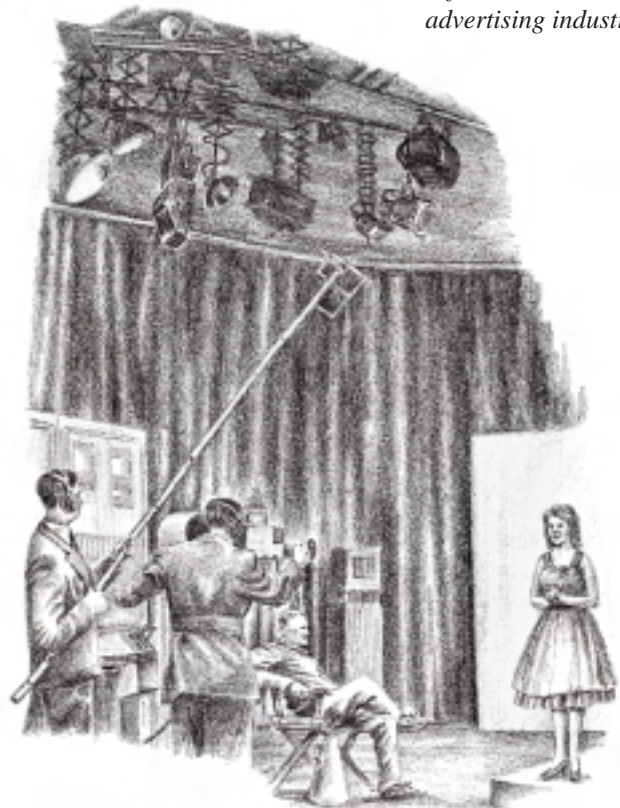
– **Aerospace, Technology, Media and Telecommunications (ATMT):** Our base of ATMT business continues to broaden. It has previously been dominated by aerospace business, but it is now also building a book of US and UK technology business. The problems of the media account, due to the often perverse outcomes of libel actions, have now been addressed, and prospects look good. During the forthcoming year we will be putting effort into expanding this book into the rest of Europe.

– **London Market Reinsurance:** This area saw rate increases taking place even ahead of the tragic events of 9/11. Rates have remained firm to increasing throughout

2002, and we have been able to expand our book. 2002 was marked by an absence of any insured catastrophes – but two narrow misses by hurricanes reminded us why customers purchase reinsurance.

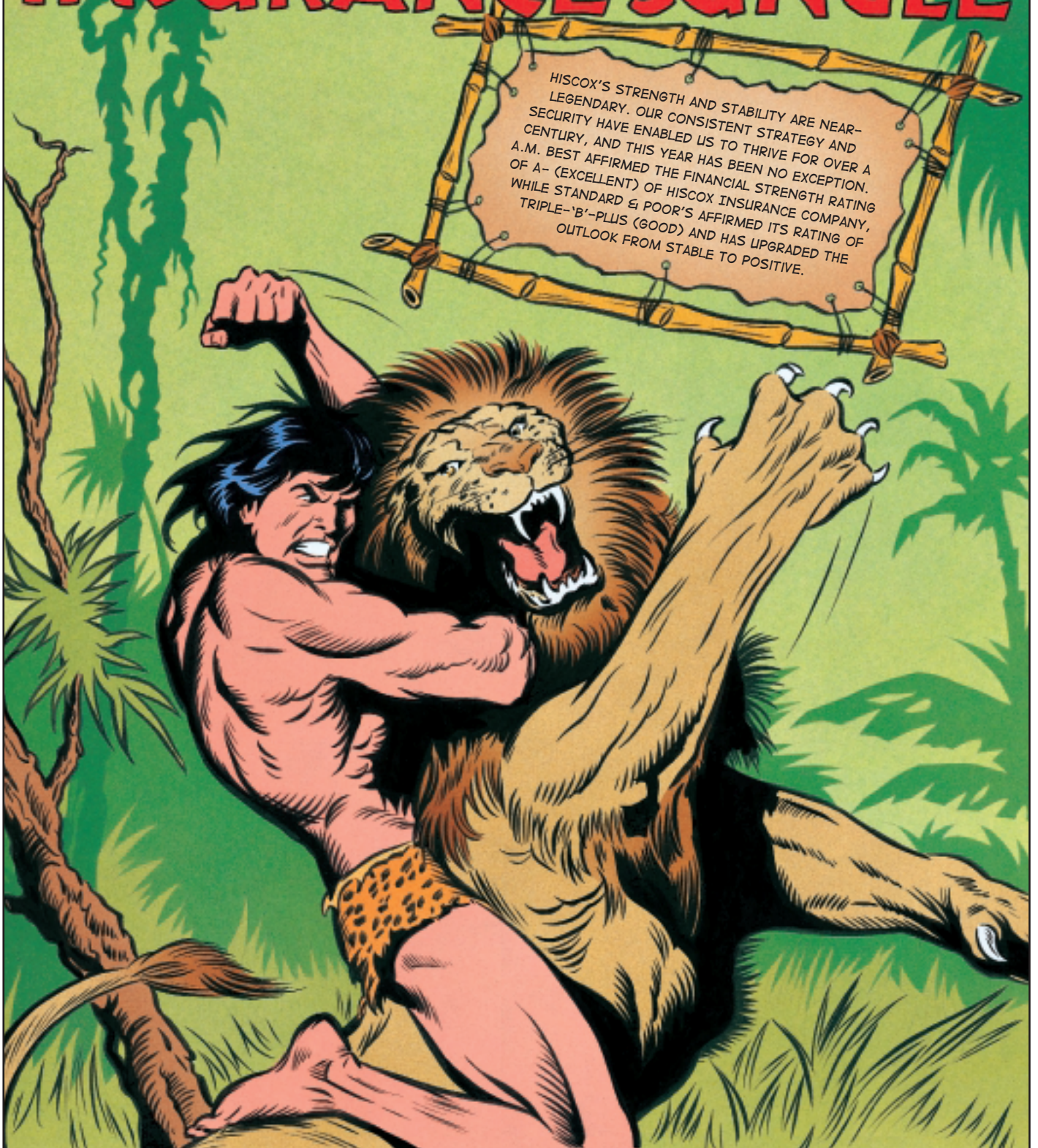
– **London Market Insurance:** This has been an area of expansion. We have provided capacity to the market at a time when many domestic players around the world have been reeling. A very good start to the 2002 underwriting year has been offset by deterioration of an old marine loss and an old energy liability loss. Prospectively, I expect that this area will be a significant profit generator.

Hiscox is a leader in professional insurance solutions for the media and advertising industry



STRENGTH IN THE INSURANCE JUNGLE

HISCOX'S STRENGTH AND STABILITY ARE NEAR-LEGENDARY. OUR CONSISTENT STRATEGY AND SECURITY HAVE ENABLED US TO THRIVE FOR OVER A CENTURY, AND THIS YEAR HAS BEEN NO EXCEPTION. A.M. BEST AFFIRMED THE FINANCIAL STRENGTH RATING OF A- (EXCELLENT) OF HISCOX INSURANCE COMPANY, WHILE STANDARD & POOR'S AFFIRMED ITS RATING OF TRIPLE-'B'-PLUS (GOOD) AND HAS UPGRADED THE OUTLOOK FROM STABLE TO POSITIVE.





Hiscox insures clients against the impact of criminal activity, ranging from burglary through to kidnap and ransom

GROUP FINANCIAL PERFORMANCE

Group after-tax profits were £14.0 million (2001: £23.1m loss), equal to earnings per share of 6.6p (2001: loss per share of 14.8p). At a pre-tax operating level, profits were £34.5 million (2001: £21.2m loss). The Group combined ratio improved from 109.9% to 94.8%. These substantial improvements reflect the higher rates, selective underwriting and lower claims that we referred to earlier.

This year each part of the Group contributed to the achievement of our operating profit. Our Lloyd's business contributed £21.2 million, our UK Retail business contributed £11.7 million and our International businesses contributed £1.6 million. In all cases this was a better performance than in the previous year.

Our operating profit was £34.5 million and our pre-tax profit is £20.3 million (2001: £32.5m loss). The difference between these results is due to contributions to the government mandated equalisation provision and to negative short term fluctuations in our investment portfolio. In 2002 we contributed £2.7 million (2001: £2.6m) to the equalisation provision. Our total return from our investment portfolio was £16.2 million (2001: £9.9m), but, in difficult markets, this was below our expected return based on long term rates. This caused a negative fluctuation of £11.4 million, (2001: £8.7m).

Our Group pre-tax return on equity available at the start of the year based on operating profit was 20.9% (2001: -15.9%). On after-tax profits this is equivalent to 8.5% (2001: -17.3%).

LLOYD'S BUSINESS

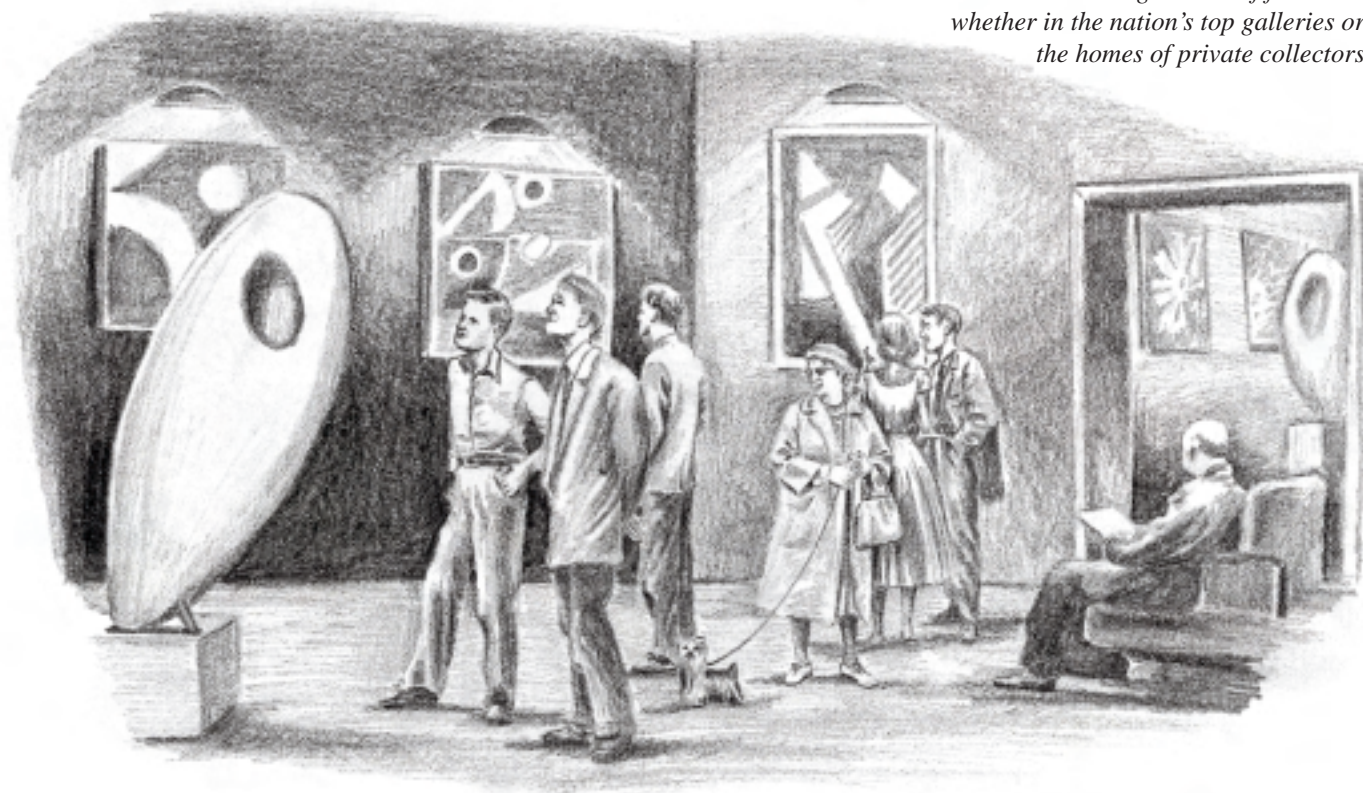
Our Lloyd's business comprises Hiscox plc's share of the results of Syndicate 33 at Lloyd's, together with profit commission and fees earned from third party capital. Also included are certain corporate expenses not allocated to other parts of the Group. It has had a good year. As shown in Table 2, controlled gross written premiums have grown to £726 million (2001: £574m). Hiscox plc's share of this income has grown by 35% to £461.8 million (2001: £343.2m). This growth in income reflects the continued increase in business written post the events of 9/11 and a slight increase in the ownership of Syndicate 33 to 63% (2001: 60%). Better terms and conditions and fewer losses have all translated to the combined ratio improving to 94.1% (2001: 115.9%). This represents a good start and we expect further improvement.

We have increased our net reserve for WTC by £10 million for three reasons. First, as the claim from a telecommunications client has developed, more physical damage losses have been reported than we anticipated.

TABLE 2: LLOYD'S BUSINESS RESULTS

	2002 £m	2001 £m
Gross written premium (100%)	726.3	574.4
Hiscox plc share of gross written premium	461.8	343.2
Trading result	26.0	(26.4)
Other income less expenses	(2.0)	(0.5)
Loan interest and capacity amortization	(2.8)	(2.5)
Operating profit	21.2	(29.4)
Combined ratio (100% basis)	94.1%	115.9%

*We continue to earn our reputation
as the leading insurer of fine art –
whether in the nation's top galleries or
the homes of private collectors*



Second, we have increased our bad debt provision, reflecting the downgrades of a number of reinsurers during the year. To date, however, no reinsurer on our programme has failed to pay a claim as a result of insolvency. Third, as part of the closing of Syndicate 33's 2000 year of account, we have felt it prudent to increase the reserve on a claim from a transportation client which fell on that year.

Syndicate 33 began 2002 with a capacity of £504 million (2001: £360m). By the end of the year we had effectively increased this to £706 million with the help of qualifying quota share reinsurances provided to us from a range of leading international reinsurers, including Berkshire Hathaway and Chubb. These quota share reinsurers pay Syndicate 33 a fee and a profit commission in

return for Syndicate 33 underwriting business on their behalf. We welcome their support. We initially planned to increase Syndicate 33's capacity for 2003 by 40% to £706 million (2002: £504m). In November we agreed with supporting capital providers to increase our capacity to £842 million. Qualifying quota shares allow us considerable flexibility to take advantage of market opportunities as, under current Lloyd's rules, we could seek approval to increase these reinsurances to a maximum of £336 million.

UK RETAIL

The UK retail business comprises the results of business written within Hiscox Insurance Company in the UK, together with the results of our direct activities. Table 3

TABLE 3: UK RETAIL BUSINESS RESULTS

	2002 £m	2001 £m
Gross written premium	147.6	143.6
Trading profit	12.7	9.0
Other income less expenses	(1.0)	(1.4)
Operating profit	11.7	7.6
Combined ratio	96.0%	95.4%

PROFESSOR BRAYNE

explains THE "EXTRANET"

PROFESSOR - CAN YOU EXPLAIN TO US HOW HISCOX IS USING AN "EXTRANET" TO PROVIDE INSURANCE IN THE UNITED STATES OF AMERICA?



A SPLENDID QUESTION, LUCY, AND ONE WHICH PERFECTLY ILLUSTRATES HOW HISCOX IS APPLYING INNOVATION TO PROVIDE A BETTER SERVICE AND DEVELOP ITS BUSINESS.



AS YOU MAY KNOW, AN "EXTRANET" IS A MARVELLOUS NEW INVENTION WHICH ENABLES COMPUTING MACHINES TO BE LINKED TOGETHER WITH GREAT SECURITY AT GREAT DISTANCES - EVEN BETWEEN CONTINENTS!



IMAGINE THAT AN AMERICAN BUSINESSMAN VISITS HIS INSURANCE BROKER TO OBTAIN INSURANCE PROTECTION FOR HIS COMPANY'S BUILDINGS AGAINST ACTS OF TERRORISM.



NORMALLY, THE BROKER WOULD HAVE A LIMITED CHOICE OF POLICIES TO OFFER. OBTAINING A QUOTATION AND ISSUING THE POLICY COULD ALSO TAKE DAYS OR WEEKS. HOWEVER, HISCOX'S INNOVATIVE NEW SOLUTION PROVIDES SWIFT ACCESS TO CAPACITY FOR TERRORISM INSURANCE, WITH A VERY CLEAR AND STRAIGHTFORWARD POLICY WORDING.



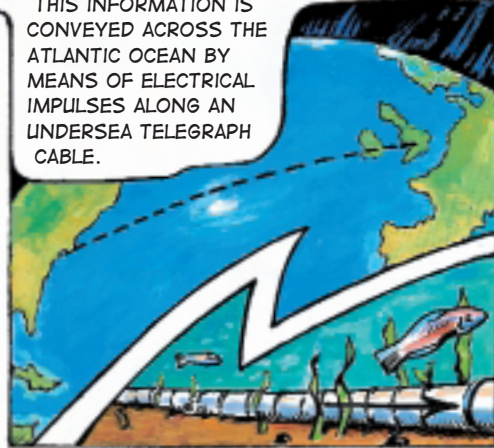
BUT HOW DOES THE "EXTRANET" ACTUALLY WORK, PROFESSOR?



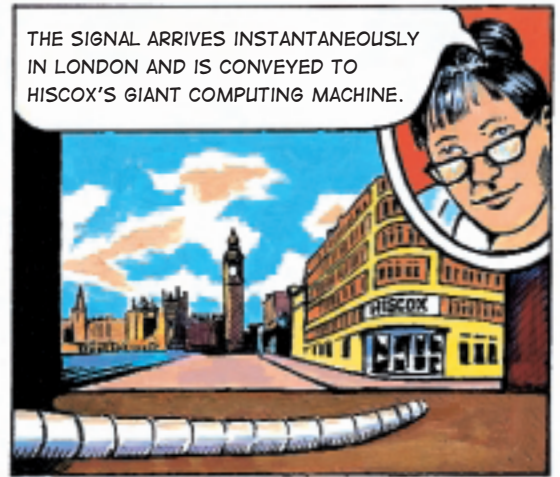
WELL, EDMUND - FIRSTLY, THE BROKER PROGRAMS HIS COMPUTING MACHINE WITH THE CLIENT'S INSURANCE REQUIREMENTS.



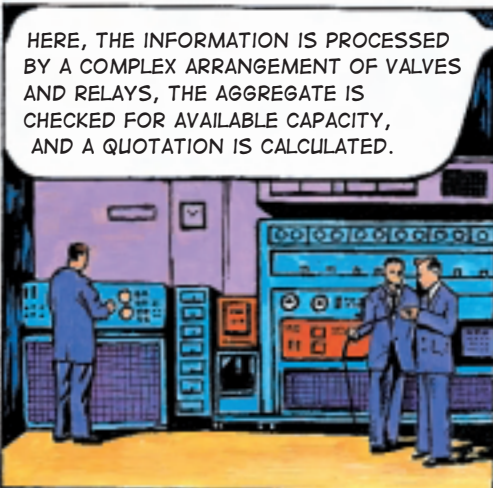
THIS INFORMATION IS CONVEYED ACROSS THE ATLANTIC OCEAN BY MEANS OF ELECTRICAL IMPULSES ALONG AN UNDERSEA TELEGRAPH CABLE.



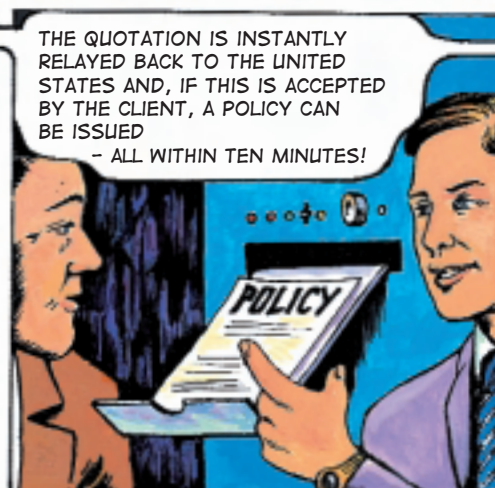
THE SIGNAL ARRIVES INSTANTANEOUSLY IN LONDON AND IS CONVEYED TO HISCOX'S GIANT COMPUTING MACHINE.



HERE, THE INFORMATION IS PROCESSED BY A COMPLEX ARRANGEMENT OF VALVES AND RELAYS, THE AGGREGATE IS CHECKED FOR AVAILABLE CAPACITY, AND A QUOTATION IS CALCULATED.



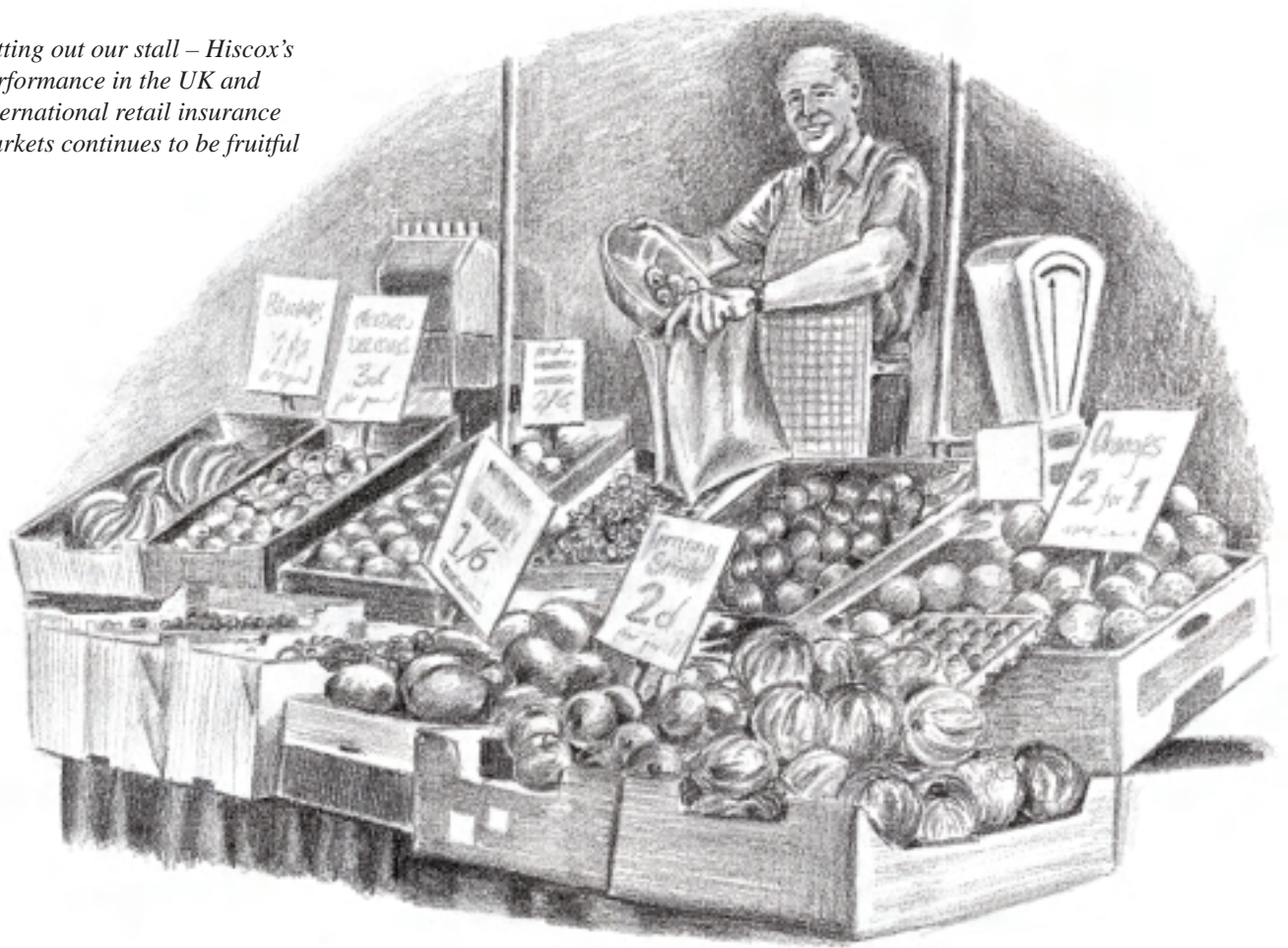
THE QUOTATION IS INSTANTLY RELAYED BACK TO THE UNITED STATES AND, IF THIS IS ACCEPTED BY THE CLIENT, A POLICY CAN BE ISSUED - ALL WITHIN TEN MINUTES!



AS A RESULT, THE CLIENT IS HAPPY, THE BROKER IS HAPPY, AND HISCOX HAS SOLD ANOTHER POLICY. AND THAT, I'M SURE YOU'LL AGREE, REPRESENTS A CONSIDERABLE "NET" IMPROVEMENT FOR EVERYONE!



Setting out our stall – Hiscox's performance in the UK and international retail insurance markets continues to be fruitful



shows how this business has had another good year with operating profit growing to £11.7 million (2001: £7.6m). Gross written premium has increased to £147.6 million (2001: £143.6m), despite the non-renewal of the £8.2 million property owners business. The combined ratio has remained at a market leading level of 96% (2001: 95.4%). At this level of performance our goal is to grow the business without compromising our underwriting standards. We currently serve less than 5% of our target markets, so we believe that our growth opportunities are huge. Last year we launched a Professional Insurances Portfolio that enables us to insure the full package of insurance required by small and medium sized service based businesses. This focus on specialty commercial business is in keeping with the overall strategy of the Hiscox Group. Looking forward to 2003, we expect to update our affluent personal line products – again broadening our product range. Both of these developments will allow us to serve better the two market segments on which we focus.

During the year our direct business made rapid progress. This business is focused on 'mass affluent' personal lines customers. We distribute policies direct by telephone and on the internet (www.hiscoxonline.com), also to employees of 44 companies through their intranets and through partnerships with financial institutions. At the end of February 2003 we had served 4,400 policyholders.

A development during the course of this year will be the implementation of extranet technology to allow us to provide our partner brokers with more efficient underwriting and claims systems. This will be linked to the creation of a service centre in Colchester. Both of these developments will help us improve our cost position over time.

INTERNATIONAL RETAIL BUSINESS

This covers all the business written by Hiscox Insurance Company (Guernsey) Ltd., the business written by Hiscox Insurance Company in Europe and the results of our local underwriting agencies. Table 4 shows the results in some detail. In aggregate the business unit has performed well.

Hiscox Guernsey has made another excellent profit. Our team there continues to underwrite more policies and has maintained its income despite a reduction in the size of risk they are willing to underwrite. This has brought the added advantage of better balance to the portfolio.

Our mainland Europe business has had considerably improved results, almost halving its loss. Our combined ratio reduced to 111.3% (2001: 115.4%). This is not yet at our long term target, but we expect to see further progress as the individual offices gain scale. Our French operations traded profitably despite a large fine art loss in the first half of the year. German rates are improving, so

Back to school – Nicholas Thomson has been developing computer based training programmes for Hiscox so that we can retain his knowledge forever



as these increases earn through, its results should improve. In Benelux, we need to gain further economies of scale. Our Irish business had another good year. We believe that there are huge opportunities for profitable growth in the whole of Europe.

INVESTMENT MANAGEMENT

Our investment management business has two roles within the Group. First and foremost, it supervises the external managers who have day-to-day responsibility for the investment of our assets. Second, it manages a small range of funds – such as the Hiscox Insurance Portfolio –

which focus on sectors where we feel our detailed knowledge of the financial services industry can add value.

Total managed assets grew to £790.4 million (2001: £521.0m), of which Hiscox plc's share stood at £623.8 million at the end of 2002 (2001: £406.7m). This growth reflects the impact of our capital raising, the positive cash flow from our businesses and retained profit. This year we achieved a total return of 3.5% across those assets attributable to Hiscox plc (2001: 3.2%). This was below our assumed long term rates of return, causing a negative fluctuation of £11.4 million (2001: £8.7m). We have reduced our long term investment return targets for 2003

TABLE 4: INTERNATIONAL BUSINESS RESULTS

	Europe 2002 £m	Guernsey 2002 £m	Total 2002 £m	Europe 2001 £m	Guernsey 2001 £m	Total 2001 £m
Gross written premium	28.8	38.6	67.4	20.3	41.8	62.1
Trading result	(1.0)	2.8	1.8	(1.9)	3.2	1.3
Local agency results	(0.2)	–	(0.2)	(0.4)	(0.3)	(0.7)
Operating profit/(loss)	(1.2)	2.8	1.6	(2.3)	2.9	0.6
Combined ratio (100% basis)	111.3%	89.8%	97.5%	115.4%	89.0%	99.6%

THE CASE OF THE SPECIALIST INSURER



HISCOX HAS SHOWN STRIKING INTELLIGENCE BY BECOMING THE LEADING SPECIALIST IN SEVERAL NICHE AREAS OF INSURANCE, SUCH AS FINE ART AND HIGH VALUE HOMES. WE HAVE NOW ADDED BUSINESS INSURANCE TO OUR RANGE OF SPECIALISMS WITH GREAT SUCCESS. OUR EXPERTISE IN PROVIDING INDEMNITY INSURANCE TO MEET THE SPECIAL NEEDS OF PROFESSIONS SUCH AS COMMUNICATIONS AND I.T. HAS PUT HISCOX AT THE FOREFRONT OF THIS FAST-GROWING AREA.

to 4% for bonds and 6% for equities. Table 5 summarises this position.

Third party assets under management grew to £93.7 million (2001: £55.5m). Part of this growth was due to the acquisition of the business of Eldon Capital Management. Eldon brought an additional £45.8 million of third party funds to Hiscox; more importantly, its financial sector expertise reinforces our insurance focus and its experienced staff provide good succession for the management of Hiscox plc's own assets.

BALANCE SHEET

The most important balance sheet event during the course of the year was the rights issue in November 2002 which raised £110 million net of expenses. At the year end our net asset value, before equalisation provision was 101.7p per share (2001: 91.4p per share), and our tangible net assets value, before equalisation provision was 93.8p per share (2001: 79.0p per share).

During the year we also renewed a letter of credit facility that is used to provide funds at Lloyd's to support our underwriting on Syndicate 33. The letter of credit was renewed at a level of £137.5 million. We are grateful for the support of our bankers who have allowed us to expand our underwriting at the most attractive point in the insurance cycle.

PEOPLE

This year, two individuals who have played an important role in the development of Hiscox are due to retire. The first is Nicholas Thomson, underwriter of Syndicate 33 from 1977 to 1993 and the Director of Underwriting for the Group until 2001. Nick embodies our underwriting culture – rational decision making and a strong sense of

discipline. Over the past two years Nick has been developing computer based training programmes for the Group so that we can retain his knowledge forever. David Truby, our group compliance officer, also retires after 20 years of service. David has advised all of us as we have sought to ensure that Hiscox adapts to the changing regulatory environment. I would like to thank them for their endeavours.

Hiscox remains as good as its people. Nick and David are being followed by many other individuals of strength and quality. We further developed our training schemes this year, and it is pleasing to see them becoming part of the landscape at Hiscox. We were particularly pleased to be nominated tenth in the annual Sunday Times '100 Best Companies to Work For' list. This is a great achievement.

Finally, I would like to thank all of our staff. The past few years in insurance have been particularly difficult. Some of our businesses have performed well throughout the downturn and others have had to be restructured and refocused to return to profitability. This has taken commitment and resilience by many – and it is great to see the results of their labours being reflected in Group profits. We all are energised to ensure that this continues in the future.

CONCLUSION

The year has seen the business forging ahead. Using my usual yachting analogy, we have been sailing with a mainsail, jib and spinnaker and have taken full advantage of the conditions. The rights issue has allowed us to increase our level of business, effectively replacing our spinnaker with a bigger and better one. We will continue to surge forward in the year ahead.

– *Broniek Masojada, 26 March 2003*

TABLE 5: INVESTMENTS

	2002 £m	2001 £m
Total invested assets	623.8	406.7
Total return	3.5%	3.2%
Actual investment return	16.2	9.9
Investment return at longer term rates	27.6	18.6
Short term fluctuations	(11.4)	(8.7)
Third party assets under management	93.7	55.5

THE WINNING TEAM

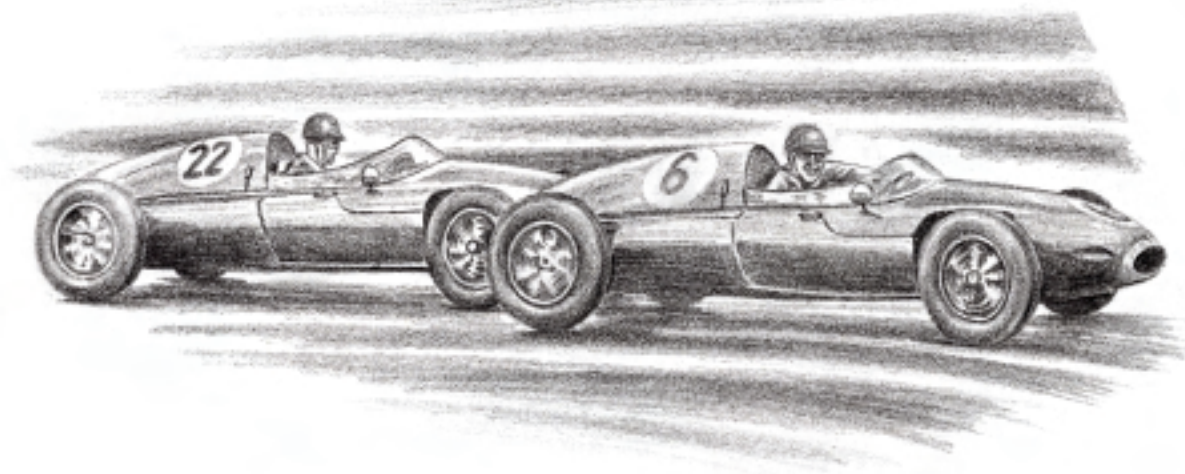
WE HAVE ADDED EVEN MORE AWARDS TO OUR TROPHY CABINET THIS YEAR. HISCOX INSURANCE COMPANY WON THE INSURANCE TIMES CLAIMS AWARD 2002, ACKNOWLEDGING THE EXCELLENCE OF OUR CLAIMS SERVICE, WHICH IS CONTINUALLY REFINED ON THE BASIS OF IN-DEPTH RESEARCH AMONGST BROKERS AND CLIENTS. AT THE SAME AWARDS CEREMONY, HISCOX'S SYNDICATE 33 WAS NAMED AS THE LLOYD'S SYNDICATE OF THE YEAR 2002, RECOGNISING ITS OUTSTANDING UNDERWRITING PERFORMANCE AND INNOVATION.



ACCOUNTS

2002

- 23 *Directors and Advisors*
- 24 *Corporate Governance*
- 26 *Directors' Remuneration Report*
- 28 *Directors' Report*
- 30 *Statement of Directors' Responsibilities*
- 31 *Independent Auditors' Report*
- 32 *Consolidated Profit and Loss Account,
Technical Account – General Business*
- 33 *Consolidated Profit and Loss Account,
Non-Technical Account*
- 34 *Consolidated Balance Sheet*
- 36 *Company Balance Sheet*
- 37 *Consolidated Cash Flow Statement*
- 38 *Notes to the Accounts*
- 63 *Notes to the Consolidated Cash Flow Statement*
- 65 *Five Year Summary*
- 66 *Notice of Annual General Meeting*
- 67 *Key Shareholder Information*



Directors and Advisors

EXECUTIVE DIRECTORS

Robert Ralph Scrymgeour Hiscox

Chairman (Aged 60)
Robert Hiscox joined the Group in 1965. He was Deputy Chairman of Lloyd's between 1993 and 1995.

Bronislaw Edmund Masojada

Chief Executive (Aged 41)
Broniek Masojada joined the Group in 1993. From 1989 to 1993 he was employed by McKinsey and Co. He was Chairman of the Lloyd's Underwriting Agents Association from 1998 to 2001. He is currently Deputy Chairman of Lloyd's.

Stuart John Bridges

Group Finance Director (Aged 42)
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 51)
Chairman of the Lloyd's Market Association
Robert Childs has been Underwriter of Syndicate 33 since 1993. He joined the Group in 1986.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Stephen Hargreaves Hall

Senior Independent Director
Chairman of Audit Committee (Aged 69)
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

Chairman of Remuneration and Conflicts Committees (Aged 61)
Anthony Howland Jackson was previously Chairman of Bain Hogg plc and Deputy Chairman of Aon UK Holdings Limited. He is Chairman of The General Insurance Standards Council. He joined the Group on 8 May 1997.

Derek Nigel Donald Netherton

(Aged 58)
Derek Netherton was previously a Director of J. Henry Schroder & Co. Limited and is currently Chairman of Greggs plc and a non-executive Director of Next 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)
Carol Franklin Engler is a partner in Vorausdenken. She 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 is currently a non-executive director of Citron plc. She joined the Group on 12 August 1999.

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

Committee membership

	Audit Committee	Remuneration Committee	Conflicts Committee	Nominations Committee
Stephen Hargreaves Hall	✓	✓	✓	✓
Anthony Howland Jackson	✓	✓	✓	✓
Derek Nigel Donald Netherton	✓	–	✓	✓
Carol Franklin Engler	✓	✓	✓	✓
Robert Ralph Scrymgeour Hiscox	–	–	–	✓

THE COMBINED CODE

Hiscox is committed to high standards of corporate governance.

For the year ended 31 December 2002, 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 following exception that until April 2002, the Board as a whole acted as the Nominations Committee to deal with appointments to the Board. The membership of that Committee now comprises all the independent non-executive directors and one executive director. 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. A copy of the advice is provided to the Company Secretary who will circulate to all directors. No such advice was sought 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 at least four times a year to assist

the Board on matters of financial reporting, risk management and internal control. The internal and external auditors have unrestricted access to the Audit Committee, which monitors the scope, results and cost effectiveness of the external audit, the independence and objectivity of the auditors, and the nature and extent of non-audit work together with the level of related fees. All non-audit work with fees greater than £50,000 must be pre-approved by the Audit Committee.

The Risk Committee comprises the Chief Executive, the Group Finance Director, the Group Compliance Officer and the Head of Internal Audit. It meets monthly to monitor the risk management framework and reports directly to the Board and the Audit Committee.

The Remuneration Committee comprises three independent non-executive directors. It has agreed terms of reference and meets at least twice a year. The Committee recommends to the Board a framework of executive remuneration and its cost. The Committee will also determine on the Board's behalf the specific remuneration packages for each of the executive directors, including pension rights and any compensation payments. The Board's remuneration report is presented on pages 26 and 27.

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

The Nominations Committee now comprises one executive director and all the non-executive directors. It meets as and when required to deal with appointments to the Board. It did not meet during the year.

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 executive 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 stock exchange announcements 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 MANAGEMENT FRAMEWORK

The directors are responsible for operating the system of risk management and internal control and for reviewing its effectiveness. Hiscox acknowledges that it is neither possible, nor desirable, to eliminate risk completely and the system can only provide reasonable and not absolute assurance against material misstatement or loss. The constant aim is to be fully aware of the risks to which the business is exposed and to manage these risks to acceptable levels.

Key senior management responsibilities are clearly identified together with their reporting lines to the relevant executive directors. Terms of reference and reporting lines are in place for all key decision-making and monitoring committees including the committees mentioned above.

The execution of each delegated responsibility, by individuals and committees, is closely monitored by regular reporting to, and challenge by, the Board and its committees. This monitoring, supported by financial and non-financial management information, covers performance against agreed targets and objectives, as well as the risks to achieving these objectives and the effectiveness of the measures in place to manage these risks. Feedback and discussion within this reporting structure allows the Board to determine, communicate and enforce its appetite for the various risks to which the business is exposed.

In parallel with its direct monitoring processes described above, the Board has Internal Audit and the Risk Committee as additional indirect means to monitor and review the effectiveness of risk management throughout the organisation.

INTERNAL AUDIT

The internal audit function is responsible for providing independent assurance directly to the Audit Committee on the adequacy and effectiveness of the Board's

system of risk management and internal control. This assurance is provided by means of an agreed programme of review, responsive work and direct reporting of significant issues.

Internal audit is also responsible for making recommendations at all levels where risk management may be usefully improved and for reporting the acceptance and implementation of significant recommendations to the Audit Committee.

RISK COMMITTEE

This high-level committee, chaired by the Chief Executive, is responsible for monitoring all the risk management activities operating within the organisation and reporting significant issues to the Board and the Audit Committee.

It also has an important role to play in promoting and developing good risk management practice as well as identifying emerging risks and recommending appropriate risk management strategies.

The committee receives information from the internal audit function as well as conducting its own reviews at strategic, tactical and operational levels.

KEY STRATEGIC RISK AREAS

The Risk Committee has identified for the Board four key strategic risk areas which, together with supporting analyses, enable the Board to review with each executive director the risks they are responsible for managing:

- Financial risks – including capital, third-party default and economic risks, managed by, for example, scenario analysis, reinsurance security limits and monitoring, credit control measures, investment controls, cash flow monitoring and currency exposure hedging.
- Underwriting risks – including catastrophic, systematic and data risks, managed by, for example, exposure limits for accounts and underwriters, training programmes, risk-based reviews, portfolio reviews, aggregation modelling, scenario analysis, reinsurance, data input controls, reconciliation and binding authority management systems.
- Operational risks – including outsourcing, efficiency, project and people risks, managed by, for example, vetting, monitoring, IT development processes, project management controls, competency assessment, employee development planning and training delivery.
- External risks – including regulatory, partnership, competitive and business interruption risks, managed by, for

example, compliance controls, strategic planning, scenario analysis and continuity planning.

RISK MANAGEMENT CULTURE

Hiscox's culture of open communication and delegated responsibility allows this framework of embedded risk management to function well throughout the organisation.

Directors' Remuneration Report

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 54 to 58 which form the audited part of this Remuneration Report. The members of the Remuneration Committee are identified on page 23.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No director plays a part in any discussion about his or her own remuneration.

REMUNERATION POLICY

The Remuneration Committee recommends to the Board a framework of executive remuneration and its cost. The Committee will also determine on the Board's behalf the specific remuneration packages for each of the executive directors, including pension rights and any compensation payments.

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.

Pay elsewhere in the Group is considered in determining directors' remuneration.

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 utilises the services of independent consultants, including independent reports published by Watson Wyatt and IDS (Incomes Data Services Limited), in its consideration of what comparable companies are paying and in setting annual salaries and other benefits. Using this information as a benchmark, and taking into account current economic and operational conditions, 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 when the

business profits of the Group, based on the year's accounting result, exceed a return on equity linked to the longer term rate of return. Similarly the bonus pools allocated to each major business division are calculated based on the business profits generated by that division. This pool is utilised to award annual bonuses to all staff including executive directors based upon the performance of their business area and upon their individual performance. In this way, the bonus scheme aligns the interests of employees with shareholders. The actual amount to be paid to executive directors is determined by the Remuneration Committee based on an assessment of their individual performance against objectives. 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, senior executives and other staff under the Approved and Unapproved share option schemes. The exercise of options under these schemes depends upon the basic earnings per share of the Group increasing at 2% 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. All directors entitled to share options are subject to these same performance criteria.

Awards were also made during the year under the Sharesave Scheme and the International Sharesave Scheme. These schemes provide a medium-term incentive available to all staff. Awards depend upon the amount employees are prepared to save out of their salary subject to the maximum figure under the rules.

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. No awards were made during the year under this plan. The targets applicable to the awards made in previous years 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 13) over a fixed three year period 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.

During the year, adjustments were approved by the Board to the number of awards and options in issue to take account of the recent Rights Issue and Open Offer and Placing. These adjustments were consistent with the preferred methodology set out in the Inland Revenue Share Schemes Manual and were based on the method of calculating the theoretical ex-rights price set out in Financial Reporting Standard 14 "Earnings per share". Approval has been received from the Inland Revenue for the adjustments to all the approved schemes and the Company's auditors have provided confirmation that the adjustments are fair and reasonable for those schemes that required such a confirmation.

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 38 employees and former employees of those companies. The interests of executive directors in such exchanged options is shown in note 25 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 senior executives 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 after that date. 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. Since the termination notice period is only six months, no statement of mitigation policy is deemed necessary.

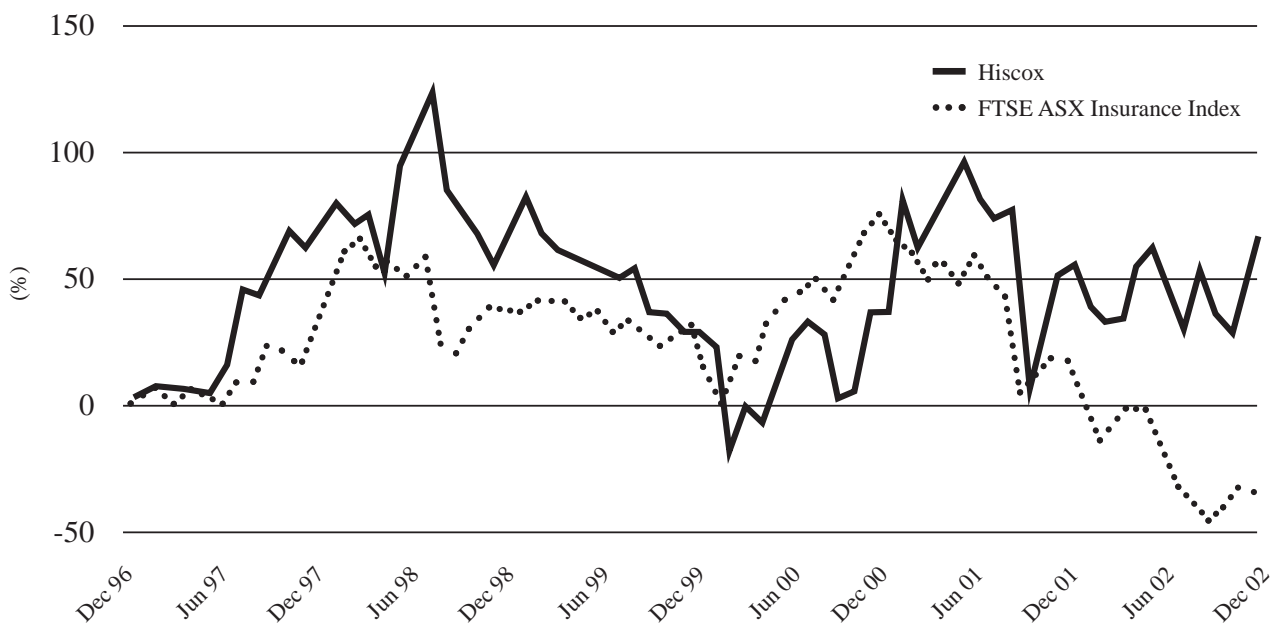
The Remuneration Committee believes that these notice periods provide an appropriate balance having regard to prevailing market conditions and current practice amongst public companies. No external appointment may be accepted by an executive director where it may give rise to a conflict of interest.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

By order of the Board
 SJ Bridges
 Secretary
 1 Great St Helen's
 London EC3A 6HX
 26 March 2003

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Insurance Index, also measured by total shareholder return. The FTSE All Share Insurance Index has been selected for this comparison because it is the most representative index for measuring the performance of the insurance market in which Hiscox participates.



Total shareholder return of Hiscox plc against the FTSE ASX Insurance Index

Source: Bloomberg

Directors' Report

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 December 2002.

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 likely 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 32 and 33.

DIVIDENDS

An interim dividend of 1.14p per share (2001: nil), adjusted for the Rights Issue, was paid on 24 October 2002 in respect of the year ended 31 December 2002. The directors recommend the payment of a final dividend of 2.40p per share (2001: nil). This will be paid on 30 June 2003 to shareholders on the register at the close of business on 22 April 2003.

DIRECTORS

The names of the directors of the Company throughout the year and 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 25 to the accounts. RRS Hiscox, AGC Howland Jackson and DND Netherton 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.

CORPORATE SOCIAL RESPONSIBILITY

– *Our core values:* Underpinning the Hiscox culture is a set of core values, which determine the standard of behaviour Hiscox expects from all of its employees. These core values, which include integrity, quality, efficiency and respect, are intended to guide everything Hiscox does in its business and they determine the way in which

Hiscox employees deal with a range of stakeholders, both internal and external. Hiscox recognises that by conducting its business with these values firmly rooted at its core, it is more likely to achieve business success and create value for shareholders.

– *Employee policies:* The Company has a clearly stated aim to be an employer of choice recognised for its people excellence. This influences all of its employment policies. Our people genuinely make a difference and therefore we have to attract the best employees, enable them to perform to an excellent standard and to contribute to the development of the business, reward them on their level of contribution and provide an environment in which they can enjoy their work.

In order to facilitate this, the Group is committed to providing equal opportunities to potential and actual employees in all aspects of employment.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees. Our employment policies and practices are free from discrimination on any grounds relating to selection, training and development, career progression and any other employment matters.

We are committed to training and developing all of our employees to maximise their potential. A comprehensive development programme ensures our employees are highly knowledgeable and skilled. This is supported by a Performance Management approach that ensures training and development needs are reviewed regularly, as is performance, against clearly set objectives. We actively look to leverage the talent of every employee within the Company.

Employees are kept informed of the business and its activities through formal briefings, team meetings, use of the intranet, video conferencing and informal routes. These also provide a means for the Company to listen to employees and involve them in taking the business forward.

Employees are encouraged to identify with the Company through performance related pay and bonus schemes, savings related share option schemes and executive share option schemes. They are also

encouraged to socialise with each other and enjoy their work environment.

The Company therefore was delighted to be voted the tenth best company to work for in the UK and the number one company to work for in the insurance sector in the Sunday Times 100 Best Companies to Work For 2003 survey. The results of this survey were derived from both the views of employees and from a review of the policies and processes of the companies surveyed.

The Group is also committed to ensuring that all employees are provided with safe working conditions. A Health and Safety Committee oversees compliance with, and the development of, the Group's health and safety policy which is available to all staff via the Group's intranet. In addition, risk assessments are completed for the building and for all staff, records of which are maintained for inspection by Environmental Health Officers.

– *Environmental policy:* 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.

Hiscox also aims to minimise the impact on the environment from its business activities. In accordance with the Group's Environmental Policy, consumables are recycled or reused wherever possible and the Group strives continuously to reduce the amount of raw materials used in its business processes and by its staff – particularly through the extensive use of computerisation and communications technology.

We were pleased that, for the second consecutive year, Hiscox received the Platinum Award with Special Commendation from the Corporation of London as part of its Clean City Scheme Awards, which puts it in the top 6 of the 727 companies rated. These awards are given as part of an annual scheme run by the Corporation to recognise the efforts of companies in the City in reducing, recycling and reusing waste, in order to support the sustainable use of raw materials. Each company's building is judged by a panel of officers from the Corporation, public sector and private industry on the efforts it is making, its approach to recycling and its innovation in dealing with waste.

A designated Hiscox representative attends meetings organised by the

Corporation of London to keep abreast of best practices with regard to the environment and to exchange ideas with other like-minded companies.

In 2002, Jupiter Asset Management's Socially Responsible Investment (SRI) team assessed the extent to which Hiscox incorporates environmental and social risks into the underwriting process. Feedback from Jupiter confirmed that because we have started to include these issues into some of our underwriting, we demonstrate sector leadership in our immediate peer group of listed Lloyd's Underwriters. As a result, Hiscox was deemed to be suitable for a selection of Jupiter's SRI funds on environmental and social grounds.

– **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 numeracy development, and where we finance after hours tuition and assist in the school's governance. We also provide mentors for students at Morpeth School in Tower Hamlets.

Our Art Café plans to hold a number of exhibitions of young artists in the coming year.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made no political contributions during the year (2001: £nil). Donations to the Hiscox Foundation, which is a UK registered charity, amounted to £25,000 (2001: £25,000). The policy of the Hiscox Foundation is to assist and improve education, the arts and independent living for disabled and disadvantaged members of society.

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 18.0 (2001: 16.5) days purchases outstanding at 31 December 2002 based on the average daily amount invoiced by suppliers during the year ended 31 December 2002. The Company is a holding company and accordingly has no days purchases outstanding at 31 December 2002. 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.

ANNUAL GENERAL MEETING

The notice of the Annual General Meeting is contained on page 66. In addition to the ordinary business, the following items of

special business will be considered at the meeting.

Resolution 8, 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 £4,820,390.90 representing 33.3% of the issued ordinary share capital as at 26 March 2003. 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 9, which will be proposed as an ordinary resolution, seeks to obtain approval for the Remuneration Report as set out on pages 26 and 27 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 £723,058.60, representing 5.0% of the issued ordinary share capital as at 26 March 2003. This authority will terminate no later than fifteen months after the date of the Annual General Meeting.

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 14 March 2003.

	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	18.9
Fidelity International Limited	27,300,209	–	27,300,209	9.4
AN Foster	2,720,000	11,784,391	14,504,391	5.0
Landsdowne Partners Limited Partnership	10,530,000	–	10,530,000	3.6
Morgan Stanley Securities Limited	9,808,297	–	9,808,297	3.4
RRS Hiscox	8,829,859	582,715	9,412,574	3.3
IN Thomson	9,306,802	–	9,306,802	3.3
Legal & General Investment Management Ltd	8,697,745	–	8,697,745	3.0

4,749,111 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 255,466 ordinary shares in the Company. IN Thomson, AN Foster and RRS Hiscox, as employees of the Group, are potential beneficiaries of the ESOP and are also deemed to have an additional interest in these shares.

By order of the Board
SJ Bridges
Secretary
1 Great St Helen's
London EC3A 6HX
26 March 2003

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 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;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed; 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.

Independent Auditors' Report to the Members of Hiscox plc

We have audited the financial statements on pages 32 to 64. We have also audited the information included by cross reference within the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 30 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 whether the financial statements and the part of the directors' remuneration report to be audited have been 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 regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 24 and 25 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover 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 and the part of the directors' remuneration report to be audited.

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 2002, 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 2002 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
London
Chartered Accountants
Registered Auditor
26 March 2003

Consolidated Profit and Loss Account

Technical Account – General Business for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
Earned premiums, net of reinsurance			
Gross premiums written	5(d)	676,705	548,926
Outward reinsurance premiums		(260,561)	(136,349)
Net premiums written		416,144	412,577
Change in the gross provision for unearned premiums		(95,366)	(77,806)
Change in the provision for unearned premiums, reinsurers' share		64,351	9,428
Change in the net provision for unearned premiums		(31,015)	(68,378)
Earned premiums, net of reinsurance	5(d)	385,129	344,199
Allocated investment income transferred from the non-technical account	9(a), 9(c)	27,643	18,562
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(290,008)	(253,041)
Reinsurers' share		149,981	113,463
Net claims paid		(140,027)	(139,578)
Change in the provision for claims:			
Gross amount		35,869	(247,646)
Reinsurers' share		(108,193)	154,469
Change in the net provision for claims		(72,324)	(93,177)
Claims incurred, net of reinsurance	4, 5(d)	(212,351)	(232,755)
Other technical income	5(d)	–	1,324
Net operating expenses	7	(145,751)	(141,362)
Other technical charges	5(d)	(3,856)	–
Movement in equalisation provision	5(d), 8	(2,703)	(2,582)
Balance on the technical account		48,111	(12,614)

All operations of the Group are continuing.

Consolidated Profit and Loss Account

Non-Technical Account for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
Balance on the technical account		48,111	(12,614)
Investment return	9(a)	21,413	15,131
Unrealised gains/(losses) on investments	9(a)	(4,425)	(4,703)
Investment management expenses and charges	9(a)	(809)	(560)
	9(a), 9(c)	16,179	9,868
Allocated investment return transferred to the technical account	9(a), 9(c)	(27,643)	(18,562)
		(11,464)	(8,694)
Other income	10	10,119	3,333
Other expenses		(26,451)	(14,521)
Profit/(loss) on ordinary activities before tax	5(d)	20,315	(32,496)
Comprising:			
Operating profit/(loss) based on longer term investment return	5(d)	34,482	(21,220)
Short term fluctuations in investment return	9(a), 9(c)	(11,464)	(8,694)
Movement in equalisation provision	5(d), 8	(2,703)	(2,582)
		20,315	(32,496)
Tax on profit/(loss) on ordinary activities	14	(6,340)	9,389
Profit/(loss) on ordinary activities after tax		13,975	(23,107)
Dividends – Interim paid		(2,299)	–
Dividends – Final payable		(6,914)	–
		(9,213)	–
Retained profit/(loss) for the year	24(a)	4,762	(23,107)
Earnings/loss per share:			
– Adjusted basic, based on operating profit/(loss) after tax (on longer term investment return)	13	11.3p	(9.7)p
– Basic, based on profit/(loss) on ordinary activities after tax	13	6.6p	(14.8)p
– Diluted, based on profit/(loss) on ordinary activities after tax	13	6.5p	(14.8)p

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 2002

	Notes	2002 £000	2001 £000
Profit/(loss) on ordinary activities after tax		13,975	(23,107)
Exchange differences taken to reserves		(50)	(35)
Total recognised gains and losses		13,925	(23,142)

Consolidated Balance Sheet
at 31 December 2002

	Notes	2002 £000	2001 £000
Assets			
Intangible assets			
Goodwill	15(a)	6,617	6,997
Other intangible assets	15(b)	16,469	16,800
		23,086	23,797
Investments			
Land and buildings	16(a)	420	430
Other financial investments	16(b)	502,944	344,402
		503,364	344,832
Reinsurers' share of technical provisions			
Provision for unearned premiums		102,608	39,166
Claims outstanding	4	218,175	333,358
		320,783	372,524
Debtors			
Debtors arising out of direct insurance operations	17	199,372	130,689
Debtors arising out of reinsurance operations		98,412	168,320
Other debtors	20	47,733	51,933
		345,517	350,942
Other assets			
Tangible assets	18	7,119	7,018
Cash at bank and in hand	31(e)	121,196	62,520
		128,315	69,538
Prepayments and accrued income			
Accrued interest		2,643	2,221
Deferred acquisition costs		83,784	66,699
Other prepayments and accrued income		10,813	5,637
		97,240	74,557
Total assets		1,418,305	1,236,190

	Notes	2002 £000	2001 £000
Liabilities			
Capital and reserves			
Called up share capital	23, 24(a)	14,459	9,633
Share premium account	24(a)	230,585	124,612
Merger reserve	24(a)	4,723	4,723
Capital redemption reserve	24(a)	33,244	33,244
Profit and loss account	24(a)	(2,709)	(7,421)
Shareholders' funds attributable to equity interests	24(a)	280,302	164,791
Technical provisions			
Provision for unearned premiums		351,594	258,124
Claims outstanding	4	568,365	616,164
Equalisation provision	8	13,932	11,229
		933,891	885,517
Provisions for other risks and charges	22	–	926
Creditors:			
Creditors arising out of direct insurance operations		65,423	45,850
Creditors arising out of reinsurance operations		67,892	72,608
Other creditors including taxation and social security	21	36,414	42,838
		169,729	161,296
Accruals and deferred income		34,383	23,660
Total liabilities		1,418,305	1,236,190

The financial statements were approved by the Board of directors on 26 March 2003 and were signed on its behalf by:

RRS Hiscox, Chairman

SJ Bridges, Finance Director

Company Balance Sheet
at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Tangible assets	19(a)	498	381
Investment in subsidiary undertakings	19(b)	115,457	115,457
Investments	19(c)	108,177	43,813
		224,132	159,651
Current assets			
Other debtors	20	110,199	86,241
Cash at bank and in hand		20,182	759
Prepayments and accrued income		464	4,237
		130,845	91,237
Creditors: Amounts falling due within one year	21	(11,456)	(14,771)
Net current assets		119,389	76,466
Total assets less current liabilities		343,521	236,117
Provisions for liabilities and charges	22	–	(144)
Total net assets		343,521	235,973
Capital and reserves			
Called up share capital	23, 24(b)	14,459	9,633
Share premium account	24(b)	230,585	124,612
Merger reserve	24(b)	58,970	58,970
Capital redemption reserve	24(b)	33,244	33,244
Capital reserve	24(b)	(1,269)	351
Profit and loss account	24(b)	7,532	9,163
Shareholders' funds attributable to equity interests		343,521	235,973

The financial statements were approved by the Board of directors on 26 March 2003 and were signed on its behalf by:

RRS Hiscox, Chairman

SJ Bridges, Finance Director

Consolidated Cash Flow Statement
for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
Cash Flow Statement			
Net cash inflow from general business		45,069	15,295
Net shareholders' cash outflow from Lloyd's business	31(c)	(23,037)	(12,489)
<hr/>			
Net cash flow from operating activities	31(a)	22,032	2,806
Servicing of finance	31(d)	(1,709)	(680)
Taxation recovered/(paid)		777	(499)
Capital expenditure	31(d)	(3,569)	(2,774)
Acquisitions and disposals	31(d)	–	1,380
Equity dividends paid		(2,299)	(3,453)
Financing	31(d)	108,539	55,368
<hr/>			
		123,771	52,148
<hr/>			
Cash flows were invested as follows:			
Increase in cash holding	31(e)	25,288	6,369
Net portfolio investment:			
Shares and units in unit trusts	31(e)	19,911	(1,937)
Debt securities and other fixed interest securities	31(e)	10,314	2,792
Deposits with credit institutions	31(e)	68,265	44,924
Other investments	31(e)	(7)	–
<hr/>			
Net investment of cash flows		123,771	52,148

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 2002 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.

Financial Reporting Standard 19 "Deferred Tax" was published by the Accounting Standards Board in December 2000 and replaced the existing Statement of Standard Accounting Practice on deferred tax. FRS19 is effective for the year ended 31 December 2002. The adoption of FRS19 has required more detailed disclosure in the notes to the accounts but has had no material impact on the current or prior years' results.

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 £7,582,000 (2001: £1,688,000) and the retained loss for the financial year for the Company was £1,631,000 (2001: profit of £1,688,000).

Results are determined on an annual basis.

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, where acquisition accounting was adopted.

Hiscox Dedicated Corporate Member Limited and the subsidiaries of Hiscox Select Holdings Limited underwrite as corporate members of Lloyd's on the syndicate managed by Hiscox Syndicates Limited (the "managed syndicate"). 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 syndicate 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

For business written by the managed syndicate, written premiums comprise premiums on contracts incepting during the financial year. For all other business, 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 estimates for "pipeline" premiums and adjustments to premiums written in prior accounting periods. 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

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 Chapter 6 of the Interim Prudential Sourcebook for Insurers to mitigate exceptionally high loss ratios for classes of business displaying a high degree of claims volatility.

3(g) 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(h) 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 on investments represent the difference between net sales proceeds and their purchase price or their valuation at the commencement of the year.

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price or their valuation at the commencement of the year. 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(i) Allocation of investment return

An allocation is made from the non-technical account to the general business technical account based on 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(j) 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 tangible fixed assets	4 years

3(k) 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. Provision is made for any impairment.

On disposal or termination of a business acquired up to 31 December 1997, any related goodwill previously written off directly to reserves is written back through the profit and loss account as part of the profit or loss on disposal. On the disposal or termination of a business since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

3(l) 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. Provision is made for any impairment.

3(m) 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 on the translation of foreign currency amounts relating to underwriting are taken directly to the technical account. Other exchange profits or losses are taken directly to the non-technical 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(n) 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.

The Group has adopted FRS 17 "Retirement Benefits". This has had no material impact on the current year's results, as only the transitional disclosure requirements have been included.

3(o) 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(p) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences, except for which no provision is permissible as explained below, that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the

subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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, even 18 months after the event, the extent of the gross and net loss to the Group is difficult to assess with the degree of confidence which is usual for property insurance losses; facts or circumstances will come to light which may affect these estimates. The current projected estimate of net loss to Hiscox plc is £40 million (2001: £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. There is no significant liability exposure. As at 28 February 2003, US\$ 275 million, 58% of the estimated overall loss, had been paid. This includes payment to Silverstein, on the basis of one occurrence, for the WTC property. The courts in the USA have not yet ruled on occurrence. Syndicate 33 has had no need to make a cash call.

As part of the process for the setting of the loss reserves included in these accounts, the directors have again carried out 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. Since the initial review carried out in October 2001, no further losses have been identified which were not identified at that time. This review has been supplemented by details of the notifications received from the XChanging Claims Services (formerly the Lloyd's Claims Office) which amounted to US\$591 million as at 28 February 2003 (31 March 2002: US\$543 million). 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 esti-

mated what the directors believe is an appropriate discount or premium to these notifications, based on their past experience of large property losses and additional information received.

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

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

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

The current total estimated gross loss to Syndicate 33 is approximately US\$475 million (2001: US\$440 million). The increase from the previous year-end is for three reasons:

- a) An increase in bad debt provision to reflect the rating downgrades of a number of the reinsurers in the year.
- b) An increase in a claim from a telecommunications company where our original assessment, based on limited information, has been revised. It was considered that the greater part of the claim was likely to be generated from business interruption which we discerned was likely to be much inflated. The claim has developed, however, with

a much larger proportion of physical damage losses than we originally estimated. In line with our normal reserving practice we have therefore increased our reserve.

- c) An increase in the loss on a transportation company where as part of closing the 2000 year of account we have taken the loss at the notified amount. We believe however that this loss could well settle below its current market estimate.

The reinsurance program continued to respond to the increase in the property claims described in (b) and (c) above. Due to the sequence of actual payments, net recoveries remain similar to last year. Syndicate 33's net loss has increased to approximately US\$125 million (2001: US\$90 million). In arriving at this estimate it has been assumed that the terrorist attack in New York City on 11 September 2001 was one occurrence and also that the aircraft impacts on the WTC are one occurrence in respect of the property losses. In the unlikely event that Syndicate 33's loss increases by, for example, a further US\$100 million, and assuming there are no further reinsurance recoveries, the net cost to Hiscox plc would increase by approximately £35 million.

As at 28 February 2003 Syndicate 33 had paid US\$275 million of the gross loss and recovered US\$165 million from reinsurers. As part of our required funding of the US Trust Funds, a further US\$56 million of cash advances and letters of credit had also been received from reinsurers at 28 February 2003. These recoveries of US\$221 million at 28 February 2003 represent 63% of the expected total recoveries of approximately US\$350 million. 84% of the remaining balance of approximately US\$129 million is due from reinsurers, including US\$23 million due from Lloyd's, rated A grade or better.

Syndicate 33 has increased its bad debt provision on reinsurance recoveries from the WTC loss to US\$7.5 million (2001: US\$4.5 million). This results from the downgrade in rating of a number of the reinsurers during the year. No reinsurer on our programme has yet refused to pay a claim through insolvency. It has been assumed that no major reinsurer will fail.

5 SEGMENTAL INFORMATION

a) 100% level technical account by business division

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

	2002 London Market £000	2002 UK Retail £000	2002 International Business £000	2002 Total £000	2001 London Market £000	2001 UK Retail £000	2001 International Business £000	2001 Total £000
Gross premiums written	726,315	147,583	67,356	941,254	574,339	143,550	62,147	780,036
Net premiums written	392,746	123,243	41,468	557,457	412,100	121,830	40,444	574,374
Net premiums earned	367,422	119,988	37,219	524,629	343,555	112,171	34,554	490,280
Net claims incurred	229,225	62,565	10,997	302,787	288,344	58,212	9,385	355,941
Claims ratio (%)	62.4%	52.1%	29.5%	57.7%	83.9%	51.9%	27.2%	72.6%
Commission	92,048	34,814	26,957	153,819	100,307	35,672	27,395	163,374
Operating expenses	32,585	19,202	1,222	53,009	31,752	17,382	1,894	51,028
Movement in deferred acquisition costs	1,509	(582)	(1,714)	(787)	(8,420)	(1,843)	(3,463)	(13,726)
Net expenses	126,142	53,434	26,465	206,041	123,639	51,211	25,826	200,676
Commission ratio (%)	23.4%	28.3%	65.0%	27.6%	24.3%	29.3%	67.7%	28.4%
Operating expense ratio (%)	8.3%	15.6%	3.0%	9.5%	7.7%	14.2%	4.7%	8.9%
Expense ratio (%)	31.7%	43.9%	68.0%	37.1%	32.0%	43.5%	72.4%	37.3%
Net longer term investment return	18,726	8,729	2,111	29,566	11,362	6,222	1,933	19,517
Technical profit/(loss)* (Note 5c)	30,781	12,718	1,868	45,367	(57,066)	8,970	1,276	(46,820)
Combined ratio (%)	94.1%	96.0%	97.5%	94.8%	115.9%	95.4%	99.6%	109.9%

*Before movement in equalisation provision.

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

	2002 London Market £000	2002 UK Retail £000	2002 International Business £000	2001 London Market £000	2001 UK Retail £000	2001 International Business £000
At 100% level						
1% change in claims ratio	3,674	1,200	372	3,436	1,122	346
1% change in expense ratio	3,927	1,232	415	4,121	1,218	404
At Group level						
1% change in claims ratio	2,015	1,200	372	1,828	1,122	346
1% change in expense ratio	2,154	1,232	415	2,192	1,218	404

The additional segmental information provided above, by business division, has been added this year to the Report and Accounts to reflect the way the Group manages its business. In prior years' Report and Accounts, the segmental information was disclosed only by reporting entity. This disclosure can be found in note 5(b). Key differences are as follows:

"London Market" comprises the results of Syndicate 33 and the Hiscox Captive net of any business written between Group companies. Previously, the results of Syndicate 33 were reported within "Managed Syndicate" excluding the Hiscox Captive.

"UK Retail" comprises all of the UK retail underwriting results of Hiscox Insurance Company Limited. Previously, the underwriting results of the UK retail business were reported in "Insurance Company", together with the underwriting results of the International retail business written by Hiscox Insurance Company Limited.

"International Business" comprises the results of Hiscox Insurance Company (Guernsey) Limited, the results of the Hiscox overseas agencies and the underwriting results of the International retail business written by Hiscox Insurance Company Limited. Previously, the results of Hiscox Insurance Company (Guernsey) Limited and the results of the Hiscox overseas agencies, together with the Hiscox Captive, were included within "International Operations".

Notes to the Accounts (continued)

5 SEGMENTAL INFORMATION continued

b) 100% level technical account by reporting entity

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

	2002 Managed Syndicate £000	2002 Insurance Company £000	2002 International Operations £000	2002 Total £000	2001 Managed Syndicate £000	2001 Insurance Company £000	2001 International Operations £000	2001 Total £000
Gross premiums written	721,971	176,423	42,860	941,254	567,303	163,861	48,872	780,036
Net premiums written	388,967	144,154	24,336	557,457	406,752	139,166	28,456	574,374
Net premiums earned	363,643	136,900	24,086	524,629	338,207	126,578	25,495	490,280
Net claims incurred	225,958	73,327	3,502	302,787	282,152	67,461	6,328	355,941
Claims ratio (%)	62.1%	53.6%	14.5%	57.7%	83.4%	53.3%	24.8%	72.6%
Commission	92,048	44,056	17,715	153,819	100,307	43,087	19,980	163,374
Operating expenses	32,577	19,926	506	53,009	31,691	18,842	495	51,028
Movement in deferred acquisition costs	1,509	(2,177)	(119)	(787)	(8,420)	(2,778)	(2,528)	(13,726)
Net expenses	126,134	61,805	18,102	206,041	123,578	59,151	17,947	200,676
Commission ratio (%)	23.7%	30.5%	72.8%	27.6%	24.7%	31.0%	70.2%	28.4%
Operating expense ratio (%)	8.3%	13.8%	2.1%	9.5%	7.8%	13.5%	1.8%	8.9%
Expense ratio (%)	32.0%	44.3%	74.9%	37.1%	32.5%	44.5%	72.0%	37.3%
Net longer term investment return	18,726	9,987	853	29,566	11,362	7,093	1,062	19,517
Technical profit/(loss)* (Note 5c)	30,277	11,755	3,335	45,367	(56,161)	7,059	2,282	(46,820)
Combined ratio (%)	94.1%	97.9%	89.4%	94.8%	115.9%	97.8%	96.8%	109.9%

*Before movement in equalisation provision.

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

	2002 £000	2001 £000
Technical profit/(loss) for 100% of continuing operations (Note 5a, 5b)	45,367	(46,820)
Notional share attributable to Group at current level of capacity ownership	35,724	(25,051)
Adjustments to reflect lower levels of capacity in prior years:		
2000 (1999) year of account	2,404	1,065
2001 (2000) year of account	159	2,001
Investment return on Group underwriting capital	6,161	4,479
Amounts applicable to quota share reinsurers*	(3,856)	1,324
Trading profit/(loss) for Group share of continuing operations (Note 5d, 5e)	40,592	(16,182)

*For the 2002 year of account, the Group owned 63% (2001: 60%) of the Syndicate. 8% (2001: 7%) of that capacity was reinsured to three leading European reinsurers via a quota share arrangement.

5 SEGMENTAL INFORMATION continued

d) Profit on ordinary activities before taxation – by business division

	2002 London Market/ Group £000	2002 UK Retail £000	2002 International Business £000	2002 Total £000	2001 London Market/ Group £000	2001 UK Retail £000	2001 International Business £000	2001 Total £000
Gross premiums written	461,766	147,583	67,356	676,705	343,229	143,550	62,147	548,926
Net premiums earned	227,922	119,988	37,219	385,129	197,474	112,171	34,554	344,199
Investment return, based on longer term rate of return	16,803	8,729	2,111	27,643	10,407	6,222	1,933	18,562
Net claims incurred	(138,789)	(62,565)	(10,997)	(212,351)	(165,158)	(58,212)	(9,385)	(232,755)
Acquisition costs	(69,029)	(34,232)	(25,243)	(128,504)	(64,514)	(33,829)	(23,932)	(122,275)
Administrative expenses	(7,045)	(19,202)	(1,222)	(27,469)	(5,961)	(17,382)	(1,894)	(25,237)
Other technical income/(charges)	(3,856)	–	–	(3,856)	1,324	–	–	1,324
Trading result:*	26,006	12,718	1,868	40,592	(26,428)	8,970	1,276	(16,182)
Agency and other income	4,499	120	12,286	16,905	3,211	26	6,087	9,324
Profit commission	3,237	–	200	3,437	159	–	–	159
Expenses	(9,712)	(1,178)	(12,718)	(23,608)	(3,887)	(1,423)	(6,702)	(12,012)
Loan interest	(1,432)	–	–	(1,432)	(1,099)	–	–	(1,099)
Goodwill and capacity amortisation	(1,370)	–	(42)	(1,412)	(1,370)	–	(40)	(1,410)
Operating profit/(loss)	21,228	11,660	1,594	34,482	(29,414)	7,573	621	(21,220)
Short term fluctuations in investment return	(7,739)	(3,135)	(590)	(11,464)	(3,990)	(3,670)	(1,034)	(8,694)
Movement in equalisation provision	–	(2,104)	(599)	(2,703)	–	(2,221)	(361)	(2,582)
Profit/(loss) on ordinary activities before taxation	13,489	6,421	405	20,315	(33,404)	1,682	(774)	(32,496)

*Based on longer term investment return, before movement in equalisation provision and elimination of inter-company transactions.

The additional segmental information provided above, by business division, has been added this year to the Report and Accounts to reflect the way the Group manages its business. In prior years' Report and Accounts, the segmental information was disclosed only by reporting entity. This disclosure can be found in note 5(e). Key differences are as follows:

“London Market/Group” comprises Hiscox plc’s share of the results of Syndicate 33, the results of the Hiscox Captive and the results of the non-underwriting entities of the Group, net of any business written between Group companies. Previously, Hiscox plc’s share of the results of Syndicate 33 and the results of the non-underwriting entities, excluding the Hiscox Captive, were included in “Lloyd’s Business/Group”.

“UK Retail” comprises all of the UK retail business of Hiscox Insurance Company Limited, together with the results of the online agency business (Hiscox Connect Limited). Previously, the results of the UK retail business were reported in “Insurance Company”, together with the underwriting results of the International retail business. The results of Hiscox Connect Limited were previously included in “Lloyd’s Business/Group”.

“International Business” comprises the results of Hiscox Insurance Company (Guernsey) Limited, the results of the Hiscox overseas agencies and the underwriting results of the International retail business written by Hiscox Insurance Company Limited. Previously, the results of Hiscox Insurance Company (Guernsey) Limited and the results of the Hiscox overseas agencies, together with the Hiscox Captive, were included within “International Operations”.

Notes to the Accounts (continued)

5 SEGMENTAL INFORMATION continued

e) Profit on ordinary activities before taxation – by reporting entity

	2002 Lloyd's Business/ Group £000	2002 Insurance Company £000	2002 International Operations £000	2002 Total £000	2001 Lloyd's Business/ Group £000	2001 Insurance Company £000	2001 International Operations £000	2001 Total £000
Gross premiums written	457,422	176,423	42,860	676,705	336,193	163,861	48,872	548,926
Net premiums earned	224,143	136,900	24,086	385,129	192,126	126,578	25,495	344,199
Investment return, based on longer term rate of return	16,803	9,987	853	27,643	10,407	7,093	1,062	18,562
Net claims incurred	(135,522)	(73,327)	(3,502)	(212,351)	(158,966)	(67,461)	(6,328)	(232,755)
Acquisition costs	(69,029)	(41,879)	(17,596)	(128,504)	(64,514)	(40,309)	(17,452)	(122,275)
Administrative expenses	(7,037)	(19,926)	(506)	(27,469)	(5,900)	(18,842)	(495)	(25,237)
Other technical income/(charges)	(3,856)	–	–	(3,856)	1,324	–	–	1,324
Trading result:*	25,502	11,755	3,335	40,592	(25,523)	7,059	2,282	(16,182)
Agency and other income	4,619	–	12,286	16,905	3,173	1	6,150	9,324
Profit commission	3,237	–	200	3,437	159	–	–	159
Expenses	(10,890)	–	(12,718)	(23,608)	(5,258)	–	(6,754)	(12,012)
Loan interest	(1,432)	–	–	(1,432)	(1,099)	–	–	(1,099)
Goodwill and capacity amortisation	(1,370)	(42)	–	(1,412)	(1,370)	(40)	–	(1,410)
Operating profit/(loss)	19,666	11,713	3,103	34,482	(29,918)	7,020	1,678	(21,220)
Short term fluctuations in investment return	(7,804)	(3,587)	(73)	(11,464)	(3,990)	(4,184)	(520)	(8,694)
Movement in equalisation provision	–	(2,703)	–	(2,703)	–	(2,582)	–	(2,582)
Profit/(loss) on ordinary activities before taxation	11,862	5,423	3,030	20,315	(33,908)	254	1,158	(32,496)
Net assets								
Tangible assets	177,393	76,186	3,637	257,216	68,599	72,727	(332)	140,994
Intangible assets	22,372	714	–	23,086	23,043	754	–	23,797
Total	199,765	76,900	3,637	280,302	91,642	73,481	(332)	164,791

*Based on longer term investment return, before movement in equalisation provision and elimination of inter-company transactions.

f) Net asset value per share

	2002 Net asset value £000	2002 Number of shares* 000	2002 NAV per share p	2001 Net asset value £000	2001 Number of shares* 000	2001 NAV per share p
Net asset value	280,302	289,177	96.9	164,791	192,667	85.5
Net asset value (before equalisation provision)	294,234	289,177	101.7	176,020	192,667	91.4
Net tangible asset value	257,216	289,177	88.9	140,994	192,667	73.2
Net tangible asset value (before equalisation provision)	271,148	289,177	93.8	152,223	192,667	79.0

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

The number of shares as at 31 December 2001 has not been adjusted for the impact of the Rights Issue. If it had been, the number of shares would have increased to 202,300,000. Accordingly, the net asset values disclosed above for 2001 would have reduced. The net asset value (before equalisation provision) per share of 91.4p would have been restated to 87.0p. All the other disclosed net asset values per share for 2001 would have been adjusted in a similar manner.

6 MOVEMENT IN PRIOR YEARS' CLAIMS PROVISION

	Lloyd's Business £000	Insurance Company £000	International Operations £000	2002 Total £000	2001 Total £000
Net loss provision brought forward as at 1 January	73,762	79,400	4,735	157,897	133,932
Net payments during the year in respect of those provisions	(23,326)	(13,098)	(1,460)	(37,884)	(31,547)
Net loss provision carried forward in respect of claims provided at 1 January	(56,681)	(60,992)	(7,664)	(125,337)	(92,954)
(Under)/over provision in prior years	(6,245)	5,310	(4,389)	(5,324)	9,431

The figures in respect of Lloyd's business relate to closed years of account at 1 January 2002 only.

7 NET OPERATING EXPENSES

	2002 £000	2001 £000
Acquisition costs	156,103	133,924
Change in deferred acquisition costs	(3,299)	(13,677)
Reinsurance commission	(34,522)	(4,122)
Administrative expenses	27,469	25,237
	145,751	141,362

8 EQUALISATION PROVISION

Equalisation provisions are established in accordance with the requirements of Chapter 6 of the Interim Prudential Sourcebook for Insurers. 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 £13,932,000 (2001: £11,229,000). The movement in equalisation provision during the year resulted in a decrease in the technical account and the Group profit before taxation of £2,703,000 (2001: £2,582,000).

9 INVESTMENT RETURN

a) The total actual investment return before taxation comprises:

	2002 £000	2001 £000
Investment return on funds at Lloyd's and other corporate funds:		
Investment income	4,590	3,507
Unrealised gains/(losses) on investments	(2,939)	(2,775)
Realised gains/(losses) on investments	(244)	115
	1,407	847
Investment return on syndicate funds:		
Investment income	7,057	5,045
Realised gains/(losses) on investments	1,827	1,404
	8,884	6,449
Investment return on insurance company funds:		
Investment income	8,354	6,453
Unrealised gains/(losses) on investments	(1,486)	(1,928)
Realised gains/(losses) on investments	(171)	(1,393)
	6,697	3,132
Investment management expenses	(809)	(560)
Total investment return	16,179	9,868
Allocation to the technical account based on the longer term rate	(27,643)	(18,562)
Short term fluctuations in investment return retained in the non-technical account	(11,464)	(8,694)

Notes to the Accounts (continued)

9 INVESTMENT RETURN continued

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.

	2002 %	2001 %
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

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 2002 and for the five year period from 1 January 1998 to 31 December 2002.

	2002 Funds at Lloyd's and other Corporate Assets £000		2002 Share of Syndicate £000		2002 Insurance Company £000		2002 Total £000	
		%		%		%		
Actual investment return:								
Shares and units in unit trusts	(2,764)	(9.5)	138	10.1	(2,006)	(9.6)	(4,632)	
Debt securities and other fixed interest securities	2,101	7.7	7,008	5.2	7,162	6.7	16,271	
Deposits with credit institutions	1,963	3.4	1,333	3.2	1,244	3.2	4,540	
	1,300		8,479		6,400		16,179	
Longer term investment return:								
Shares and units in unit trusts	1,951	7.0	95	7.0	1,304	7.0	3,350	
Debt securities and other fixed interest securities	1,632	6.0	8,031	6.0	6,346	6.0	16,009	
Deposits with credit institutions	3,431	6.0	2,516	6.0	2,337	6.0	8,284	
	7,014		10,642		9,987		27,643	
Short term fluctuations in investment return	(5,714)		(2,163)		(3,587)		(11,464)	
2001								
	Funds at Lloyd's and other Corporate Assets £000		Share of Syndicate £000		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	
	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	
	5,541		5,928		7,093		18,562	
Short term fluctuations in investment return	(4,858)		349		(4,185)		(8,694)	
1998-2002								
							£000	1997-2001 £000
Longer term investment return credited to operating profit/(loss) and to the general business technical account							94,945	75,373
Actual investment return included in profit/(loss) on ordinary activities in the non-technical account							74,419	73,541
Effect of short term fluctuations over the period							(20,526)	(1,832)

10 OTHER INCOME AND EXPENSES

	2002 £000	2001 £000
Agency salaries	3,023	2,176
Underwriting agency income	1,627	–
Profit commission	3,437	159
Other	2,032	998
Total other income	10,119	3,333
Operating profit/(loss) is stated after charging:		
Loan interest payable	1,432	1,099
Amortisation of goodwill and Lloyd's capacity costs	1,412	1,410
Finance lease charges	32	121
Operating lease charges (net of recharges to the managed syndicate)	1,750	1,793
Depreciation (net of recharges to the managed syndicate) on tangible fixed assets:		
– Owned assets	1,223	1,151
– Leased assets	138	190
Exchange losses/(gains)	(814)	385
Increase in provisions for bad and doubtful debts (including share of syndicate)	3,850	1,100

11 AUDITORS' REMUNERATION

Fees payable to the auditors and its associates (exclusive of VAT)

a) Group

	2002 £000	2002 %	2001 £000	2001 %
Services as auditors	230	54%	204	36%
Further assurance services				
– Tax compliance	5	1%	44	8%
	235	55%	248	44%
Other non-audit services*				
Work performed in relation to:				
– Rights Issue/Open Offer	190	45%	200	35%
– Conversion scheme	–	–	20	4%
– Chubb bid	–	–	75	13%
– Other corporate projects	–	–	21	4%
	190	45%	316	56%
	425	100%	564	100%

b) Company

	2002 £000	2002 %	2001 £000	2001 %
Services as auditors	87	31%	83	20%
Further assurance services				
– Tax compliance	–	–	17	4%
	87	31%	100	24%
Other non-audit services*				
Work performed in relation to:				
– Rights Issue/Open Offer	190	69%	200	48%
– Conversion scheme	–	–	20	5%
– Chubb bid	–	–	75	18%
– Other corporate projects	–	–	21	5%
	190	69%	316	76%
	277	100%	416	100%

*Non-audit services with fees greater than £50,000 must be pre-approved by the audit committee which is comprised solely of independent directors.

Notes to the Accounts (continued)

12 EMPLOYEES' REMUNERATION

Their aggregate remuneration and associated costs were:

	2002 £000	2001 £000
Wages and salaries	24,012	18,753
Social security costs	3,195	2,348
Other pension costs	3,934	3,046
	31,141	24,147

The average monthly number of staff employed by the Group was 367 (2001: 363), comprising 118 underwriting and 249 administrative staff (2001: 123 and 240 respectively). Of the total remuneration shown above, an amount of £12,343,000 was re-charged to the syndicate managed by Hiscox Syndicates Limited (2001: £11,421,000).

The Group operates an Inland Revenue approved SAYE employee share option scheme and has taken advantage of the exemption given in UITF Abstract 17 "Employer share schemes" from recognising a charge in the profit and loss account for the discount on the options.

13 EARNINGS/LOSS PER ORDINARY SHARE

	2002 Earnings £000	Average number of shares 000	2002 EPS p	2001 Loss £000	Average number of shares** 000	2001 LPS p
Adjusted basic, based on operating profit/(loss) after tax (on longer term investment return)	23,720	210,350	11.3	(15,090)	156,098	(9.7)
Basic, based on profit/(loss) on ordinary activities after tax	13,975	210,350	6.6	(23,107)	156,098	(14.8)
Diluted, based on profit/(loss) on ordinary activities after tax*	13,975	214,407	6.5	(23,107)	156,098	(14.8)

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

**The average number of shares and hence the loss per share for 2001 have been restated to reflect the impact on capital arising from the Rights Issue in September 2002.

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

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

	2002 EPS p	2001 LPS p
Basic based on profit/(loss) on ordinary activities after tax	6.6	(14.8)
Short term fluctuations in investment return	3.8	3.9
Movement in equalisation provision	0.9	1.2
Adjusted basic based on operating profit/(loss) after tax	11.3	(9.7)

Diluted earnings/loss per share has been calculated taking into account 2,941,000 (2001: nil) options under employee share schemes and 1,116,000 (2001: nil) options under SAYE share schemes.

14 TAXATION

	2002 £000	2001 £000
Current tax		
UK corporation tax on profits/(losses) of the period	4,531	525
Foreign tax	301	9
Adjustments in respect of previous periods		
UK corporation tax	1,275	350
Foreign tax	(1)	–
Total current tax	6,106	884
Deferred tax		
Origination and reversal of timing differences	3,222	(9,276)
Adjustments in respect of previous periods	(2,988)	(997)
Total deferred tax	234	(10,273)
Total tax on profit/(loss) on ordinary activities	6,340	(9,389)

Factors that may affect future tax charges

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) on ordinary activities before tax is as follows:

	2002 £000	2001 £000
Profit/(loss) on ordinary activities before tax	20,315	(32,496)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	6,095	(9,749)
Effects of:		
Expenses not deductible for tax purposes	(2,273)	10,847
Capital allowances in excess of depreciation	96	20
Other short term timing differences	721	233
Tax losses not utilised in the period	–	(957)
Foreign tax, income tax and excess tax on Controlled Foreign Companies	192	140
Adjustments in respect of previous periods	1,275	350
Current tax charge for period	6,106	884
Accelerated capital allowances	499	–
Short term timing differences	12,325	13,103
Underwriting losses	–	1,495
Capital gains	–	(299)
Undiscounted provision for deferred tax asset/(liability)	12,824	14,299

There is a deferred tax asset unprovided of £1,955,000 for the Group. £1,413,000 of the unprovided tax asset is in respect of the unrealised loss arising within the holdings of shares and units in unit trusts. The balance relates to losses carried forward, of which £486,000 relates to overseas companies.

The Company has a deferred tax asset unprovided of £501,000 at the year-end, of which £445,000 relates to the unrealised loss arising within the holdings of shares and units in unit trusts. The balance relates to excess management expenses brought forward from earlier years.

Notes to the Accounts (continued)

15 INTANGIBLE ASSETS

a) Goodwill	£000
Cost	
At 1 January 2002	8,587
Goodwill acquired	50
At 31 December 2002	8,637
Amortisation	
At 1 January 2002	1,590
Charge for the year	430
At 31 December 2002	2,020
Net book value at 31 December 2002	6,617
Net book value at 31 December 2001	6,997
b) Other intangible assets	£000
Cost	
At 1 January 2002	19,634
Additions	651
At 31 December 2002	20,285
Amortisation	
At 1 January 2002	2,834
Charge for the year	982
At 31 December 2002	3,816
Net book value at 31 December 2002	16,469
Net book value at 31 December 2001	16,800

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

16 INVESTMENTS – GROUP

	Freehold £000	Short Leasehold £000	Total £000
a) Land and buildings			
Valuation or cost			
At 1 January 2002	407	109	516
Disposals	–	–	–
At 31 December 2002	407	109	516
Depreciation			
At 1 January 2002	–	86	86
Charge for the year	–	10	10
Disposals	–	–	–
At 31 December 2002	–	96	96
Net book value at 31 December 2002	407	13	420
Net book value at 31 December 2001	407	23	430

None of the 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

	Funds at Lloyd's and other Corporate Assets		Share of Syndicate		Insurance Company		Total	
	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost
	£000	£000	£000	£000	£000	£000	£000	£000
Shares and units in unit trusts	28,151	30,503	–	–	27,587	30,038	55,738	60,541
Debt securities and other fixed interest securities	27,496	26,945	172,312	170,168	98,463	98,064	298,271	295,177
Deposits with credit institutions	93,659	93,553	1,448	1,448	53,406	53,408	148,513	148,409
Other	422	254	–	–	–	–	422	254
	149,728	151,255	173,760	171,616	179,456	181,510	502,944	504,381

	Funds at Lloyd's and other Corporate Assets		Share of Syndicate		Insurance Company		Total	
	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost
	£000	£000	£000	£000	£000	£000	£000	£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 interest 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

Of the above investments, equities with a market value of £1,945,000 and all the debt securities and other fixed interest securities are listed on a recognised stock exchange.

The total market value of investments purchased and disposed of in the year was £795,415,000 (2001: £303,094,000) and £634,345,000 (2001: £217,965,000) respectively.

17 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2002 £000	2001 £000
Policyholders	23,137	152
Intermediaries	176,235	130,537
	199,372	130,689

Notes to the Accounts (continued)

18 TANGIBLE ASSETS – GROUP

Cost	Plant and Machinery £000	Fixtures and Fittings £000	Total £000
At 1 January 2002	8,265	5,479	13,744
Additions	2,296	216	2,512
Disposals	(528)	(30)	(558)
At 31 December 2002	10,033	5,665	15,698
Depreciation			
At 1 January 2002	4,897	1,829	6,726
Charge for the year	1,600	400	2,000
Disposals	(147)	–	(147)
At 31 December 2002	6,350	2,229	8,579
Net book value at 31 December 2002	3,683	3,436	7,119
Net book value at 31 December 2001	3,368	3,650	7,018

Assets held under finance leases account for £434,000 of the net book value of the assets above (2001: £1,261,000). The total depreciation for the period relating to these assets amounted to £235,000 (2001: £357,000).

19 FIXED ASSETS – COMPANY

a) Tangible Assets	Art £000	
Cost at 1 January 2002		381
Additions		127
Disposals		(10)
Cost at 31 December 2002		498
b) Investment in subsidiary undertakings	2002 £000	2001 £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 30.

c) Investments	Shares and units in unit trusts £000	Debt securities and other fixed interest securities £000	Deposits with credit institutions £000	Other £000	Total £000
Cost at 1 January 2002	12,650	6,128	24,482	39	43,299
Purchases	1,162	4,815	64,767	15	70,759
Sales	–	(4,677)	–	–	(4,677)
Cost at 31 December 2002	13,812	6,266	89,249	54	109,381
Market value at 31 December 2002	12,395	6,463	89,265	54	108,177
Market value at 31 December 2001	13,123	6,153	24,498	39	43,813

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 27.

20 OTHER DEBTORS

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Due from Group companies	–	–	109,085	85,072
Taxation recoverable	–	2,912	1,083	1,164
Deferred tax asset	12,824	15,207	2	–
Net profit commission receivable	2,772	314	–	–
Other debtors	6,971	14,418	29	5
Share of syndicate's other debtors balances	25,166	19,082	–	–
	47,733	51,933	110,199	86,241

21 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Proposed final dividend	6,914	–	6,914	–
Due to Group companies	–	–	4,541	14,321
Taxation payable	2,730	2,424	–	–
Amounts owed to credit institutions	21	2,059	–	–
Obligations under finance leases	454	1,042	–	–
Other creditors	11,396	14,845	1	450
Share of syndicate's other creditors balances	14,899	22,468	–	–
	36,414	42,838	11,456	14,771

22 PROVISION FOR OTHER RISKS AND CHARGES

	Group Deferred Tax £000	Group Other £000	Group Total £000	Company Deferred Tax £000
At 1 January 2002	908	18	926	144
Utilised in the year	(908)	(18)	(926)	(144)
At 31 December 2002	–	–	–	–

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

23 SHARE CAPITAL

	Number of shares	£000
Authorised – Ordinary shares of 5p each		
At 1 January 2002	260,000,000	13,000
26 September 2002 creation of new shares as part of Rights Issue	150,000,000	7,500
At 31 December 2002	410,000,000	20,500
Issued and fully paid – Ordinary shares of 5p each		
At 1 January 2002	192,667,249	9,633
Exercise of approved and unapproved share options	80,581	4
Exercise of SAYE share options	78,328	4
New shares issued as part of Rights Issue	96,350,527	4,818
At 31 December 2002	289,176,685	14,459

96,350,527 shares were issued at a price of 120.0p per share on 22 October 2002 as part of the Rights Issue. The mid-market price of Hiscox plc shares at close on 27 September 2002 was 140.0p.

Notes to the Accounts (continued)

24 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Issued Share Capital 2002 £000	Share Premium Reserve 2002 £000	Merger Reserve 2002 £000	Capital Redemption Reserve 2002 £000	Capital Reserve 2002 £000	Profit and Loss Account 2002 £000	Total Share- holders' Funds 2002 £000	Total Share- holders' Funds 2001 £000
a) Total shareholders' funds Group								
At 1 January	9,633	124,612	4,723	33,244	–	(7,421)	164,791	133,562
Exercise of share options	8	156	–	–	–	–	164	143
Shares issued as part of Rights Issue	4,818	105,817	–	–	–	–	110,635	54,228
Exchange differences taken to reserves	–	–	–	–	–	(50)	(50)	(35)
Retained profit/(loss) for the year	–	–	–	–	–	4,762	4,762	(23,107)
At 31 December	14,459	230,585	4,723	33,244	–	(2,709)	280,302	164,791

	Issued Share Capital 2002 £000	Share Premium Reserve 2002 £000	Merger Reserve 2002 £000	Capital Redemption Reserve 2002 £000	Capital Reserve 2002 £000	Profit and Loss Account 2002 £000	Total Share- holders' Funds 2002 £000	Total Share- holders' Funds 2001 £000
b) Total shareholders' funds Company								
At 1 January	9,633	124,612	58,970	33,244	351	9,163	235,973	180,641
Exercise of share options	8	156	–	–	–	–	164	143
Shares issued as part of Rights Issue	4,818	105,817	–	–	–	–	110,635	54,228
Unrealised gains/(losses) net of tax	–	–	–	–	(1,620)	–	(1,620)	(727)
Retained profit/(loss) for the year	–	–	–	–	–	(1,631)	(1,631)	1,688
At 31 December	14,459	230,585	58,970	33,244	(1,269)	7,532	343,521	235,973

25 DIRECTORS' EMOLUMENTS

	2002 Basic Salary/Fees £000	2002 Benefits £000	2002 Bonus £000	2002 Total £000	2001 Basic Salary/Fees £000	2001 Benefits £000	2001 Bonus £000	2001 Total £000
a)								
Executive directors								
RRS Hiscox	247	17	164	428	244	23	–	267
BE Masojada	229	16	260	505	225	16	–	241
RS Childs	247	18	250	515	238	18	–	256
SJ Bridges	201	18	205	424	186	18	–	204
Non-executive directors								
SH Hall	35	–	–	35	35	–	–	35
AGC Howland Jackson	30	–	–	30	30	–	–	30
DND Netherton	30	–	–	30	30	–	–	30
C Franklin Engler	28	–	–	28	24	–	–	24

b) Pension Entitlements

The pension entitlements of the directors in relation to the Hiscox defined benefit scheme were as follows:

	Increase in accrued pension during the year £000	Total accrued pension at 31 Dec 2002 £000	Transfer value of the increase in accrued pension £000	Transfer value of accrued pension at 1 Jan 2002 £000	Transfer value of accrued pension at 31 Dec 2002 £000	Increase in transfer value of accrued benefit during the year £000
RRS Hiscox	8	179	136	3,158	3,617	459
BE Masojada	3	20	12	141	120	(21)
RS Childs	10	107	82	1,164	1,049	(115)
SJ Bridges	3	12	15	70	68	(2)

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.

25 DIRECTORS' EMOLUMENTS continued

c)

Total directors' remuneration of which £727,000 was recharged to the managed syndicate (2001: £981,000) was:

	2002	2001
	£000	£000
Salaries, benefits and bonuses	1,872	1,094
Fees to non-executive directors	123	119
	1,995	1,213

One director exercised his share options during the year (2001: nil).

d)

(i) Directors' share interests

	31 December 2002	31 December 2002	31 December 2001	31 December 2001
	5p Ordinary Shares	5p Ordinary Shares	5p Ordinary Shares	5p Ordinary Shares
	Number of shares	Number of shares	Number of shares	Number of shares
	Beneficial	Non Beneficial	Beneficial	Non Beneficial
Executive directors				
RRS Hiscox	8,829,859	598,146	7,849,046	665,000
BE Masojada	1,679,535	–	1,119,691	–
RS Childs	717,078	–	570,271	–
SJ Bridges	97,500	–	65,000	–
Non-executive directors				
SH Hall	35,500	–	28,000	–
AGC Howland Jackson	49,589	–	33,060	–
DND Netherton	30,000	–	26,000	–
C Franklin Engler	17,550	–	–	–

Hiscox Trustees Ltd is the trustee of the Hiscox plc group Employee Share Ownership Plan Trust (ESOP) and at 31 December 2002 was interested in 255,466 (2001: 170,311) ordinary shares of the Company. The executive directors are potential beneficiaries of the ESOP and are also deemed to have an additional interest in these shares.

Subsequent to the year-end, RRS Hiscox disposed of 15,431 non-beneficial shares. No other transactions have taken place subsequent to the year-end up to the date of these Report and Accounts.

Notes to the Accounts (continued)

25 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.

During the year, adjustments were approved by the Board to the number of options in issue and the exercise prices to take account of the recent Rights Issue and Open Offer and Placing. These adjustments were consistent with the preferred methodology set out in the Inland Revenue Share Schemes Manual and were based on the method of calculating the theoretical ex-rights price set out in Financial Reporting Standard 14 "Earnings per share". Approval has been received from the Inland Revenue for the adjustments to all the approved schemes and the Company's auditors have provided confirmation that the adjustments are fair and reasonable for those schemes that required such a confirmation.

	No. of options at 1 January 2002	No. of options granted	No. of options lapsed	No. of options exercised	No. of options adjusted	No. of options at 31 December 2002	Adjusted exercise price £	Market price at date of exercise	Date from which exercisable	Expiry date
SJ Bridges	75,000	–	–	–	7,092	82,092	1.32	–	13 Oct 02	12 Oct 09
	100,000	–	–	–	9,457	109,457	1.05	–	15 Jun 03	14 Jun 10
	50,000	–	–	–	4,728	54,728	1.81	–	03 May 04	02 May 11
	125,000	–	–	–	11,821	136,821	0.83	–	27 Sep 04	26 Sep 11
	–	175,000	–	–	–	175,000	1.29	–	19 Nov 05	18 Nov 12
	350,000	175,000	–	–	33,098	558,098				
RS Childs	100,727	–	–	–	5,036	105,763	0.21	–	7 May 96	6 May 03
	151,091	–	–	–	7,554	158,645	0.31	–	29 Jun 97	28 Jun 04
	201,454	–	–	–	10,072	211,526	1.10	–	13 May 99	12 May 03
	80,000	–	–	–	7,566	87,566	1.75	–	17 Dec 00	16 Dec 04
	80,000	–	–	–	7,566	87,566	1.62	–	20 Oct 01	19 Oct 05
	100,000	–	–	–	9,457	109,457	1.32	–	13 Oct 02	12 Oct 09
	150,000	–	–	–	14,186	164,186	1.05	–	15 Jun 03	14 Jun 10
	70,000	–	–	–	6,620	76,620	1.81	–	03 May 04	02 May 11
	125,000	–	–	–	11,821	136,821	0.83	–	27 Sep 04	26 Sep 11
	–	200,000	–	–	–	200,000	1.29	–	19 Nov 05	18 Nov 12
	1,058,272	200,000	–	–	79,878	1,338,150				
RRS Hiscox	80,000	–	–	–	7,566	87,566	1.75	–	17 Dec 00	16 Dec 04
	65,000	–	–	–	6,147	71,147	1.62	–	20 Oct 01	19 Oct 05
	15,000	–	–	–	1,418	16,418	1.62	–	20 Oct 01	19 Oct 08
	50,000	–	–	–	4,727	54,727	1.05	–	15 Jun 03	14 Jun 10
	50,000	–	–	–	4,728	54,728	1.81	–	03 May 04	02 May 11
	260,000	–	–	–	24,586	284,586				
BE Masojada	503,635	–	–	–	25,181	528,816	1.10	–	13 May 99	12 May 03
	80,000	–	–	–	7,566	87,566	1.75	–	17 Dec 00	16 Dec 04
	65,000	–	–	–	6,147	71,147	1.62	–	20 Oct 01	19 Oct 05
	15,000	–	–	–	1,418	16,418	1.62	–	20 Oct 01	19 Oct 08
	100,000	–	–	–	9,457	109,457	1.32	–	13 Oct 02	12 Oct 09
	150,000	–	–	–	14,185	164,185	1.05	–	15 Jun 03	14 Jun 10
	70,000	–	–	–	6,620	76,620	1.81	–	03 May 04	02 May 11
	125,000	–	–	–	11,821	136,821	0.83	–	27 Sep 04	26 Sep 11
	–	200,000	–	–	–	200,000	1.29	–	19 Nov 05	18 Nov 12
	1,108,635	200,000	–	–	82,395	1,391,030				
Sub-total	2,776,907	575,000	–	–	219,957	3,571,864				

25 DIRECTORS' EMOLUMENTS continued

d) continued

(ii) Share options continued

	No. of options at 1 January 2002	No. of options granted	No. of options lapsed	No. of options exercised	No. of options adjusted	No. of options at 31 December 2002	Adjusted exercise price £	Market price at date of exercise	Date from which exercisable	Expiry date
Sub-total b'fwd	2,776,907	575,000	–	–	219,957	3,571,864				
Other Employees	20,145	–	–	(20,145)	–	–	0.19	1.30	01 May 95	30 Apr 02
	50,363	–	–	–	2,517	52,880	0.21	–	07 May 96	06 May 03
	171,237	–	–	–	8,561	179,798	0.31	–	29 Jun 97	28 Jun 04
	402,907	–	–	(60,436)	17,119	359,590	1.10	1.26	13 May 99	12 May 03
	390,000	–	(5,000)	–	36,405	421,405	1.75	–	17 Dec 00	16 Dec 04
	219,500	–	(32,000)	–	17,720	205,220	1.75	–	17 Dec 00	16 Dec 07
	470,000	–	(40,000)	–	40,658	470,658	1.62	–	20 Oct 01	19 Oct 05
	203,000	–	(27,500)	–	16,581	192,081	1.62	–	20 Oct 01	19 Oct 08
	788,000	–	(20,000)	–	72,601	840,601	1.32	–	13 Oct 02	12 Oct 09
	1,463,000	–	(45,000)	–	134,057	1,552,057	1.05	–	15 Jun 03	14 Jun 10
	105,000	–	–	–	9,929	114,929	1.03	–	09 Nov 03	08 Nov 10
	100,000	–	–	–	9,456	109,456	1.74	–	14 Feb 04	13 Feb 11
	832,500	–	(26,500)	–	76,180	882,180	1.81	–	03 May 04	02 May 11
	1,625,000	–	(10,000)	–	152,711	1,767,711	0.83	–	27 Sep 04	26 Sep 11
	–	2,425,000	–	–	–	2,425,000	1.29	–	19 Nov 05	18 Nov 12
	6,840,652	2,425,000	(206,000)	(80,581)	594,495	9,573,566				
Total	9,617,559	3,000,000	(206,000)	(80,581)	814,452	13,145,430				

The interests of directors and employees under the UK and International Sharesave schemes of the Group are set out below:

	No. of options at 1 January 2002	No. of options granted	No. of options lapsed	No. of options exercised	No. of options adjusted	No. of options at 31 December 2002	Adjusted exercise price* £/Euro	Market price at date of exercise	Date from which exercisable	Expiry date
SJ Bridges	10,049	–	–	–	950	10,999	0.88	–	01 Aug 03	31 Jan 04
RS Childs	10,049	–	–	–	950	10,999	0.88	–	01 Aug 03	31 Jan 04
RRS Hiscox	8,209	9,282	–	(8,209)	–	9,282	1.08	1.42	01 Dec 05	31 May 06
BE Masojada	13,049	–	–	–	1,234	14,283	0.67	–	01 Dec 04	31 May 05
Other employees	16,485	–	(15,197)	(1,288)	–	–	1.50	1.63	01 Nov 01	30 Apr 02
	112,778	–	(25,182)	(58,540)	1,561	30,617	1.08	1.42	01 Dec 02	31 May 03
	430,264	–	(58,039)	(10,291)	34,184	396,118	0.88	1.26-1.45	01 Aug 03	31 Jan 04
	1,492,743	–	(108,038)	–	129,893	1,514,598	0.67	–	01 Dec 04	31 May 05
	–	233,520	(9,282)	–	–	224,238	1.02	–	01 Dec 05	31 May 06
	2,093,626	242,802	(215,738)	(78,328)	168,772	2,211,134				
International Sharesave Scheme										
Other employees	–	99,500	–	–	9,408	108,908	1.06	–	03 Jan 05	02 Jul 06
	–	30,690	–	–	–	30,690	1.62	–	01 Dec 05	31 May 06
	–	130,190	–	–	9,408	139,598				
Total	2,093,626	372,992	(215,738)	(78,328)	178,180	2,350,732				

*International Sharesave Scheme exercise prices are denominated in Euros.

The Company has taken advantage of the exemptions conferred in UITF 17 "Employee share schemes" in relation to the charging of notional costs 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 £2,000 (2001: £nil). The market price of Hiscox plc shares at 31 December 2002 was 157.5p. The highest and lowest values of Hiscox shares during 2002 was 164.5p and 120.5p (2001: 226.0p and 72.5p).

Notes to the Accounts (continued)

25 DIRECTORS' EMOLUMENTS continued

d) continued

(iii) Performance share plan

During the year, adjustments were approved by the Board to the number of awards in issue to take account of the recent Rights Issue and Open Offer and Placing. These adjustments were consistent with the preferred methodology set out in the Inland Revenue Share Schemes Manual and were based on the method of calculating the theoretical ex-rights price set out in Financial Reporting Standard 14 "Earnings per share". The Company's auditors have provided confirmation that the adjustments are fair and reasonable.

	No. of shares at 1 January 2002	No. of shares awarded	No. of shares lapsed	No. of shares adjusted	No. of shares at 31 December 2002	No. of Date from which exercisable	Expiry date
SJ Bridges	75,000	–	–	7,093	82,093	1 April 03	31 Dec 09
	25,000	–	–	2,364	27,364	1 April 04	31 Dec 10
	10,000	–	–	945	10,945	1 April 05	31 Dec 11
	110,000	–	–	10,402	120,402		
RS Childs	100,000	–	–	9,457	109,457	1 April 03	31 Dec 09
	25,000	–	–	2,364	27,364	1 April 04	31 Dec 10
	10,000	–	–	945	10,945	1 April 05	31 Dec 11
	135,000	–	–	12,766	147,766		
RRS Hiscox	25,000	–	–	2,364	27,364	1 April 04	31 Dec 10
	10,000	–	–	945	10,945	1 April 05	31 Dec 11
		35,000	–	–	3,309	38,309	
BE Masojada	100,000	–	–	9,457	109,457	1 April 03	31 Dec 09
	25,000	–	–	2,364	27,364	1 April 04	31 Dec 10
	10,000	–	–	945	10,945	1 April 05	31 Dec 11
	135,000	–	–	12,766	147,766		
Other employees	357,500	–	(5,000)	33,327	385,827	1 April 03	31 Dec 09
	267,500	–	(7,500)	24,576	284,576	1 April 04	31 Dec 10
	158,000	–	–	14,927	172,927	1 April 05	31 Dec 11
	783,000	–	(12,500)	72,830	843,330		
Total	1,198,000	–	(12,500)	112,073	1,297,573		

26 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 2002 by a qualified independent actuary.

The major assumptions used by the actuary were, in nominal terms, as follows:

	2002	2001
Rate of increase in salaries	3.25% p.a.	3.50% p.a.
Rate of increase in RPI linked pensions in payment	2.25% p.a.	2.50% p.a.
Discount rate	5.50% p.a.	6.00% p.a.
Inflation assumption	2.25% p.a.	2.50% p.a.

The scheme is invested primarily in a unitised fund held with Fidelity Pension Management. The split of assets, their expected rate of return and the funding position at 31 December 2002, measured in accordance with the requirements of FRS 17, were as follows:

	2002 %	2002 £000	2001 %	2001 £000
Equities and properties	6.50	30,935	7.00	37,262
Bonds	4.75	10,037	5.25	6,399
Cash	4.00	2,561	4.00	2,949
Total market value of assets		43,533		46,610
Present value of scheme liabilities		(77,258)		(59,800)
Surplus/(deficit)		(33,725)		(13,190)
Related deferred tax (liability)/asset		10,118		3,957
Surplus/(deficit) in the scheme – pension asset/(liability)		(23,607)		(9,233)

The impact on the net assets and retained profits of the Group at 31 December 2002 of adopting FRS17 would be:

	Net assets £000
Current position at 31 December 2002	280,302
Pension (asset)/liability on a SSAP24 basis	103
Pension asset/(liability) on a FRS17 basis	(23,607)
Restated position at 31 December 2002	256,798

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.

Analysis of the amount that would have been charged to operating profit/(loss) under FRS17

	2002 £000
Current service cost	3,149
Past service cost	–
Gain/(loss) on settlements and curtailments	–
	3,149

Analysis of the amount that would have been credited to net finance charges under FRS17

	2002 £000
Expected return on pension scheme assets	3,147
Interest on pension scheme liabilities	(3,671)
Net return	(524)

Notes to the Accounts (continued)

26 PENSION CONTRIBUTIONS continued

Analysis of the actuarial gain that would have been included in the statement of total recognised gains and losses under FRS17

	2002 £000
Actual return less expected return on pension scheme asset	(8,809)
Experience gains and losses arising on the scheme liabilities	(4,868)
Changes in assumptions underlying the present value of the scheme liabilities	(6,142)
	(19,819)

Movement in scheme deficit during the year

	2002 £000
At 1 January	(13,190)
Current service cost	(3,149)
Contributions	2,957
Past service costs	-
Net finance income	(524)
Actuarial gain	(19,819)
At 31 December	(33,725)

History of experience gains and losses

	2002
Difference between the expected and actual return on scheme assets:	
Amount (£000)	(8,809)
Percentage of scheme assets	20%
Experience gains and losses on scheme liabilities:	
Amount (£000)	(4,868)
Percentage of the present value of scheme liabilities	6%
Total actuarial gain in the statement of total recognised gains and losses:	
Amount (£000)	(19,819)
Percentage of the present value of scheme liabilities	26%

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 £3,409,000 (2001: £2,856,000) of which £1,814,000 was recharged to managed syndicates (2001: £1,696,000).

27 GUARANTEES AND CONTINGENCIES

- i) The Company entered into a deed of covenant in respect of its corporate member subsidiaries, Hiscox Dedicated Corporate Member Ltd, Hiscox Select A, 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 £80,248,738 (2001: £15,875,563). Hiscox Select Insurance Fund PLC has entered into identical deeds of covenant in respect of its corporate member subsidiaries Hiscox Select D to J Ltd totalling £34,123,823 (2001: £35,813,004). 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 J P Morgan (Europe), an agent for a syndicate of banks, for a £137,500,000 irrevocable standby Letter of Credit facility. Commencing 1 January 2003, £125,000,000 was drawn down to support part of the Group's underwriting activities for the 2003 account. Hiscox plc has a fixed and floating charge over the Group's assets as a guarantee to the group of banks led by J P Morgan Chase Bank 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.

Notes to the Accounts (continued)

28 LEASE COMMITMENTS

a) Operating leases

The Group has the following commitments under operating leases:

	Land and buildings 2002 £000	Other 2002 £000	Total 2002 £000	Land and buildings 2001 £000	Other 2001 £000	Total 2001 £000
Operating leases which expire:						
Within one year	–	67	67	2	282	284
From two to five years inclusive	681	–	681	681	57	738
Over five years	2,577	–	2,577	2,577	–	2,577
	3,258	67	3,325	3,260	339	3,599

The Company has no operating lease commitments.

b) Finance leases

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

	2002 £000	2001 £000
In one year or less	351	648
Between two and five years	103	394
	454	1,042

29 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:

	2002 £000	2001 £000
Services provided by Hiscox Syndicates Limited to the undertakings below:		
Lloyd's Syndicate 33	11,429	2,888

Balances due to the Hiscox Group at the balance sheet dates were as follows:

	2002 £000	2001 £000
Due from respective related parties as at 31 December:		
Lloyd's Syndicate 33	1,400	1,449

Notes to the Accounts (continued)

30 PRINCIPAL SUBSIDIARY COMPANIES

As at 31 December 2002

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 (2001: 1,094,334 shares) in Hiscox plc at 31 December 2002 with a market value of £1,723,576 (2001: £1,701,689). These shares are included within other financial investments.

*Hiscox Insurance Company (Guernsey) Limited has subscribed cellular share capital of \$1,175,000 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, made a profit in the year of \$910,621 (2001: loss \$1,020,147) which has been included in the figures of Hiscox Insurance Company (Guernsey) Limited and consolidated in these Report and Accounts. The cumulative loss of Cell Hiscox to date is \$386,811.

Notes to the Consolidated Cash Flow Statement

31

		2002 £000	2001 £000
a) Reconciliation of operating profit/(loss) to net cash inflow from operating activities:			
Operating profit/(loss) before taxation after interest, based on longer term investment return		34,482	(21,220)
Depreciation and amortisation of fixed assets		3,422	3,274
Increase in general insurance technical provisions, net of reinsurance		22,254	37,115
Increase/(decrease) in amounts owed to agents		13,238	(6,280)
(Increase)/decrease in amounts owed by agents		(3,729)	(4,713)
(Increase)/decrease in other debtors		(1,024)	(35,779)
Increase/(decrease) in other creditors		2,721	12,775
Cash transferred (to)/from Lloyd's business (note 31c)		(23,037)	(12,489)
Realised and unrealised investment (gains)/losses		4,841	5,991
Short term fluctuations in investment return		(11,464)	(8,694)
Interest expense		1,432	1,099
(Profits)/losses relating to Lloyd's business		(21,034)	31,641
Other non-cash transactions		(70)	86
Net cash inflow from operating activities		22,032	2,806
b) Movement in opening and closing portfolio investments net of financing			
	Notes	2002 £000	2001 £000
Net cash inflow/(outflow) for the period	31(e)	25,288	6,369
Portfolio investments	31(e)	98,483	45,779
Decrease/(increase) in loans	31(e)	2,626	(905)
Movement arising from cash flows		126,397	51,243
Movement in long term and Lloyd's business	31(c), 31(e)	95,975	57,035
Changes in market value and exchange rate effects	31(e)	(2,717)	(4,549)
Increase in portfolio investments net of financing		219,655	103,729
Total portfolio investments net of financing at 1 January		403,654	299,925
Total portfolio investments net of financing at 31 December		623,309	403,654
c) Cash flows of the Lloyd's business			
		2002 £000	2001 £000
Premiums received, net of reinsurance		254,365	124,051
Claims paid, net of reinsurance		(80,382)	(52,881)
Net portfolio investments		6,652	6,011
Other net cash flows		(107,697)	(32,635)
Net cash flow before retention and transfer from/(to) the Group		72,938	44,546
Transfer from/(to) the Group		23,037	12,489
Cash retained in the Lloyd's business		95,975	57,035

Notes to the Consolidated Cash Flow Statement (continued)

31 continued

	2002 £000	2001 £000
d) Analysis of cash flows for headings netted in the cash flow statement		
Servicing of finance		
Interest paid	(1,644)	(559)
Interest paid element of finance leases	(65)	(121)
	(1,709)	(680)
Capital expenditure		
Payments to acquire tangible fixed assets	(2,470)	(2,772)
Receipts from sales of tangible fixed assets	(398)	4
Payments to acquire intangible fixed assets	(701)	(6)
	(3,569)	(2,774)
Acquisitions and disposals		
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
Financing		
Proceeds from share issues*	110,799	54,371
New bank loan	–	1,378
Repayment of bank loan	(2,038)	–
Capital element of finance leases	(222)	(381)
	108,539	55,368

*Net of expenses of £4,986,413 (2001: £1,779,633).

Portfolio investment		
Purchase of shares and units in unit trusts	19,911	8,402
Purchase of debt securities and other fixed interest securities	175,765	120,564
Sale of shares and units in unit trusts	–	(10,339)
Sale of debt securities and other fixed interest securities	(165,451)	(117,772)
Increase/(decrease) in deposits with credit institutions	68,265	44,924
Increase/(decrease) in other investments	(7)	–
	98,483	45,779

e) Movement in cash, portfolio investments and financing*	At 1 Jan 2002 £000	Cash flow £000	Changes in other business £000	Changes to market value and currencies £000	At 31 Dec 2002 £000
Cash at bank and in hand	62,520	25,288	33,388	–	121,196
Shares and units in unit trusts	46,049	19,911	(3,732)	(6,490)	55,738
Debt securities and other fixed interest securities	216,156	10,314	67,931	3,870	298,271
Deposits with credit institutions	81,957	68,265	(1,612)	(97)	148,513
Other investments	73	(7)	–	(12)	54
	406,755	123,771	95,975	(2,729)	623,772
Loans due within 1 year	(2,059)	2,038	–	–	(21)
Finance leases	(1,042)	588	–	–	(454)
Total	403,654	126,397	95,975	(2,729)	623,297

*These balances include amounts relating to syndicate participations, but exclude participations in associated undertakings of £368,000 (2001: £167,000).

f) Scope of cash flow

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

Five Year Summary

	2002 £000	2001 £000	2000 £000	1999 £000	1998 £000
Results					
Gross premiums written	676,705	548,926	384,736	323,677	241,302
Net premiums written	416,144	412,577	260,687	245,371	193,291
Net premiums earned	385,129	344,199	241,450	201,452	172,460
Operating profit/(loss) before taxation	34,482	(21,220)	2,950	5,427	12,195
Short term fluctuations in investment return	(11,464)	(8,694)	1,043	(3,672)	2,260
Exceptional items	–	–	1,803	–	2,535
Movement in equalisation provision	(2,703)	(2,582)	(2,309)	(1,643)	(1,739)
Profit/(loss) on ordinary activities before taxation	20,315	(32,496)	3,487	112	15,251
Profit/(loss) on ordinary activities after taxation	13,975	(23,107)	5,430	84	9,725
Combined ratio	94.8%	109.9%	103.1%	102.7%	97.3%
Assets employed					
Intangible assets	23,086	23,797	24,407	21,785	22,374
Financial investments	502,944	344,402	263,655	228,979	228,568
Cash at bank and in hand	121,196	62,520	38,466	27,602	43,868
Net technical provisions	(613,108)	(512,993)	(303,652)	(295,042)	(242,054)
Other net assets	246,184	247,065	110,686	146,261	81,160
Net assets	280,302	164,791	133,562	129,585	133,916
Financed by					
Shareholders' funds	280,302	164,791	133,562	129,585	133,916
Key statistics					
Adjusted earnings/(loss) per share based on operating profit/(loss) after tax*	11.3p	(9.7)p	3.2p	2.4p	4.9p
Earnings/(loss) per share based on profit/(loss) on ordinary activities after tax*	6.6p	(14.8)p	3.5p	0.1p	6.3p
Diluted earnings/(loss) per share based on profit/(loss) on ordinary activities after tax*	6.5p	(14.8)p	3.4p	0.1p	6.2p
Dividends per share*	3.54p	0.00p	3.17p	3.17p	3.17p
Return on shareholders' funds***	8.5%	(17.3%)	4.2%	0.1%	9.8%
Share price – high**	164.5p	226.0p	144.0p	202.5p	260.0p
Share price – low**	120.5p	72.5p	83.0p	130.5p	140.0p

*Earnings/(losses) and dividends per share for earlier years have been restated for subsequent changes of capital not involving full consideration at fair value, including bonus issues and rights issues.

**Closing mid market price.

***Profit on ordinary activities after taxation as a percentage of opening shareholders' funds.

Notice of Annual General Meeting

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 24 June 2003 at 11.00 am for the following purposes:

ORDINARY BUSINESS

1) To receive the accounts of the company for the year ended 31 December 2002 together with the directors' and auditors' reports thereon.

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

2) RRS Hiscox

3) AGC Howland Jackson

4) DND Netherton

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 auditors' remuneration.

7) To declare a final dividend for the year ended 31 December 2002 of 2.4 pence per ordinary share payable to shareholders on the register at the close of business on 22 April 2003.

SPECIAL BUSINESS

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

ORDINARY RESOLUTIONS

8) 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 £4,820,390.90, representing 33.3% of the issued ordinary share capital as at 26 March 2003, 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.

9) That the Remuneration Report contained within the Report and Accounts for the year ended 31 December 2002 be approved.

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 £723,058.60.

By order of the Board

SJ Bridges

Secretary

26 March 2003

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.

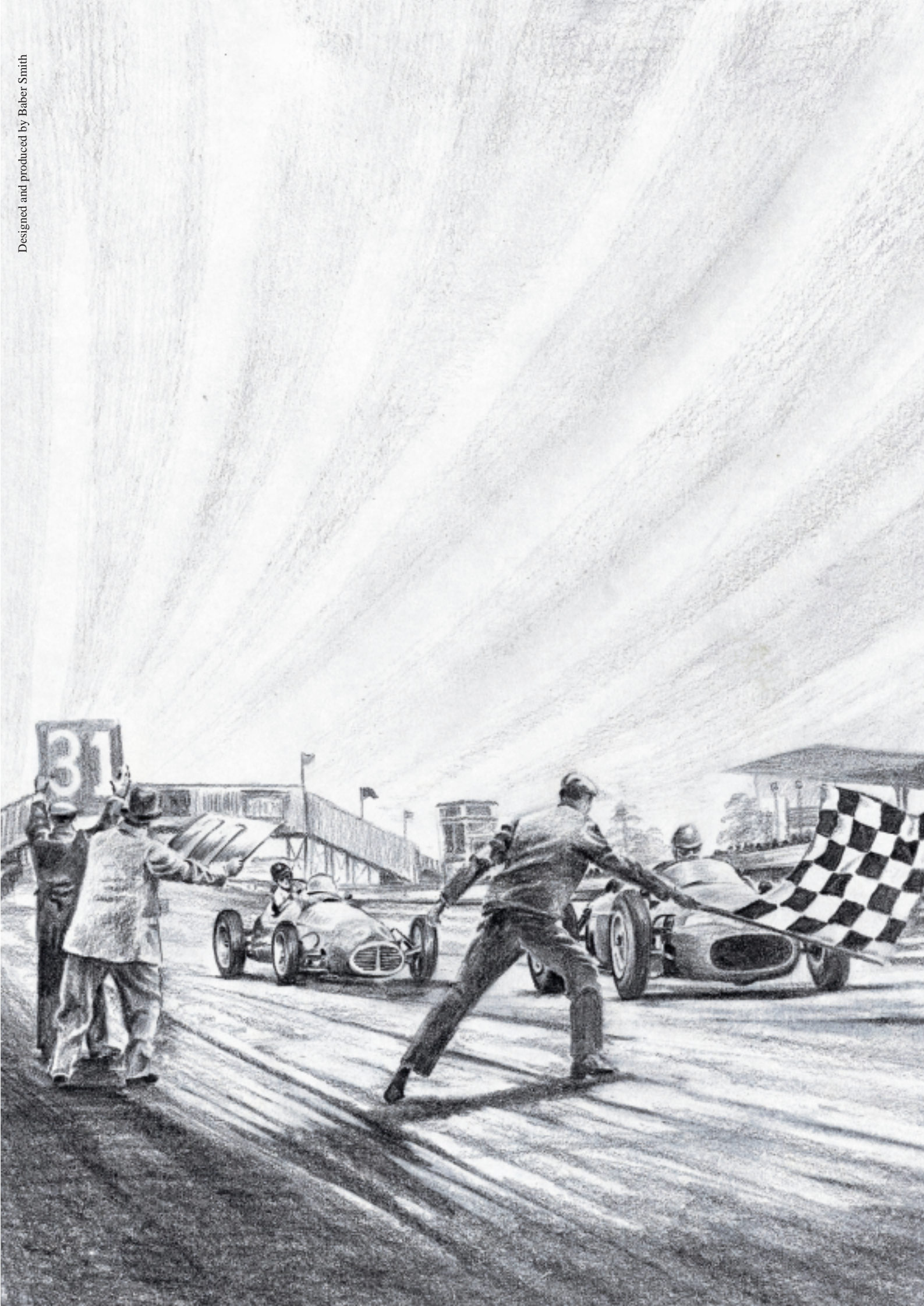
Key Shareholder Information

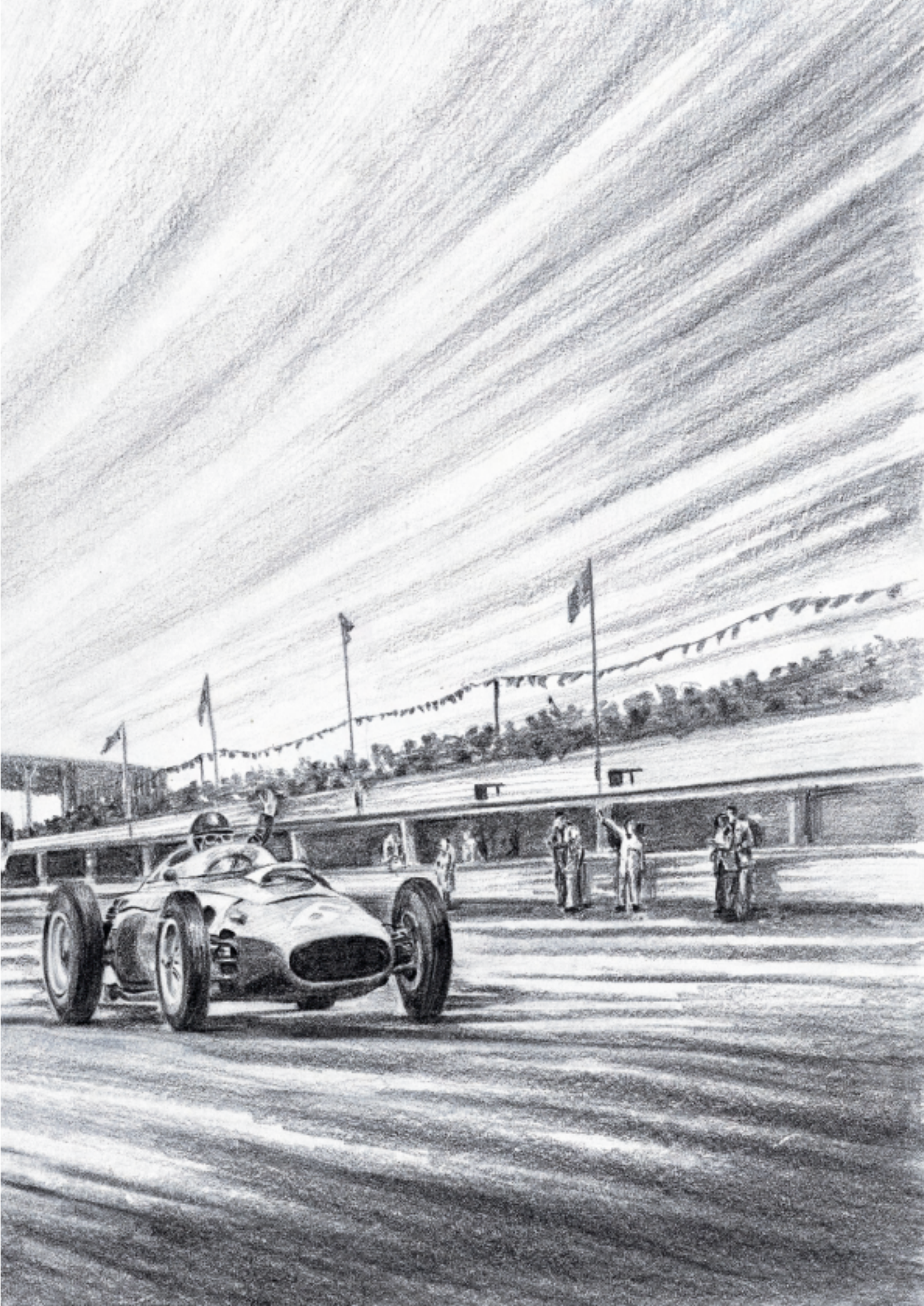
ANNUAL GENERAL MEETING	24 JUNE 2003
EX-DIVIDEND DATE*	16 APRIL 2003
RECORD DATE FOR 2002 FINAL DIVIDEND**	22 APRIL 2003
PAYMENT FOR FINAL DIVIDEND	30 JUNE 2003

*SHARES BOUGHT ON OR AFTER THIS DATE WILL NOT QUALIFY FOR THE DIVIDEND.
**SHAREHOLDERS MUST BE ON OUR REGISTER ON THIS DATE TO RECEIVE A DIVIDEND.

ENQUIRIES

Hiscox plc, 1 Great St Helen's, London EC3A 6HX, United Kingdom
Or visit our website at www.hiscox.com







HISCOX

Hiscox plc, 1 Great St Helen's, London EC3A 6HX, United Kingdom
Telephone: +44 (0) 870 240 5592 Facsimile: +44 (0) 800 032 0446
Email: enquiry@hiscox.com Website: www.hiscox.com