HISCOX

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

Tel: 020 7448 6000
Fax: 020 7448 6900
Email: enquiry@hiscox.com
Website: www.hiscox.com

Hiscox plc Report and Accounts 2003

HISCOX

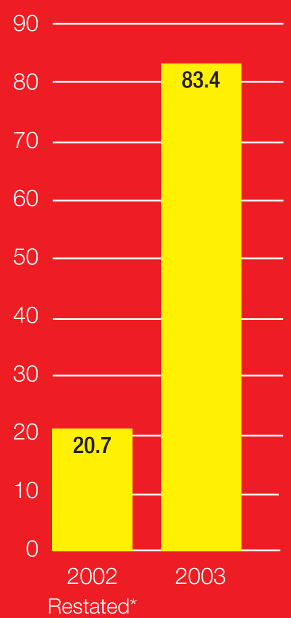
Record results – but that's already old news.

We are focused on the future and know that we will be judged by our prospects, not our past.

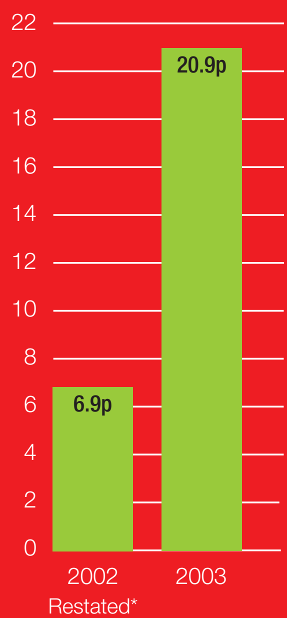
As the wise man said, "I dread success. To have succeeded is to have finished one's business on earth, like the male spider, who is killed by a female the moment he has succeeded in his courtship. I like a state of continual becoming, with a goal in front and not behind."

- **Record pre-tax profit of £83.4 million**
- **Group combined loss ratio, excluding WTC, 79.3% (2002: 91.8%)**
- **Hiscox plc gross written premium income up 18% to £797.4 million**
- **Net earned premium up 42% to £547.5 million**
- **Post-tax return on capital of 21.7% (2002: 8.7%)**
- **Final dividend increased 21% to 2.9p per share**
- **Exceptional 12 months for Lloyd's Syndicate 33, with a firm year-end renewal season. Gross written premium applicable to Hiscox plc up 17% to £541.4 million (2002: £461.8 million). Profit before tax of £64.5 million (2002: £13.9 million)**
- **UK Retail showed steady growth with gross written premium of £174.6 million (2002: £147.6 million) and profit before tax of £18.5 million (2002: £6.4 million)**
- **A strong outlook for 2004, which has started well. London market prices and retail rates remain firm. A robust pipeline of earnings is expected to continue to flow through from previous years**

Hiscox plc pre-tax profit
(£MILLION)

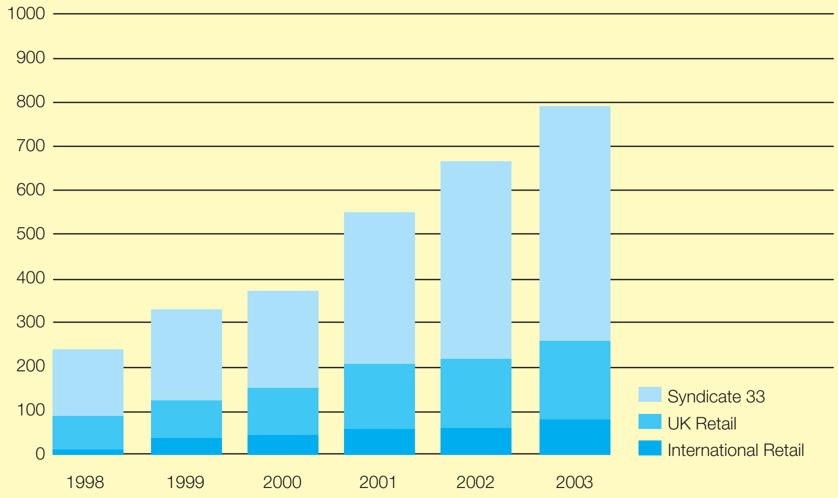


Earnings per share
(Based on profit after tax)



*Restated for the adoption of UITFs 37 and 38. See note 5

GROSS WRITTEN PREMIUM (£MILLION)



Year-on-year growth
- Group **18%**
- Syndicate 33 **17%**
- UK Retail **18%**
- International Retail **21%**

Compound growth over 5 years
- Group **27% p.a.**
- Syndicate 33 **29% p.a.**
- UK Retail **16% p.a.**
- International Retail **75% p.a.**

GROUP CONTROLLED GROSS WRITTEN PREMIUM

London Market Reinsurance
Marine, Non-Marine, Whole Account
£209.7m

ATMT
Aerospace, Technology, Media, Telecommunications
£61.8m

Professional Insurances
Traditional, Non-Traditional
£81.9m

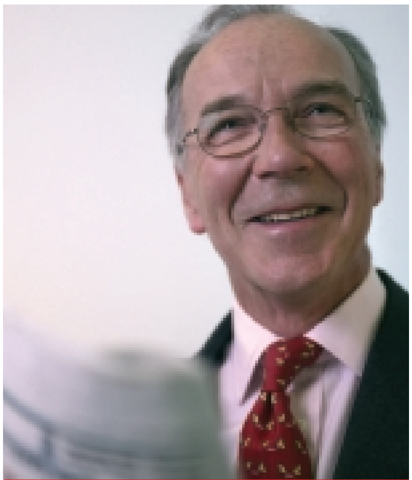
London Market Direct
Property, Construction, Terrorism, Energy, Marine Hull and Cargo, Liability, Political Risks, Specie, Enterprise Risk
£438.4m

High Net Worth Personal Lines
Fine Art, Kidnap and Ransom, Yachts, Bloodstock, High Value Household, Contingency, Personal Accident
£291.4m

Total
£1,083.2m

CHAIRMAN'S STATEMENT

"It is a great pleasure to report record profits and solid growth. Healthy earnings will continue to flow through from these good years and 2004 has started well. We will grow the business and its profitability by disciplined underwriting and by searching for new business in our chosen specialist areas."



ROBERT HISCOX
CHAIRMAN

Overview

The result for the year ending 31 December 2003 is a record pre-tax profit of £83.4 million (2002: £20.7 million) and an operating profit of £77.1 million (2002: £34.6 million). The gross premium income underwritten by the Group rose to £1,083.2 million (2002: £941.3 million), and the gross premium income applicable to Hiscox plc increased to £797.4 million (2002: £676.7 million).

These profits were earned after a further provision of £40 million during the year for the World Trade Center (WTC) losses. The combined ratio of the Group was 87.2%, or 79.3% without the additional reserve for WTC (2002: 94.8%, or 91.8% without WTC).

A strong investment performance exceeded our long-term benchmark making the real pre-tax profit better than the operating profit by £6.3 million. Positive cashflow helped and total assets (shareholders' funds and technical insurance funds) rose to £826.2 million. Net assets per share increased to 119.1p (2002: 101.8p) and earnings per share, on operating profit after tax, rose to 19.3p (2002: 11.3p).

Dividend

We have a progressive dividend policy, with an ambition of steady dividend growth throughout the insurance cycle. This means showing restraint during very profitable times in order to be able to maintain the growth in dividend, if possible, in less profitable times. In line with this policy, the Board recommends a final dividend of 2.9p (net) per ordinary share, making a total distribution for the year of 4.20p (2002: 3.54p), an increase of 19% on 2002. This will be paid on 28 June 2004 to shareholders on the register on 23 April 2004.

People

The profits and dividend have been made by all our staff and I want to thank them right at the beginning. Shareholders provide the capital to back the endeavours of the staff, and the staff use their brains to provide the best possible insurance products and service to make profits. Capital, people and goodwill are all we have in the insurance industry, and the people make the goodwill. We constantly need good people, so if you are, or if you know, a good person who wants to work in a vibrant, growing insurance company – please get in touch.

Ambition and strategy

The ambition remains to build a highly respected and profitable specialist insurer. The strategy also remains the same – to underwrite internationally traded risks and London Market speciality business through the Hiscox Syndicate 33 at Lloyd's, and balance it with European retail business written outside Lloyd's, mainly through the Hiscox Insurance Company.

The strategy has not changed for many years. Syndicate 33 always wrote a retail book to complement the more volatile catastrophe book and still does. It was among the first to form a service company to underwrite retail business to regional brokers in 1989, and we were the first Lloyd's company to acquire a general insurance company to underwrite retail business outside Lloyd's in 1996.

There is no doubt that internationally traded business will come under pressure first, so we are increasing our emphasis on building the more stable retail book in and out of Lloyd's. The Board allocates capital where the best use of it can be made. We have recently put the maximum resource behind Syndicate 33: now endeavours outside Lloyd's could yield the best return.

Bronek Masojada will cover the business in detail in his report which follows. I will just make a few comments.

Lloyd's Syndicate 33

2003 was another exceptional year for Syndicate 33 with a total profit of £87 million on a gross income of £827 million (2002: £726 million). I cannot emphasise enough my admiration for Rob Childs and his team who have increased the income dramatically in the period following the ghastly experience of September 11, 2001 – not only showing great spirit in adversity, but also producing some of the best figures in the history of the syndicate. It was ever true that feast always follows famine in the insurance world for those who keep their nerve.

Prices overall remained firm during the year-end renewal season, so given the usual caveats against exceptional losses, 2004 should show another strong result. There was competition for some property risks, but liability premiums continued to increase. The earnings flow from these good years will be felt for the next few years, but we fully understand that the challenge will be to continue to produce good returns should foolish competition return. This we will do by disciplined underwriting and by hunting outside the London Market for good business. Gone are the days when we would sit patiently in Lloyd's waiting for business to be shown to us by Lloyd's Brokers. Our underwriters are searching for new distribution channels and using internet technology to underwrite business overseas.

UK Retail

UK Retail showed good steady growth of 18% to £174.6 million, on which it made a pre-tax profit of £18.5 million – a convincing vindication of our retail thrust.

We continue to focus on two classes of business, one commercial and one personal. First, the insurance of professionals, not only of their liability for mistakes made (Professional Indemnity) but also of other liabilities (such as Employment Liability), and property risks associated with their businesses (such as office contents). Second, the personal insurances of High Net Worth individuals and families.

We have four offices outside London in Glasgow, Leeds, Birmingham and Maidenhead. Local business is mostly placed locally and the distribution of insurance is still very much influenced by relationships. Our offices are vital links into regional markets and we will allocate more resources to them this year.

International Retail

Our two chosen specialities of High Net Worth and Professional Indemnity are also the focus of our international business. Our mainland European offices have grown in volume terms by 53% but have made a loss of £1.9 million (2002: £1.7 million) due to acquisition and new office costs. During the year we absorbed the High Net Worth business from Chubb Europe and wrote off the acquisition costs in the first year, and opened an office in Brussels to service a good proportion of that business. I am putting my head on the block that Europe has an enormous potential for us. The time to invest in expansion there is now while the rest of the Group is flourishing, to reap the reward when conditions here get tighter.

Guernsey continued to provide excellent service to brokers and made £2.3 million (2002: £2.1 million).

The cycle

We fully expect competition to increase in the future as some of our competitors regain their capital and courage, but the foreseeable future remains very exciting. The year end showed good disciplined underwriting in the market. We have taken full advantage of the wonderful market conditions, but what we want and what our shareholders want is to make decent returns over the whole cycle.

The near future looks good as the rates are at a very profitable level and competition is sensible. Looking further out, I think that margins will stay healthier for longer than usual for three reasons. First, reinsurance is expensive and hard to buy, and it is the false comfort of cheap reinsurance which is the main seducer of underwriters into weak underwriting. Second, interest rates are still low, which keeps the focus on profitable underwriting. Third, old liabilities continue to eat at our established rivals whilst we are sheltered from all old liabilities by Equitas which reinsured all the liabilities of Lloyd's prior to 1993. A word of praise is due to Equitas which continues to provide solid results considering the constant bad news on asbestosis and other latent disease losses.

We compete on service and underwriting skill, not just on price. If you compete on price alone, you die. Underwriting discipline is absolutely key, as is good underwriting data. We have plenty of both and will apply them rigorously. We made money throughout at least three full cycles between 1967 and 1997, and I believe that the current underwriters are cleverer than we were, and they are supported (and monitored) by infinitely more sophisticated data.

"2003 WAS ANOTHER EXCEPTIONAL YEAR FOR SYNDICATE 33, PRODUCING SOME OF THE BEST FIGURES IN THE HISTORY OF THE SYNDICATE"

"THE EARNINGS FLOW FROM THESE GOOD YEARS WILL BE FELT FOR THE NEXT FEW YEARS"

"EUROPE HAS AN ENORMOUS POTENTIAL FOR US – THE TIME TO INVEST IN EXPANSION THERE IS NOW"

Lloyd's

Lloyd's (and I mean the franchise, not the businesses using it) is as healthy as I have ever known it. Strong leadership from the Chairman and Chief Executive and direction from the Franchise Board give great comfort. I do not like mutualisation in insurance – we decline the bad risk, the other syndicate writes it and we end up paying. However, I am happy to accept it in Lloyd's to be able to use the global licences and brand. I am absolutely behind all efforts to keep the market disciplined and to stop potentially loss-making syndicates before they threaten us. Lloyd's syndicates should be the elite of the insurance world.

However, whilst margins are high and profits are being made, there is little urgency to finish the reform of the capital structure. The annual venture remains a great handicap to the businesses in the market. On the Lloyd's three year accounting basis, I should be doing a long explanation of our underwriting in 2001 of which the result is now being settled by Lloyd's Names. We are in fact leaving the 2001 year of account open due to the uncertainty caused by the World Trade Center litigation. We feel we must do this for equity between Names who have different participations in the 2001 and subsequent accounts. We would not have to leave it open if the syndicate had one on-going capital supplier.

I hope that the Chairman Lord Levene will swing his eighteen inch guns round to the annual venture before long, and persuade the individual Names and the spread corporate investors to become sensible shareholders for their sakes and that of the market. They add a layer of cost to us which will be a serious handicap when margins get tighter.

Finally

Much as I thrive on adversity, it is a pleasure to report a period of solid growth and dramatic increase in profitability after the traumas of the recent years. I know that commentators on our business want to see regular rabbits popping out of hats and surprising new initiatives. Our strategy remains the same and we laid the foundations for it years ago. In this strong market we are focusing hard on growing in our core areas and time spent on grand new projects or acquisitions would distract us. We never dismiss acquisitions, but they have traditionally been a graveyard in insurance. We search for good people and books of business to add to the quality of our existing business without bringing a legacy of problems. We continue to strive to maximise the use of technology to cut costs and widen our distribution net.

This is my 40th year at Hiscox and I feel that we have just begun. Following Warren Buffett's rationale "it is hard to teach a new dog old tricks", I hope that the Board and shareholders will allow me to enjoy the next few years (unfortunately not another 40) which I believe will be rewarding for all of us.

Robert Hiscox

Robert Hiscox
Chairman
22 March 2004

CHIEF EXECUTIVE'S REPORT

"This year's success is a combination of attractive rates, good underwriting and the avoidance of big losses. We expect trading conditions to remain firm for some time ahead. Our focus will stay on profitable, organic growth."

BRONEK MASOJADA
CHIEF EXECUTIVE

Overview

2003 was a great year for Hiscox. An exceptional performance by our London Market divisions was the primary contributor to profit growth. The other more retail focused divisions within the Group have also made a good contribution.

Our ratings indices remain high and market conditions continue to be attractive. The old adage of rates going up in the lift and coming down via the stairs remains true. This gives us confidence that we will see continued strong performance from the London Market. Over the next several years we plan to concentrate our growth in our retail divisions both inside and outside Lloyd's. Group profits achieved this year give us the ability to continue to strengthen our balance sheet and to fund organic growth without recourse to shareholders.

"OVER THE NEXT SEVERAL YEARS WE PLAN TO CONCENTRATE OUR GROWTH IN OUR RETAIL DIVISIONS BOTH INSIDE AND OUTSIDE LLOYD'S"

Group strategy

Our strategy is to build a profitable leading speciality insurer. We are achieving this by focusing on specific markets, and then developing our position to become a meaningful player within them. We actively allocate our capital within our chosen markets where we see opportunities to earn the best returns. In the past year our strategy has allowed us to grow our controlled gross written premium by £141.9 million to £1,083.2 million – a growth of 15%. The majority of premium growth has come from the London Market divisions where the movement in rates have been most favourable. Our retail businesses continue to perform well year-on-year and in 2003 Hiscox Insurance Company achieved a combined ratio of 93.6%.

Our future strategy is to build the retail constituent of the business as we believe that this brings balance to our business. Retail business underwritten either through Syndicate 33 or Hiscox Insurance Company now accounts for 40% of the Group's controlled gross written premium. We plan to grow this business by deploying a mixture of technology-based distribution, international travel to visit clients and brokers and serving local markets through our office network.

We expect to reduce our presence in London Market segments as rates soften, though we expect this to happen less rapidly than many doomsayers predict. We are determined to retain margin over market share. In the medium term, this may lead to a reduction in gross written premium of the Group, but we believe that this focus on profitable underwriting is in the long-term interests of our shareholders.

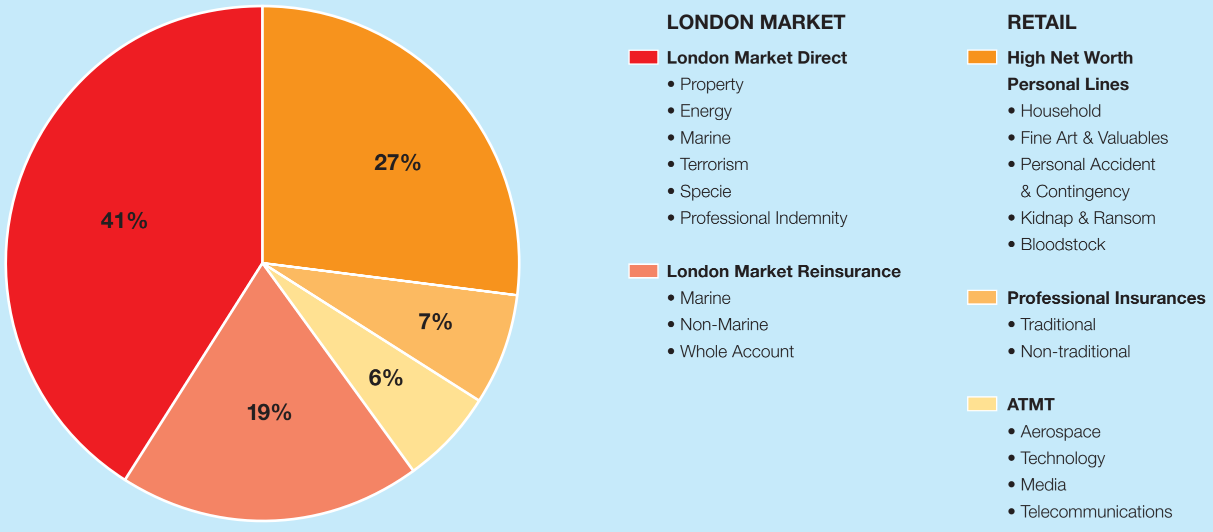
Trading conditions

Rating conditions remain firm across most of our business. However, we remain alert to market trends. Trading conditions and prospects in each of our divisions are reviewed briefly below:

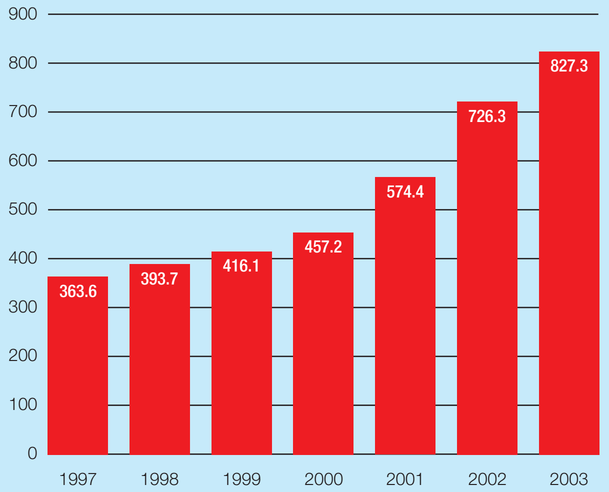
– High Net Worth Personal Lines

Our primary activity in this retail segment is the insurance of the homes, personal possessions and fine art of high net worth individuals. In the UK our business grew and performed well. We are adding more resources to this area as we seek to consolidate and extend our market leadership. In mainland Europe, acquisition of the renewal rights of a portfolio of high net worth clients from Chubb is building critical mass. The Kidnap and Ransom and Fine Art accounts, which are mainly underwritten through Syndicate 33, had a good year.

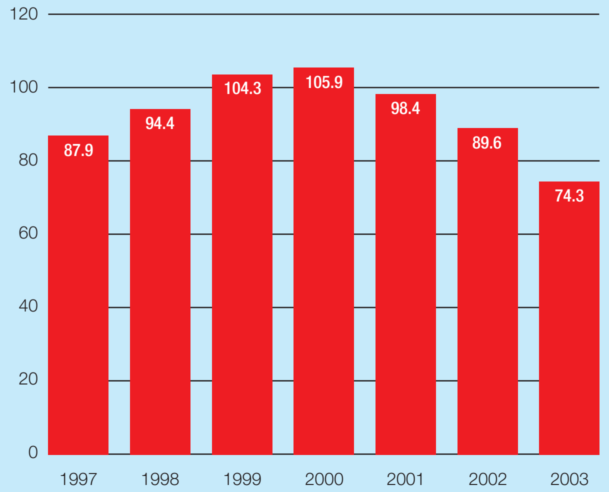
TOTAL CONTROLLED INCOME FOR 2003 : 100% = £1,083 MILLION



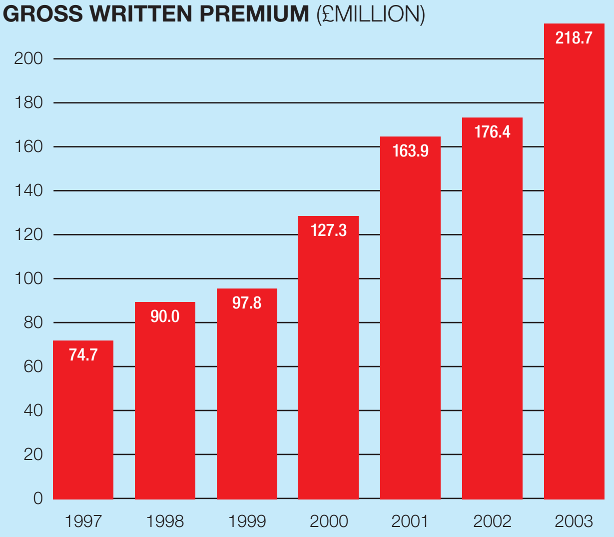
SYNDICATE 33 GROSS WRITTEN PREMIUM (£MILLION)



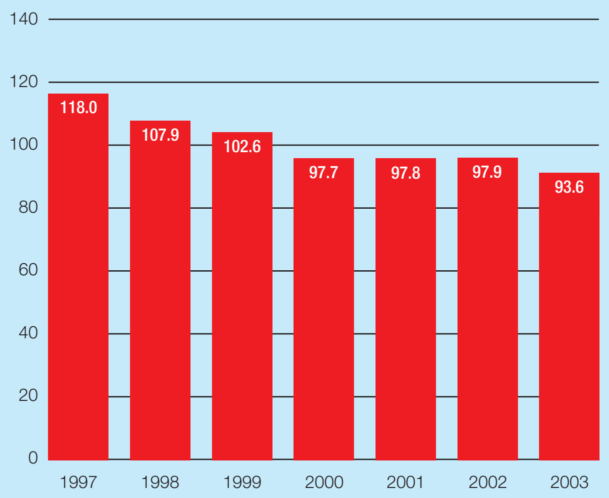
SYNDICATE 33 COMBINED RATIO (%) (EXC. WTC)



HISCOX INSURANCE COMPANY LIMITED GROSS WRITTEN PREMIUM (£MILLION)



HISCOX INSURANCE COMPANY LIMITED COMBINED RATIO (%)



– Professional Insurances

Our focus and expertise in this retail segment remains primarily on insuring the emerging professions, rather than the more traditional occupations. We have an in-depth knowledge of the specific risks of professions such as advertising agencies, management consultants and recruitment firms and continue to develop our position within these markets. In the UK this business continued to grow strongly and performed well. We are expanding our professional insurances activity into Germany, and aim to launch in France during the course of the year.

– Aerospace, Technology, Media and Telecommunications

We operate a speciality team to underwrite global aerospace, technology, media and telecommunications business wherever it is located. Market conditions remain good. A key challenge is to build our distribution capability to access these broad markets. We are currently accessing US business by extensive travel to see local brokers. During the course of this year we will launch a US-focused e-commerce platform which will sit in brokers' offices and be able to provide quotes online. This will allow us to provide these brokers with better service. We have been successful in the UK in using local offices as the distribution point to access business and referring it to London for underwriting by the speciality team. We have begun replicating this approach through our French office.

"WE ARE FOCUSING ON SPECIFIC MARKETS, AND THEN DEVELOPING OUR POSITION TO BECOME A MEANINGFUL PLAYER WITHIN THEM"

– London Market Insurance

This sector experienced the greatest premium rises following the tragic events of September 2001. We are now seeing some price reductions in the big ticket international property areas where price rises were the most marked. Rates for smaller and medium sized property coverages remain attractive. The small ticket property insurance conducted in the USA through managing general agents has been a real winner. During the January 2004 renewal season, we reduced the number of these relationships, to focus on those with the most expertise and professionalism. In certain marine and liability classes rates continue to rise and we will expand in these classes. In aggregate rates across the division's business are attractive and good profits can be made, but we are alert to every nuance of change in rates, terms and conditions to ensure that we decline business rather than underwrite it on unattractive terms.

"WE EXPECT OUR LONDON MARKET DIVISIONS TO CONTINUE TO GENERATE GOOD PROFITS – STEADY GROWTH OF THE RETAIL DIVISIONS WILL ENABLE US TO SUSTAIN OUR PROFITABILITY"

– London Market Reinsurance

The rating environment remains good. In a few secondary areas prices have weakened to some extent, but in the core global hot-spots, such as Florida, conditions remain firm. Market discipline is being supported by the introduction of more refined data modelling techniques across the industry. Reinsurance programmes which are under-priced relative to the technical rate calculated using this new modelling approach are not being placed. The ongoing strength of the reinsurance market is a good trend as reducing reinsurance costs are always the precursor of a softer market.

GROUP FINANCIAL PERFORMANCE

In 2003 the Group achieved a pre-tax profit of £83.4 million, an increase of 302% over the previous year. Operating profits, calculated before taking into account short term fluctuations in investment income and equalisation provisions, were £77.1 million, an increase of 123% over 2002. Earnings per share were 20.9p per share (2002: 6.9p per share). Our post-tax return on shareholders' equity was 21.7% (2002: 8.7%).

– Lloyd's Business

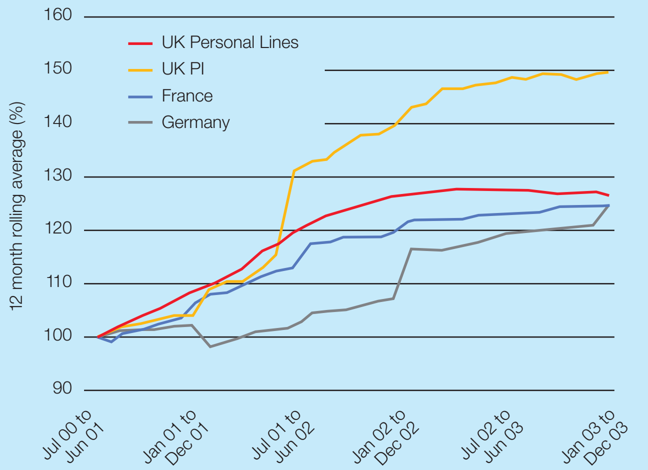
This business consists of our share of the profits of Syndicate 33, fees and profit commissions from third party capital and the return on the capital which supports the business. The progress in performance year-on-year has been exceptional, with operating profits almost trebling to £61.5 million (2002: £21.3 million). This division achieved a combined ratio of 85.8% (2002: 94.1%). These results represent a significant out-performance of the Lloyd's market as a whole.

This strong result was achieved after taking into account an increase in the World Trade Center reserve announced in the first half of the year which cost Hiscox plc £40 million. Since this announcement the aggregate notifications have reduced by $36 million to $552 million. This reduction is in line with our expectations following our experience in large property claims where we have the majority of our exposure. Our reserve is struck on a one loss scenario for the events of September 11. Insurers are currently in court against the WTC leaseholder and we expect a preliminary resolution of the issue in 2004. The Syndicate's 2001 year of account has not been closed due to the uncertainties that surround the final settlement of the WTC claim. We expect that we will have a much clearer picture by this time next year, and we plan to close the syndicate then.

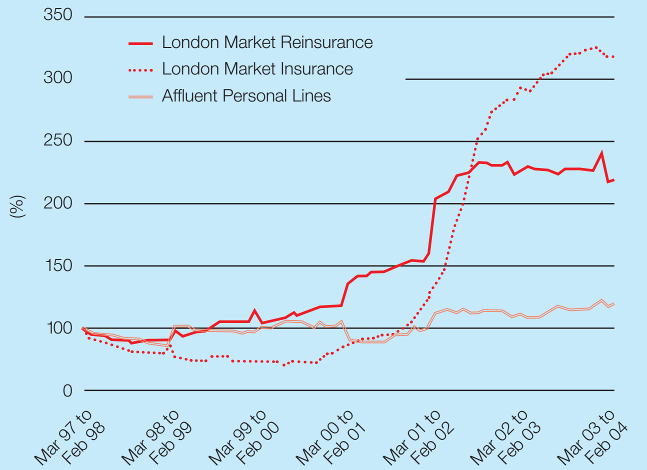
To date the discipline shown in the markets in which our Lloyd's business competes, the low interest rate environment and the expensiveness of reinsurance give us confidence that the hard market will last longer than many doubters believe.

"WE BELIEVE THAT THIS FOCUS ON PROFITABLE UNDERWRITING IS IN THE LONG-TERM INTERESTS OF OUR SHAREHOLDERS"

RETAIL BUSINESS RATING INDEX



SYNDICATE 33 BUSINESS RATING INDEX



– UK Retail
The UK Retail business delivered a very strong performance. Gross written premium increased to £174.6 million (2002: £147.6 million), operating profits grew to £15.0 million (2002: £11.7 million) and the combined ratio improved to 90.3% (2002: 96.0%). This result was achieved through a combination of good underwriting and a catastrophe-free year. We have now completed our programme of building regional offices across the UK. Our presence in Glasgow, Leeds, Birmingham and Maidenhead gives us good geographical coverage from which to build and consolidate our position in the retail market. Despite the advances in modern communications, our experience has been that a local presence helps build relationships and market knowledge. During the course of the year we will be moving our fledgling Business Centre team from London to our newly acquired building in Colchester. We also expect to increase resources in the high net worth personal lines team. Part of the additional resources will be a new IT system which should enhance both our brokers' and Hiscox's efficiency. Hiscox Connect, our online and telephone business, has made good progress. We are building major corporate relationships with organisations such as the Yorkshire Bank and are generating lots of enquiries for our brokers.

– International Operations
This segment covers business written in mainland Europe and through our insurance company in Guernsey. In aggregate, this business unit has had a reasonable year.

Hiscox Guernsey sustained its excellent performance. Our team continued to expand their book of business, particularly in the Fine Art area. In our operations in mainland Europe we have seen a combined ratio improvement and growth at the top line, but challenges remain. We are beginning to develop scale following acquisition of the Chubb high net worth renewal rights. Our operation in France is profitable and we are just below breakeven in Germany. Benelux is the only market where we currently lack sufficient scale. The market opportunities abroad are abundant and our goal is to be as successful in Europe as we are in the UK.

"OUR REGIONAL PRESENCE GIVES US GOOD GEOGRAPHICAL COVERAGE FROM WHICH TO BUILD AND CONSOLIDATE OUR POSITION IN THE RETAIL MARKET"

LONDON MARKET RESULT

	2003 £m	2002 Restated* £m
Gross written premium (100%)	**827.3**	726.3
Hiscox plc share of gross written premium	**541.4**	461.8
Trading result	**69.3**	26.0
Other income less expenses	**(4.4)**	(1.9)
Loan interest, goodwill and capacity amortisation	**(3.4)**	(2.8)
Operating profit	**61.5**	21.3
Combined ratio (100% basis) inc. WTC	**85.8%**	94.1%

*Restated for the adoption of UITFs 37 and 38. See note 5

RETAIL BUSINESS RESULTS

	UK 2003 £m	Europe* 2003 £m	Guernsey** 2003 £m	UK 2002 £m	Europe 2002 £m	Guernsey 2002 £m
Gross written premium	**174.6**	**44.2**	**37.2**	147.6	28.9	38.5
Net premiums earned	**132.2**	**29.6**	**18.9**	120.0	16.9	20.3
Operating profit/(loss)	**15.0**	**(1.7)**	**2.3**	11.7	(1.2)	2.8
Combined ratio	**90.3%**	**107.4%**	**90.6%**	96.0%	111.2%	89.8%

*Includes £850k of costs and renewal commission for Chubb acquisition.
**2003 GWP $66.2m: 2002 GWP $61.6m.

– Investment Management

Our investment management business, Hiscox Investment Management, has two functions within the company. First and foremost it supervises the external managers who have day-to-day responsibility for the investment of our funds. Secondly, it manages a small range of specialist financial funds, including the Hiscox Insurance Portfolio. Our focus is purely on the financial sector where our detailed knowledge can add value to investment strategies.

In aggregate, our Group investments had a good year. Some effective asset allocation shifts into high yield corporate bonds and equities in the first quarter of the year were key drivers to the strong performance. We expect more subdued investment returns in 2004 as the high yield bond segment has been reduced.

Our specialist third party financial funds which are managed in-house performed well yet again. The funds under management increased by 35% which includes a 53% increase in the Hiscox Insurance Portfolio Fund.

– Balance Sheet

Shareholders' funds have grown from £279 million to £330 million. Net Asset Value per share before equalisation provision is 119.1p per share (2002: 101.8p per share). Tangible Net Asset Value before equalisation provision is 111.7p per share (2002: 93.8p per share). The Group has a standby letter of credit facility of £137.5 million which supports its activities. The business is well funded presently. Over the next two to three years we plan to use retained earnings to reduce the size of our letter of credit. This will allow our aggregate balance sheet to grow and catch up with the surge in premium income experienced over the last several years.

People

I would like to thank all our staff for their endeavours over the last several years. The results are testament to their hard work and energy. Unlike Shackleton who offered small wages, bitter cold and constant danger when he advertised for staff to join him on his famous journey, we seek to offer market-competitive rewards and stimulating and demanding roles within our firm. Overall our staff feel rewarded by this approach and we were delighted to be recognised externally by a second appearance in the Sunday Times 'Top 100 Companies To Work For', and to be rated top amongst financial services businesses.

Outlook

2003 was an excellent year for Hiscox. Looking forward, we expect our London Market divisions to continue to generate good profits for the Group. The steady growth of the Retail divisions will enable us to sustain our profitability.

Bronek Masojada
Chief Executive
22 March 2004

"THE MARKET OPPORTUNITIES ABROAD ARE ABUNDANT AND OUR GOAL IS TO BE AS SUCCESSFUL IN EUROPE AS WE ARE IN THE UK"

INVESTMENT PERFORMANCE

	31 December 2003			31 December 2002		
	Asset allocation %	**Return %**	**Return £000**	Asset allocation %	Return %	Return £000
Bonds	**70.2**	**3.8**	**17,417**	47.9	6.1	16,271
Equities/property	**13.6**	**18.1**	**16,932**	8.8*	(8.6)*	(4,310)*
Deposits/cash	**16.2**	**3.2**	**5,026**	43.3	3.3	4,540
Actual return			**39,375**			16,501
Longer term rate of return			**(30,583)**			(27,643)
Short term fluctuations			**8,792**			(11,142)

Longer term rate of return: 2003 – 4% Bonds & Cash, 6% Equities.
2002 – 6% Bonds & Cash, 7% Equities.

*Restated for UITFs 37 & 38

EXECUTIVE DIRECTORS

Robert Ralph Scrymgeour Hiscox
Chairman (Aged 61)
Robert Hiscox joined the Group in 1965. He was Deputy Chairman of Lloyd's between 1993 and 1995.

Bronislaw Edmund Masojada
Chief Executive (Aged 42)
Bronek 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 43)
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 52)
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 70)
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 62)
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 59)
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 was also a member of the Supervisory Board of the Schroder Exempt Property Unit Trust until 12 February 2004. He joined the Group on 6 August 1999.

Carol Franklin Engler
Chairman of Nominations Committee
(Aged 52)
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
UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Committee membership

	Audit Committee	Attendance	Remuneration Committee	Attendance	Conflicts Committee	Attendance	Nominations Committee*
Stephen Hargreaves Hall	✓	100%	✓	100%	✓	100%	✓
Anthony Howland Jackson	✓	100%	✓	100%	✓	100%	✓
Derek Nigel Donald Netherton	✓	75%	✓	100%	✓	100%	✓
Carol Franklin Engler	✓	100%	✓	100%	✓	100%	✓
Robert Ralph Scrymgeour Hiscox	–	–	–	–	–	–	✓

There have been four main Hiscox plc Board meetings during the year. There has been a 100% attendance by all directors at these meetings.
*The Nominations Committee did not meet during the year.

The Combined Code

Hiscox is committed to high standards of corporate governance, and for the year ended 31 December 2003, 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 on Corporate Governance" issued in 1998 and "Internal Control: Guidance for Directors on The Combined Code".

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 15.

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 written 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. KPMG Audit plc has confirmed to the Audit Committee that in its opinion it remains independent. The Committee is satisfied that this is the case.

The Risk Committee comprises the Chief Executive, the Group Finance Director, the Head of Compliance & Internal Audit, and a senior manager from each of the Lloyd's and Retail arms of the Group. It meets monthly to monitor the risk management framework and reports directly to the Board and the Audit Committee.

The Remuneration Committee comprises four 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 18 to 20.

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 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, www.hiscox.com.

Embedded risk management framework

The directors are responsible for operating the system of risk management and internal control and for reviewing its effectiveness. This covers all aspects of risk including insurance risk, market risk, credit risk, operational risk and liquidity risk. This management system includes a variety of processes to identify, assess and manage the different classes of risk in the manner most appropriate to each class.

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.

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

Risk areas

– ***Insurance risk:*** The Group's insurance portfolios are managed in accordance with the Board's appetite by the Director of Underwriting using a wide range of analytical, monitoring and review tools. Delegation of underwriting authority internally and externally is linked to competence and regularly monitored. Reinsurance purchase is controlled centrally. The insurance portfolios are modelled extensively using a range of realistic disaster scenarios and statistical modelling processes.

–***Market risk:*** Managing the risk of price fluctuations in the insurance market is the responsibility of the Director of Underwriting, supported by a range of forecasting processes using hard and soft internal and external data. The Board's appetite for investment risk is expressed in the investment strategy which is implemented by a number of external investment managers who are monitored and controlled by the in-house investment function. Currency exposure is managed by the Group Finance Director through hedging where appropriate.

– ***Credit risk:*** Management of credit risk is the responsibility of the Group Finance Director. The Board's appetite for credit risk from clients, distributors and reinsurers is expressed in terms of limits and thresholds which drive the risk acceptance and credit control processes.

– ***Operational risk:*** The different types of operational risk are managed by different specialist senior managers. A wide variety of metrics and processes are used to monitor and control key operational risk matters such as projects, systems, compliance, distribution, outsourcing, competence and continuity. The Board, its subsidiary boards and committees receive regular reports on relevant operational risk areas.

– ***Liquidity risk:*** This is managed by the Group Finance Director through extensive cash flow planning and forecasting. This is closely linked to the management of investment risk to ensure opportunities are maximised within the parameters of the Board's risk appetite.

Indirect assurance over risk management

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.

This function also independently tracks and reports to the Audit Committee on the implementation of its own recommendations and those of the external auditors.

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 Internal Audit as well as conducting its own reviews at strategic, tactical and operational levels.

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 47 to 51 which form the audited part of this Remuneration Report. The members of the Remuneration Committee are identified on page 15.

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.

Remuneration 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

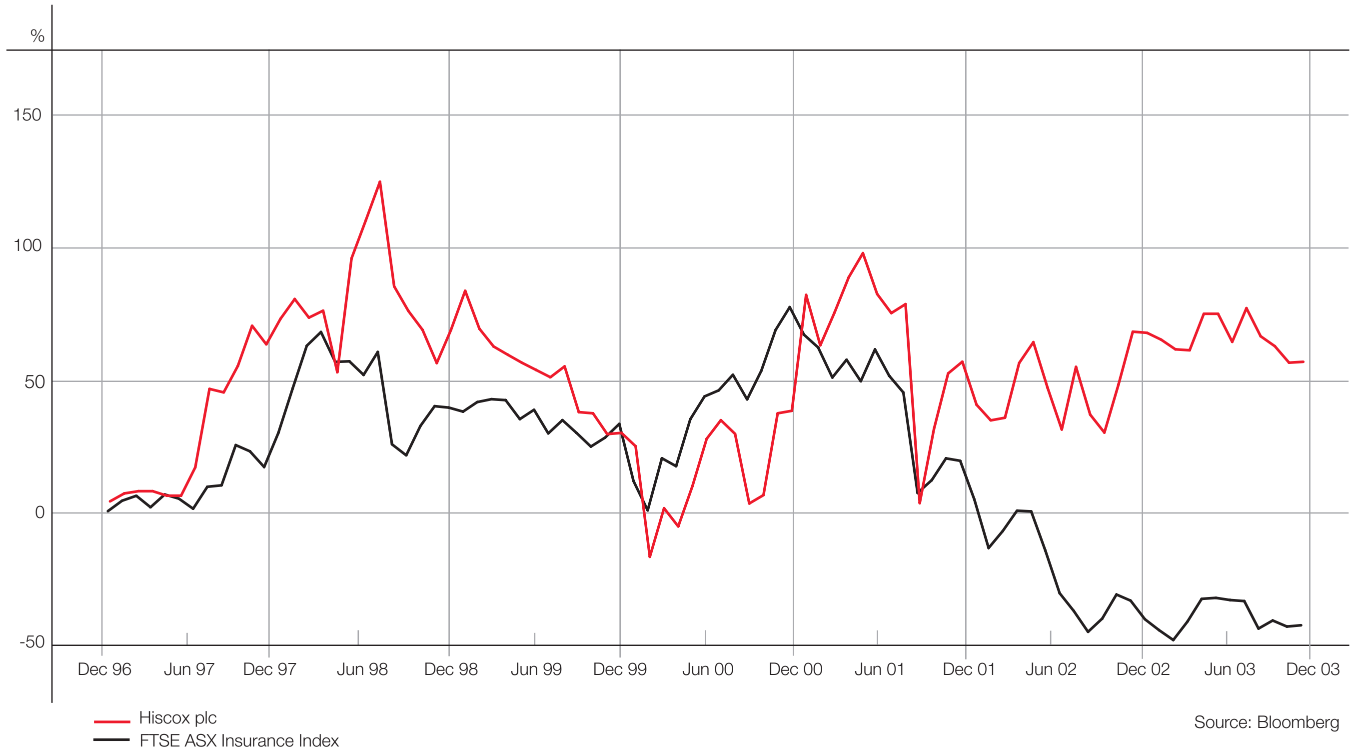
The Remuneration Committee utilises the services of independent consultants, including independent reports published by Watson Wyatt, in its consideration of what comparable companies are paying and in setting annual salaries and other benefits. Using this information as a benchmark, and taking into 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 pre-tax operating result, exceed a return on equity linked to the longer term rate of return. The bonus pool is limited to a percentage of profits above that 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 the performance of the Group and an assessment of individual performance. The Remuneration Committee also reviews and confirms the recommendations of management regarding the award of bonuses to senior managers and staff.

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. The graph has been prepared based on the constituent companies in the index at the point of comparison.

Graph to show total shareholder return of Hiscox plc against the FTSE ASX Insurance Index



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. There are no performance criteria for these schemes. 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 15) 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.

In order to ensure that the objective of aligning employee interests with shareholders is met, the Remuneration Committee regularly reviews the terms and conditions of share incentive grants made to employees. The latest review has resulted in the Remuneration Committee proposing the following changes to the terms and conditions applying to future grants of options under the Hiscox Approved Share Option Scheme and the Hiscox Unapproved Share Option Scheme (the "Option Schemes") and awards under the Hiscox Performance Share Plan (the "Performance Share Plan"):

i) There will be no facility for the re-testing of performance conditions. The views of the Company's shareholders and corporate governance best practice has changed since the original approval of the Option Schemes and the Performance Share Plan by shareholders and the re-testing of performance conditions is no longer considered appropriate. In the future any share grants will lapse if the performance conditions have not been satisfied at the end of the three year performance period.
ii) The introduction of a sliding scale for option vesting linked to performance. Currently the performance requirements are "cliff edge" i.e. when the level of performance is met, all the options vest. It is now considered best practice to provide a range of performance over which the option vests.
iii) The vesting of any future grants of options under the Option Schemes and awards under the Performance Share Plan should be subject to the satisfaction of an average Return on Equity ("ROE") performance requirement over the three year performance period rather than the current earnings per share ("EPS") growth targets. The Remuneration Committee believes that this change better aligns the interests of employees with shareholders because:
   - ROE captures the efficiency with which the Company is using shareholder funds to generate earnings whereas earnings per share growth gives no indication of the level of return on the investment required to generate those additional earnings;
   - the Company operates in a highly cyclical business where earnings can fluctuate considerably which can have a distorting effect on EPS growth. Where EPS is used as a performance condition this can introduce an element of luck as to when in the cycle share grants are made which can operate to the disadvantage of both employees and shareholders. The Remuneration Committee believes that an average ROE performance requirement over the three year period smoothes out the cyclical fluctuations in earnings and ensures that over any given period shareholders will receive a minimum return on equity before share grants made to employees will vest;
   - the ROE target has been set at a level which in the opinion of the Remuneration Committee is significantly more challenging than the historic earnings per share growth targets particularly for options (EPS growth of RPI+2% p.a.).

The ROE will be calculated as profit before tax and goodwill amortisation divided by shareholders' funds at the beginning of each year. The ROE will be calculated for each of the three financial years constituting the performance period and then averaged.

The proposed targets for the 2004 grants under both the Option Schemes and Performance Share Plan are as follows:

a) the participants will receive 100% of their share grants if the Group's ROE average is 10% over the three year performance period (the "maximum target");
b) no grants will vest unless the Group's ROE average over the period equals or exceeds 8% at which point 40% of the grant will vest (the "minimum target"); and
c) a grant will vest on a straight-line basis if the Group's ROE average is between the base target and the maximum target.

The Remuneration Committee will review the ROE target attaching to grants on an annual basis in light of the prevailing bond yields and make adjustments to the target, provided that in the opinion of the Remuneration Committee the adjusted target shall be no easier to satisfy than the original target when imposed and provided that shareholders will be consulted in advance in respect of any material change.

The Company will be seeking formal shareholder approval at the Annual General Meeting for the above changes to the operation of the Company's share incentive arrangements in line with corporate governance best practice.

The directors believe that the amendments to the Hiscox Approved Share Option Scheme, the Hiscox Unapproved Share Option Scheme and the Hiscox Performance Share Plan are in the best interests of shareholders and the Company and recommend that you vote in favour of the resolutions.

Copies of the amended rules of the Option Schemes and Performance Share Plan will be available for inspection at the offices of the Company at 1 Great St Helen's, London EC3A 6HX, during usual office hours (Saturdays, Sundays and bank holidays excepted) from the date of despatch of the Report and Accounts up to and including the date of the Annual General Meeting and at the meeting itself.

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 are shown in note 28 to the accounts.

Pensions

The Hiscox Pension Scheme is an Inland Revenue approved occupational pension arrangement. This is a defined benefit arrangement and is non-contributory. There are two sections: the first section provides for benefits accruing at the rate of one-sixtieth for each year of service up to retirement age of 60 for employees, including former members of the Economic Insurance Holdings Limited Scheme who retain the right to a retirement age of 63. The second section provides for a pension at retirement age of up to two-thirds of final pensionable salary, accruing at the rate of the lower of:

a) one-thirtieth for each year of service up to retirement age of 60, or
b) an amount for each year of service up to retirement age of 60 based on a proportional accrual of years service to retirement age.

On 1 January 2001, Hiscox introduced a non-contributory defined contribution arrangement for all employees joining after that date, with contributions based on basic salary. All members are provided with death in service cover of up to four times basic salary.

Service contracts

No directors have service contracts, other than RRS Hiscox, and 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 contract with RRS Hiscox provides for 12 months' notice period by either side.

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

Non-executive directors

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

By order of the Board
SJ Bridges
Secretary
1 Great St Helen's
London EC3A 6HX
22 March 2004

The directors have pleasure in submitting their annual report and financial statements for the year ended 31 December 2003.

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 26 and 27.

Dividends
An interim dividend of 1.3p (net) per share (2002: 1.14p) was paid on 27 October 2003 in respect of the year ended 31 December 2003. The directors recommend the payment of a final dividend of 2.9p (net) per share (2002: 2.4p (net)). This will be paid on 28 June 2004 to shareholders on the register at the close of business on 23 April 2004.

Directors
The names of the directors of the Company throughout the year and at the date of this report are listed on page 15. Details of their interests in the shares of the Company are set out in note 28 to the accounts.
BE Masojada and SH Hall 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 once again appear in the Sunday Times 100 Best Companies To Work For survey. In 2003, Hiscox was voted tenth best company to work for in the UK and despite the increased competition in the 2004 survey, we were pleased to again feature near the top of the list at number eleven. In both the 2004 and 2003 surveys Hiscox was voted the number one employer in the insurance sector. 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 very pleased to receive an award for the third consecutive year from the Corporation of London for our initiatives in energy saving and waste minimisation. For 2003, we won the Clean City Awards Scheme Premier Award, the Chairman's Cup, which is the highest accolade awarded by the Corporation of London and which recognises Hiscox as the leader in waste minimisation amongst all small waste producers in the City of London. The Clean City 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 2003, Hiscox was included in the

FTSE4Good UK Index. The constituents of this index are companies from the FTSE All-Share Index which have passed the FTSE4Good selection criteria as it pertains to environmental sustainability, relationships with stakeholders and upholding and supporting human rights.

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 fundraising 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 has held a number of exhibitions of young artists in the year.

Political and charitable contributions

The Group made no political contributions during the year (2002: £nil). Charitable donations totalled £36,250 (2002: £35,950) of which £25,000 (2002: £25,000) was donated to the Hiscox Foundation, a UK registered charity. 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 and ensure that the supplier is aware of the terms of payment.

Payment is then made on these terms, subject to the terms and conditions being met by the supplier. The Group had 13.6 (2002: 18.0) days purchases outstanding at 31 December 2003 based on the average daily amount invoiced by suppliers during the year ended 31 December 2003. The Company is a holding company and accordingly has no days purchases outstanding at 31 December 2003. 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 59. In addition to the ordinary business, the following items of special business will be considered at the meeting.

Resolution 7, which will be proposed as an ordinary resolution, seeks to renew the directors' authority to allot relevant securities pursuant to Section 80 of the Companies Act 1985. The authority contained in the resolution will be limited to the allotment of relevant securities to an aggregate nominal value of £4,855,172.85 representing 33.3% of the issued ordinary share capital as at 22 March 2004. This authority will terminate no later than fifteen months after the date of the Annual General Meeting. The directors presently have no intention of exercising this authority.

Resolution 8, which will be proposed as an ordinary resolution, seeks to obtain approval for the Remuneration Report as set out on pages 18 to 20 of this Report and Accounts.

Resolution 9, which will be proposed as an ordinary resolution, seeks to change the performance conditions applying to future options granted under the Hiscox Approved Share Option Scheme. Full details of the changes are set out in the Directors' Remuneration Report.

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 12 March 2004.

	Number of shares	% of total Hiscox plc shares
Chubb Investment Services Ltd	54,529,566	18.7
Fidelity International Limited	17,400,417	6.0
AN Foster	14,210,390	4.9
Landsdowne Partners Limited Partnership	13,280,000	4.6
RRS Hiscox	9,463,310	3.2
IN Thomson	9,315,786	3.2
Legal & General Group plc	8,782,942	3.0

11,479,391 of AN Foster's shareholding is non-beneficial, of which 4,749,111 is held by a trust and is also included in RRS Hiscox's shareholding. 582,715 of RRS Hiscox's shareholding is non-beneficial. 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.

Resolution 10, which will be proposed as an ordinary resolution, seeks to change the performance conditions applying to future options granted under the Hiscox Unapproved Share Option Scheme. Full details of the changes are set out in the Directors' Remuneration Report.

Resolution 11, which will be proposed as an ordinary resolution, seeks to change the performance conditions applying to future awards granted under the Hiscox Performance Share Plan. Full details of the changes are set out in the Directors' Remuneration Report.

Resolution 12, 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 £728,275.90, representing 5.0% of the issued ordinary share capital as at 22 March 2004. This authority will terminate no later than fifteen months after the date of the Annual General Meeting.

Resolution 13, which will be proposed as a special resolution, seeks to obtain authority for the Company to purchase its own shares from the market. The authority contained in the resolution will be limited to a purchase of own shares up to a maximum number of 15,000,000 shares and the cost of the shares will be limited to a minimum share price of £0.50 per share and a maximum share price of £2.50 per share. This authority will terminate no later than fifteen months after the date of the Annual General Meeting.

By order of the Board
SJ Bridges
Secretary
1 Great St Helen's
London EC3A 6HX
22 March 2004

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.

We have audited the financial statements on pages 26 to 57. 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 auditors' 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 24 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 16 and 17 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 the unaudited part of the directors' remuneration report 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 reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2003, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in note 10.

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 2003 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
22 March 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £000	2002 £000
Earned premiums, net of reinsurance			
Gross premiums written	7(c)	**797,380**	676,705
Outward reinsurance premiums		**(136,414)**	(260,561)
Net premiums written	7(c)	**660,966**	416,144
Change in the gross provision for unearned premiums		**(74,902)**	(95,366)
Change in the provision for unearned premiums, reinsurers' share		**(38,613)**	64,351
Change in the net provision for unearned premiums		**(113,515)**	(31,015)
Earned premiums, net of reinsurance	7(c)	**547,451**	385,129
Allocated investment income transferred from the non-technical account	11(a), 11(c)	**30,583**	27,643
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(275,227)**	(290,008)
Reinsurers' share		**90,327**	149,981
Net claims paid		**(184,900)**	(140,027)
Change in the provision for claims:			
Gross amount		**(61,545)**	35,869
Reinsurers' share		**(41,876)**	(108,193)
Change in the net provision for claims		**(103,421)**	(72,324)
Claims incurred, net of reinsurance	4, 7(c)	**(288,321)**	(212,351)
Net operating expenses	9	**(186,039)**	(145,751)
Other technical charges	7(c)	**(1,265)**	(3,856)
Movement in equalisation provision	7(c), 10	**(2,506)**	(2,703)
Balance on the technical account – general business		**99,903**	48,111

All operations of the Group are continuing.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £000	2002 Restated* £000
Balance on the technical account – general business		**99,903**	48,111
Investment return	11(a)	**32,154**	21,413
Unrealised gains/(losses) on investments	11(a)	**8,026**	(4,103)
Investment expenses and charges	11(a)	**(805)**	(809)
	11(a), 11(c)	**39,375**	16,501
Allocated investment return transferred to the technical account	11(a), 11(c)	**(30,583)**	(27,643)
	11(a)	**8,792**	(11,142)
Other income	12	**12,582**	10,119
Other charges		**(37,869)**	(26,349)
Profit on ordinary activities before tax	7(c)	**83,408**	20,739
Comprising:			
Operating profit based on longer term investment return	7(c)	**77,122**	34,584
Short term fluctuations in investment return	11(a), 11(c)	**8,792**	(11,142)
Movement in equalisation provision	7(c), 10	**(2,506)**	(2,703)
		83,408	20,739
Tax on profit on ordinary activities	16	**(22,917)**	(6,340)
Profit on ordinary activities after tax		**60,491**	14,399
Dividends – Interim paid		**(3,830)**	(2,299)
Dividends – Final payable		**(8,414)**	(6,914)
		(12,244)	(9,213)
Retained profit for the year	27(a)	**48,247**	5,186
Earnings per share:			
– Adjusted basic, based on operating profit after tax (on longer term investment return)	15	**19.3p**	11.3p
– Basic, based on profit on ordinary activities after tax	15	**20.9p**	6.9p
– Diluted, based on profit on ordinary activities after tax	15	**20.6p**	6.7p

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 2003

	Notes	2003 £000	2002 Restated* £000
Profit on ordinary activities after tax		**60,491**	14,399
Exchange differences taken to reserves		**(155)**	(50)
Total recognised gains and losses for the year		**60,336**	14,349
Prior year restatement	5	**169**	
Total gains and losses recognised since last annual report		**60,505**	

*Restated for the adoption of UITFs 37 and 38. See note 5.

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2003

	Notes	2003 £000	2002 Restated* £000
Assets			
Intangible assets			
Goodwill	17(a)	**6,240**	6,617
Other intangible assets	17(b)	**15,513**	16,469
		21,753	23,086
Investments			
Land and buildings	18(a)	**410**	420
Other financial investments	18(b)	**773,289**	501,774
		773,699	502,194
Reinsurers' share of technical provisions			
Provision for unearned premiums	24	**63,004**	102,608
Claims outstanding	4, 24	**189,183**	218,175
		252,187	320,783
Debtors			
Debtors arising out of direct insurance operations	19	**251,026**	199,372
Debtors arising out of reinsurance operations		**53,878**	98,412
Other debtors	22	**71,155**	47,733
		376,059	345,517
Other assets			
Tangible assets	20	**7,332**	7,119
Cash at bank and in hand	34(e)	**52,945**	121,196
		60,277	128,315
Prepayments and accrued income			
Accrued interest		**3,079**	2,643
Deferred acquisition costs		**101,817**	83,784
Other prepayments and accrued income		**10,106**	10,813
		115,002	97,240
Total assets		**1,598,977**	1,417,135

	Notes	2003 £000	2002 Restated* £000
Liabilities			
Capital and reserves			
Called up share capital	26, 27(a)	**14,565**	14,459
Share premium account	27(a)	**232,341**	230,585
Merger reserve	27(a)	**4,723**	4,723
Capital redemption reserve	27(a)	**33,244**	33,244
Reserve for own shares	27(a)	**(686)**	(1,339)
Profit and loss account	27(a)	**45,650**	(2,540)
Shareholders' funds attributable to equity interests	27(a)	**329,837**	279,132
Technical provisions			
Provision for unearned premiums	24	**424,379**	351,594
Claims outstanding	4, 24	**656,820**	568,365
Equalisation provision	10	**16,438**	13,932
		1,097,637	933,891
Provisions for other risks and charges	25	**15,503**	–
Creditors			
Creditors arising out of direct insurance operations		**35,229**	65,423
Creditors arising out of reinsurance operations		**62,491**	67,892
Other creditors including taxation and social security	23	**28,414**	36,414
		126,134	169,729
Accruals and deferred income		**29,866**	34,383
Total liabilities		**1,598,977**	1,417,135

*Restated for the adoption of UITFs 37 and 38. See note 5.

The financial statements were approved by the Board of directors on 22 March 2004 and were signed on its behalf by:

RRS Hiscox, Chairman

SJ Bridges, Finance Director

COMPANY BALANCE SHEET
AT 31 DECEMBER 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	21(a)	**584**	498
Investment in subsidiary undertakings	21(b)	**115,457**	115,457
Investments	21(c)	**117,032**	108,177
		233,073	224,132
Current assets			
Other debtors	22	**129,648**	110,199
Cash at bank and in hand		**129**	20,182
Prepayments and accrued income		**453**	464
		130,230	130,845
Creditors: Amounts falling due within one year	23	**(18,443)**	(11,456)
Net current assets		**111,787**	119,389
Total net assets		**344,860**	343,521
Capital and reserves			
Called up share capital	26, 27(b)	**14,565**	14,459
Share premium account	27(b)	**232,341**	230,585
Merger reserve	27(b)	**58,970**	58,970
Capital redemption reserve	27(b)	**33,244**	33,244
Capital reserve	27(b)	**163**	(1,269)
Profit and loss account	27(b)	**5,577**	7,532
Shareholders' funds attributable to equity interests		**344,860**	343,521

The financial statements were approved by the Board of directors on 22 March 2004 and were signed on its behalf by:

RRS Hiscox, Chairman

SJ Bridges, Finance Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £000	2002 Restated* £000
Cash Flow Statement			
Net cash inflow from general business		**31,300**	45,171
Net shareholders' cash outflow from Lloyd's business	34(c)	**(7,712)**	(23,037)
Net cash flow from operating activities	34(a)	**23,588**	22,134
Servicing of finance	34(d)	**(2,233)**	(1,709)
Taxation recovered/(paid)		**(59)**	777
Capital expenditure	34(d)	**(3,052)**	(3,569)
Acquisitions and disposals	34(d)	**(50)**	–
Equity dividends paid		**(10,744)**	(2,299)
Financing	34(d)	**2,910**	108,437
		10,360	123,771
Cash flows were invested as follows:			
(Decrease)/increase in cash holding	34(e)	**(25,608)**	25,288
Net portfolio investment:			
Shares and units in unit trusts	34(e)	**44,586**	19,911
Debt securities and other fixed interest securities	34(e)	**59,657**	10,314
Deposits with credit institutions	34(e)	**(68,275)**	68,265
Other investments	34(e)	**–**	(7)
Net investment of cash flows		**10,360**	123,771

*Restated for the adoption of UITFs 37 and 38. See note 5.

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 2003 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 recommendations of the revised Statement of Recommended Practice "Accounting for Insurance Business" issued by the Association of British Insurers in December 1998.

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 £10,296,000 (2002: £7,582,000) and the retained loss for the financial year for the Company was £1,955,000 (2002: loss of £1,631,000).

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 for the Group is actuarially calculated utilising both Chain Ladder and Bornhuetter-Ferguson methods. There is close communication between the actuaries and underwriters and allowance is made for the rating environment.

The Chain Ladder method is adopted where sufficient development data is available in order to produce estimates of the ultimate claims and premiums by actuarial reserving group and underwriting year or year of account for the managed syndicate.
This methodology produces optimal estimates when a large claims development history is available and the claims development patterns throughout the earliest years are stable.

Where losses in the earliest underwriting years or years of account have yet to fully develop, a 'tail' arises on the reserving data i.e. a gap between the current stage of development and the fully developed amount. The Chain Ladder methodology is used to calculate average development factors which, by fitting these development factors to a curve, allows an estimate to be made of the potential claims development expected between the current and the fully developed amount, known as a 'tail reserve'. This tail reserve is added to the current reserve position to calculate the total reserve required.

The Bornhuetter-Ferguson method is predominantly employed to produce ultimate loss estimates when there is little development data available e.g. in relation to more recent underwriting years or years of account. The Bornhuetter-Ferguson method is based on the Chain Ladder approach but utilises estimated ultimate loss ratios.
In exceptional cases the required provision is calculated with reference to the actual exposures.

Ultimate premium and claims amounts are projected both gross and net of reinsurance using reinsurance recovery rates based on historical experience, adjusted for the current reinsurance programme. Reinsurance recoveries from Qualifying Quota Share arrangements entered into for the 2002 and 2003 years of account have been calculated separately.

Reinsurance security is monitored continuously throughout the year involving both external sources, such as Standard & Poor's and A M Best's rating information on reinsurers, and internal sources. Reinsurer default rates are applied to the expected future reinsurance recoveries to determine a suitable level of bad debt provision.

Adjustments are made within the reserving methodology to allow for expected significant movements to the figures not actually processed by 31 December 2003 and also to remove distortions in the historical claims development patterns from large claims not expected to reoccur in the future. The reserving methodology in relation to the

World Trade Center is described in more detail in note 4 to the accounts.

The reserves determined for the managed syndicate are converted to annually accounted figures using earnings patterns that are consistent with those for the underlying syndicate business.

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 to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. 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 the transitional disclosure requirements of FRS17 "Retirement Benefits". This has had no material impact on the current year's results.

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 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.

3(q) Own shares

The Company follows the accounting treatment required by UITF 37 for the purchase and sale of own shares. For own shares held in the Employee Share Ownership Plan Trust (ESOP), the Company has adopted the accounting treatment required by UITF 38. In accordance with UITFs 37 and 38, consideration paid for own shares is deducted in arriving at shareholders' funds. No gain or loss is recognised in the profit and loss account or statement of total recognised gains and losses on the purchase, sale or cancellation of own shares. Consideration paid or received for the purchase or sale of own shares are shown as separate amounts in the reconciliation of movements in shareholders' funds.

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 more than two years after the event, the extent of the gross and net loss to the Group is difficult to assess with the degree of confidence which is usual for property insurance losses; facts or circumstances will come to light which may affect these estimates. Provision has been made in these financial statements, based on the 30 June 2003 gross notifications of US$588 million, resulting in a net loss to Hiscox plc of £75 million at £1:$1.79 (30 June 2003: £80 million at £1:$1.65, 31 December 2002: £40 million at £1:$1.61). This takes no account of any potential subrogation.

The gross reserves at 31 December 2002 of US$475 million were set after an appropriate discount or premium to individual notifications based on Hiscox's past experience of large property losses and additional information received. Whilst claims continue to settle lower than the notifications level, they are taking longer to settle than originally anticipated, based on settlement patterns experienced on previous large property losses. Consequently, in order to eliminate uncertainty, the directors increased the reserves in June 2003 to the level of notifications at that time.

As at 29 February 2004, gross notifications had reduced to US$552 million after adjusting for a US$15 million reduction on the loss for a transportation company which remains subject to market agreement. This would result in a net loss to Hiscox plc of approximately £65 million at £1:$1.79.

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.

Syndicate 33's net loss provided is approximately US$245 million. In arriving at this estimate it has been assumed that the terrorist attack in New York City on 11 September 2001 was one occurrence and that the aircraft impacts on the WTC are one occurrence in respect of the property losses.

As at 29 February 2004, Syndicate 33 had paid US$426 million of the gross loss and recovered US$279 million from reinsurers. This includes payment to Silverstein, on the basis of one occurrence, for the WTC property. The courts in the USA have not yet ruled on occurrence. Syndicate 33 has had no need to make a cash call. As part of our required funding of the US Trust Funds, a further US$22 million of cash advances and letters of credit had also been received from reinsurers at 29 February 2004. These recoveries of US$301 million at 29 February 2004 represent 88% of the expected total recoveries of approximately US$343 million. 89% of the remaining balance of approximately US$42 million is due from reinsurers rated A grade or better.

Syndicate 33 has reduced its bad debt provision on reinsurance recoveries from the WTC loss to US$4.5 million following successful commutations. 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 Prior year restatement

During the year, the Company adopted UITF Abstract 37 relating to purchases and sales of own shares and UITF Abstract 38 relating to own shares held in an ESOP Trust. In order to comply with these Abstracts, it was necessary for the Company to make an adjustment to its opening reserves, including the creation of a separate reserve for Own Shares, and to restate the 2002 profit and loss account and closing balance sheet for 2002. The impact of these adjustments is to decrease opening shareholders' funds for the year ended 31 December 2002 by £1,492,000. The impact on the profit and loss account and other reserves for the year ended 31 December 2002 is to increase profits by £424,000 and to debit the reserve for own shares by £102,000. The cumulative net impact on opening shareholders' funds for the year ended 31 December 2003 is a reduction of £1,170,000. The impact of the adjustment on the basic earnings per share for 2002 is an increase of 0.3 pence per share. The impact on 2002's net asset value per share is an increase of 0.1 pence per share. This restatement has been made in respect of 1,094,334 own shares held at 31 December 2002 by a subsidiary undertaking, Hiscox Holdings Limited, and 255,466 own shares held in an ESOP Trust. At 31 December 2003, the number of own shares held was 406,884 by Hiscox Holdings Limited and 255,466 in the ESOP Trust.

6 International financial reporting standards

All European Union listed companies are required to adopt International Financial Reporting Standards ("IFRS") for accounting periods beginning on or after 1 January 2005, which will include comparative information for 2004. The Group has initiated a project to implement the conversion from UK GAAP to IFRS and to ensure that this happens within the required timescales.

The standards and proposed standards issued as exposure drafts such as ED 5 Insurance Contracts are themselves evolving and undergoing improvements. ED 5 does currently propose fundamental changes to the recognition of profit on insurance contracts. These changes are not expected to require adoption until 2007 at the earliest. The Group's IFRS working party, which includes representation from its external auditors, is monitoring the ongoing developments in IFRS and determining and implementing appropriate actions.

7 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:

	2003 London Market £000	2003 UK Retail £000	2003 International Business £000	2003 Total £000	2002 London Market £000	2002 UK Retail £000	2002 International Business £000	2002 Total £000
Gross premiums written	**827,293**	**174,551**	**81,387**	**1,083,231**	726,315	147,583	67,356	941,254
Net premiums written	**702,396**	**145,726**	**56,777**	**904,899**	392,746	123,243	41,468	557,457
Net premiums earned	**571,243**	**132,189**	**48,452**	**751,884**	367,422	119,988	37,219	524,629
Net claims incurred	**316,285**	**65,141**	**18,633**	**400,059**	229,225	62,565	10,997	302,787
Claims ratio (%)	**55.4%**	**49.3%**	**38.4%**	**53.2%**	62.4%	52.1%	29.5%	57.7%
Commission	**153,221**	**36,755**	**31,384**	**221,360**	92,048	34,814	26,957	153,819
Operating expenses	**60,664**	**23,092**	**2,545**	**86,301**	32,585	19,202	1,222	53,009
Movement in deferred acquisition costs	**(32,362)**	**(1,525)**	**(2,938)**	**(36,825)**	1,509	(582)	(1,714)	(787)
Net expenses	**181,523**	**58,322**	**30,991**	**270,836**	126,142	53,434	26,465	206,041
Commission ratio (%)	**21.8%**	**25.2%**	**55.3%**	**24.5%**	23.4%	28.3%	65.0%	27.6%
Operating expense ratio (%)	**8.6%**	**15.8%**	**4.5%**	**9.5%**	8.3%	15.6%	3.0%	9.5%
Expense ratio (%)	**30.4%**	**41.0%**	**59.8%**	**34.0%**	31.7%	43.9%	68.0%	37.1%
Net longer term investment return	**21,779**	**7,281**	**2,631**	**31,691**	18,726	8,729	2,111	29,566
Technical profit* (Note 7b)	**95,214**	**16,007**	**1,459**	**112,680**	30,781	12,718	1,868	45,367
Combined ratio (%)	**85.8%**	**90.3%**	**98.2%**	**87.2%**	94.1%	96.0%	97.5%	94.8%

*Before movement in equalisation provision.

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

	2003 London Market £000	2003 UK Retail £000	2003 International Business £000	2002 London Market £000	2002 UK Retail £000	2002 International Business £000
At 100% level						
1% change in claims ratio	**5,712**	**1,322**	**485**	3,674	1,200	372
1% change in expense ratio	**7,024**	**1,457**	**568**	3,927	1,232	415
At Group level						
1% change in claims ratio	**3,513**	**1,322**	**485**	2,015	1,200	372
1% change in expense ratio	**4,631**	**1,457**	**568**	2,154	1,232	415

"London Market" comprises the results of Syndicate 33 and the Hiscox Captive net of any business written between Group companies.

"UK Retail" comprises all of the UK retail underwriting results of 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.

7 Segmental information continued

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

	2003 £000	2002 £000
Technical profit for 100% of continuing operations (Note 7a)	**112,680**	45,367
Notional share attributable to Group at current level of capacity ownership	**79,718**	35,724
Adjustments to reflect lower levels of capacity in prior years:		
2001 (2000) year of account	**2,628**	2,404
2002 (2001) year of account	**(1,443)**	159
Investment return on corporate assets	**7,162**	6,161
Amounts applicable to quota share reinsurers*	**(1,265)**	(3,856)
Trading profit for Group share of continuing operations (Note 7c)	**86,800**	40,592

*For the 2003 year of account, the Group owned 65% (2002: 63%) of the Syndicate. For the 2002 year of account, 8% of the capacity (2001 year of account: 7%) was reinsured to three leading European reinsurers via a quota share arrangement.

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

	2003 London Market/ Group £000	2003 UK Retail £000	2003 International Business £000	2003 Total £000	2002 London Market/ Group Restated £000	2002 UK Retail £000	2002 International Business £000	2002 Total Restated £000
Gross premiums written	**541,442**	**174,551**	**81,387**	**797,380**	461,766	147,583	67,356	676,705
Net premiums written	**458,463**	**145,726**	**56,777**	**660,966**	251,433	123,243	41,468	416,144
Net premiums earned	**366,810**	**132,189**	**48,452**	**547,451**	227,922	119,988	37,219	385,129
Investment return, based on longer term rate of return	**20,671**	**7,281**	**2,631**	**30,583**	16,803	8,729	2,111	27,643
Net claims incurred	**(204,547)**	**(65,141)**	**(18,633)**	**(288,321)**	(138,789)	(62,565)	(10,997)	(212,351)
Acquisition costs	**(94,882)**	**(35,230)**	**(28,446)**	**(158,558)**	(69,029)	(34,232)	(25,243)	(128,504)
Administrative expenses	**(17,453)**	**(23,092)**	**(2,545)**	**(43,090)**	(7,045)	(19,202)	(1,222)	(27,469)
Other technical charges	**(1,265)**	**–**	**–**	**(1,265)**	(3,856)	–	–	(3,856)
Trading result:*	**69,334**	**16,007**	**1,459**	**86,800**	26,006	12,718	1,868	40,592
Agency and other income	**6,752**	**379**	**15,578**	**22,709**	4,499	120	12,286	16,905
Profit commission	**5,215**	**–**	**267**	**5,482**	3,237	–	200	3,437
Expenses	**(16,400)**	**(1,371)**	**(16,702)**	**(34,473)**	(9,610)	(1,178)	(12,718)	(23,506)
Loan interest	**(1,946)**	**–**	**–**	**(1,946)**	(1,432)	–	–	(1,432)
Goodwill and capacity amortisation	**(1,410)**	**–**	**(40)**	**(1,450)**	(1,370)	–	(42)	(1,412)
Operating profit	**61,545**	**15,015**	**562**	**77,122**	21,330	11,660	1,594	34,584
Short term fluctuations in investment return	**2,913**	**5,238**	**641**	**8,792**	(7,417)	(3,135)	(590)	(11,142)
Movement in equalisation provision	**–**	**(1,730)**	**(776)**	**(2,506)**	–	(2,104)	(599)	(2,703)
Profit on ordinary activities before taxation	**64,458**	**18,523**	**427**	**83,408**	13,913	6,421	405	20,739

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

"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.

"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).

"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.

7 Segmental information continued

d) Net asset value per share

	2003 Net asset value £000	2003 Number of shares* 000	2003 NAV per share p	2002 Net asset value Restated £000	2002 Number of shares* Restated 000	2002 NAV per share Restated p
Net asset value	**329,837**	**290,630**	**113.5**	279,132	287,827	97.0
Net asset value (before equalisation provision)	**346,275**	**290,630**	**119.1**	293,064	287,827	101.8
Net tangible asset value	**308,084**	**290,630**	**106.0**	256,046	287,827	89.0
Net tangible asset value (before equalisation provision)	**324,522**	**290,630**	**111.7**	269,978	287,827	93.8

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

Net assets by business entity

	2003 Lloyd's Business/ Group £000	2003 Insurance Company £000	2003 International Operations £000	2003 Total £000	2002 Lloyd's Business/ Group Restated £000	2002 Insurance Company £000	2002 International Operations £000	2002 Total Restated £000
Tangible assets	**209,852**	**93,722**	**4,510**	**308,084**	176,223	76,186	3,637	256,046
Intangible assets	**21,079**	**674**	**–**	**21,753**	22,372	714	–	23,086
	230,931	**94,396**	**4,510**	**329,837**	198,595	76,900	3,637	279,132

8 Movement in prior years' claims provision

	Lloyd's Business £000	Insurance Company £000	International Operations £000	2003 Total £000	2002* Total £000
Net loss provision brought forward as at 1 January	232,363	93,227	6,536	**332,126**	157,897
Net payments during the year in respect of those provisions	(78,888)	(22,962)	(38)	**(101,888)**	(37,884)
Net loss provision carried forward in respect of claims provided at 1 January	(178,511)	(62,831)	(7,181)	**(248,523)**	(125,337)
(Under)/over provision in prior years	(25,036)	7,434	(683)	**(18,285)**	(5,324)

*2002 figures include Lloyd's business relating to closed years of account at 1 January 2002 only.

9 Net operating expenses

	2003 £000	2002 £000
Acquisition costs	**184,951**	156,103
Change in deferred acquisition costs	**(26,966)**	(3,299)
Reinsurance commission	**(12,298)**	(34,522)
Administrative expenses	**40,352**	27,469
	186,039	145,751

10 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 £16,438,000 (2002: £13,932,000). The movement in equalisation provision during the year resulted in a decrease in the technical account and the Group profit before taxation of £2,506,000 (2002: £2,703,000).

11 Investment return

a) The total actual investment return before taxation comprises:

	2003 £000	2002 Restated £000
Investment return on funds at Lloyd's and other corporate funds:		
Investment income	**8,591**	4,590
Unrealised gains/(losses) on investments	**1,778**	(2,617)
Realised gains/(losses) on investments	**1,026**	(244)
	11,395	1,729
Investment return on syndicate funds:		
Investment income	**12,656**	7,057
Realised gains/(losses) on investments	**974**	1,827
	13,630	8,884
Investment return on insurance company funds:		
Investment income	**9,955**	8,354
Unrealised gains/(losses) on investments	**6,248**	(1,486)
Realised gains/(losses) on investments	**(1,048)**	(171)
	15,155	6,697
Investment expenses and charges	**(805)**	(809)
Total investment return	**39,375**	16,501
Allocation to the technical account based on the longer term rate	**(30,583)**	(27,643)
Short term fluctuations in investment return retained in the non-technical account	**8,792**	(11,142)

b) Longer term investment return

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

	2003 %	2002 %
Shares and units in unit trusts	**6.0**	7.0
Debt securities and other fixed interest securities	**4.0**	6.0
Deposits with credit institutions	**4.0**	6.0

11 Investment return continued

c) Comparison of longer term investment return with actual returns

The actual return on investments is compared below with the longer term investment return over the year ended 31 December 2003 and for the five year period from 1 January 1999 to 31 December 2003. Investment yield is calculated using the weighted average value of investments during the year.

	Funds at Lloyd's and other Corporate Assets £000	%	Share of Syndicate £000	%	Insurance Company £000	%	2003 Total £000
Actual investment return:							
Shares and units in unit trusts	**7,196**	**16.1**	**–**	**–**	**9,736**	**19.9**	**16,932**
Debt securities and other fixed interest securities	**2,408**	**3.1**	**11,418**	**4.0**	**3,591**	**3.8**	**17,417**
Deposits with credit institutions	**1,496**	**2.8**	**1,863**	**4.0**	**1,667**	**3.3**	**5,026**
	11,100		**13,281**		**14,994**		**39,375**
Longer term investment return:							
Shares and units in unit trusts	**2,674**	**6.0**	**–**	**6.0**	**2,931**	**6.0**	**5,605**
Debt securities and other fixed interest securities	**3,136**	**4.0**	**11,651**	**4.0**	**3,778**	**4.0**	**18,565**
Deposits with credit institutions	**2,527**	**4.0**	**1,858**	**4.0**	**2,028**	**4.0**	**6,413**
	8,337		**13,509**		**8,737**		**30,583**
Short term fluctuations in investment return	**2,763**		**(228)**		**6,257**		**8,792**

	Funds at Lloyd's and other Corporate Assets Restated £000	%	Share of Syndicate £000	%	Insurance Company £000	%	2002 Total Restated £000
Actual investment return:							
Shares and units in unit trusts	(2,442)	(8.8)	138	10.1	(2,006)	(9.6)	(4,310)
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
	1,622		8,479		6,400		16,501
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	(5,392)		(2,163)		(3,587)		(11,142)

	1999–2003 £000	1998–2002 Restated £000
Longer term investment return credited to operating profit/(loss) and to the general business technical account	**106,651**	94,945
Actual investment return included in profit/(loss) on ordinary activities in the non-technical account	**92,979**	74,741
Effect of short term fluctuations over the period	**(13,672)**	(20,204)

11 Investment return continued

d) Impact of a 1% change in the longer term rates of investment return on operating profit

The impact of a 1% change in the longer term rates of investment return for each category of asset by segment on operating profit is:

	Funds at Lloyd's and other Corporate Assets £000	Share of Syndicate £000	Insurance Company £000	2003 Total £000
Shares and units in unit trusts	**446**	**–**	**489**	**935**
Debt securities and other fixed interest securities	**784**	**2,913**	**945**	**4,642**
Deposits with credit institutions	**632**	**464**	**507**	**1,603**

	Funds at Lloyd's and other Corporate Assets £000	Share of Syndicate £000	Insurance Company £000	2002 Total £000
Shares and units in unit trusts	279	14	186	479
Debt securities and other fixed interest securities	272	1,339	1,058	2,669
Deposits with credit institutions	572	419	390	1,381

12 Other income and charges

	2003 £000	2002 £000
Agency salaries	**1,472**	3,023
Underwriting agency income	**2,937**	1,627
Profit commission	**5,482**	3,437
Other	**2,691**	2,032
Total other income	**12,582**	10,119
Operating profit is stated after charging:		
Loan interest payable	**1,946**	1,432
Amortisation of goodwill and Lloyd's capacity costs	**1,450**	1,412
Finance lease charges	**19**	32
Operating lease charges (net of recharges to the managed syndicate)	**1,972**	1,750
Depreciation (net of recharges to the managed syndicate) on tangible fixed assets:		
– Owned assets	**1,739**	1,223
– Leased assets	**74**	138
Exchange losses/(gains)	**3,698**	(814)
Increase/(decrease) in provisions for bad and doubtful debts (including share of syndicate)	**(221)**	3,850

13 Auditors' remuneration

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

a) Group

	2003 £000	2003 %	2002 £000	2002 %
Audit and assurance services				
Statutory audit fee	**220**	**73%**	210	49%
Regulatory audit fee	**20**	**7%**	20	5%
Tax services in relation to 1999 and prior years	**15**	**5%**	5	1%
	255	**85%**	235	55%
Other non-audit services*				
Work performed in relation to:				
– Rights Issue/Open Offer	**–**	**–**	190	45%
– Other corporate projects	**45**	**15%**	–	–
	45	**15%**	190	45%
Total auditors' remuneration	**300**	**100%**	425	100%

13 Auditors' remuneration continued

b) Company

	2003 £000	2003 %	2002 £000	2002 %
Audit and assurance services				
Statutory audit fee	**91**	**89%**	87	31%
	91	**89%**	87	31%
Other non-audit services*				
Work performed in relation to:				
– Rights Issue/Open Offer	**–**	**–**	190	69%
– Other corporate projects	**11**	**11%**	–	–
	11	**11%**	190	69%
Total auditors' remuneration	**102**	**100%**	277	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.

14 Employees' remuneration

Their aggregate remuneration and associated costs were:

	2003 £000	2002 £000
Wages and salaries	**32,011**	24,012
Social security costs	**3,915**	3,195
Other pension costs	**3,417**	3,934
	39,343	31,141

The average monthly number of staff employed by the Group was 412 (2002: 367), comprising 141 underwriting and 271 administrative staff (2002: 118 and 249 respectively). Of the total remuneration shown above, an amount of £12,206,000 was re-charged to the syndicate managed by Hiscox Syndicates Limited (2002: £12,343,000).

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.

15 Earnings per ordinary share

	2003 Earnings £000	2003 Average number of shares 000	2003 EPS p	2002 Earnings Restated £000	2002 Average number of shares Restated 000	2002 EPS Restated p
Adjusted basic, based on operating profit after tax						
(on longer term investment return)	**55,929**	**289,790**	**19.3**	23,822	210,095	11.3
Basic, based on profit on ordinary activities after tax	**60,491**	**289,790**	**20.9**	14,399	210,095	6.9
Diluted, based on profit on ordinary activities after tax*	**60,491**	**293,462**	**20.6**	14,399	214,152	6.7

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

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

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

	2003 EPS p	2002 EPS Restated p
Basic based on profit on ordinary activities after tax	**20.9**	6.9
Short term fluctuations in investment return	**(2.2)**	3.5
Movement in equalisation provision	**0.6**	0.9
Adjusted basic based on operating profit after tax	**19.3**	11.3

Diluted earnings per share has been calculated taking into account 2,579,000 (2002: 2,941,000) options under employee share schemes and 1,093,000 (2002: 1,116,000) options under SAYE share schemes.

16 Taxation

	2003 £000	2002 £000
Current tax		
UK corporation tax on profits of the period	**3,998**	4,531
Foreign tax	**3**	301
Adjustments in respect of previous periods		
UK corporation tax	**5,217**	1,275
Foreign tax	**–**	(1)
Total current tax	**9,218**	6,106
Deferred tax		
Origination and reversal of timing differences	**18,452**	3,222
Adjustments in respect of previous periods	**(4,753)**	(2,988)
Total deferred tax	**13,699**	234
Total tax on profit on ordinary activities	**22,917**	6,340

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 on ordinary activities before tax is as follows:

	2003 £000	2002 Restated £000
Profit on ordinary activities before tax	**83,408**	20,739
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	**25,022**	6,222
Effects of:		
Expenses not deductible for tax purposes	**(667)**	1,343
Capital allowances in excess of depreciation	**272**	96
Short term timing differences on Lloyd's business	**(16,955)**	(3,646)
Other short term timing differences	**(3,264)**	624
Foreign tax, income tax and excess tax on Controlled Foreign Companies	**(407)**	192
Adjustments in respect of previous periods	**5,217**	1,275
Current tax charge for period	**9,218**	6,106
Accelerated capital allowances	**722**	499
Short term timing differences	**(14,823)**	12,325
Underwriting losses	**(1,398)**	–
Capital gains	**(4)**	–
Undiscounted provision for deferred tax asset/(liability)	**(15,503)**	12,824

There is a deferred tax asset unprovided of £2,005,000 for the Group. £232,000 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 of £1,773,000 relates to losses of overseas companies.

The Company has no unprovided deferred tax asset at the year end.

17 Intangible assets

a) Goodwill	£000
Cost	
At 1 January 2003	**8,637**
Goodwill acquired	**59**
At 31 December 2003	**8,696**
Amortisation	
At 1 January 2003	**2,020**
Charge for the year	**436**
At 31 December 2003	**2,456**
Net book value at 31 December 2003	**6,240**
Net book value at 31 December 2002	**6,617**

b) Other intangible assets	£000
Cost	
At 1 January 2003	**20,285**
Additions	**58**
At 31 December 2003	**20,343**
Amortisation	
At 1 January 2003	**3,816**
Charge for the year	**1,014**
At 31 December 2003	**4,830**
Net book value at 31 December 2003	**15,513**
Net book value at 31 December 2002	**16,469**

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

18 Investments – Group

a) Land and buildings	Freehold £000	Short Leasehold £000	Total £000
Valuation or cost			
At 1 January 2003	407	109	**516**
Disposals	–	–	**–**
At 31 December 2003	407	109	**516**
Depreciation			
At 1 January 2003	–	96	**96**
Charge for the year	–	10	**10**
Disposals	–	–	**–**
At 31 December 2003	–	106	**106**
Net book value at 31 December 2003	407	3	**410**
Net book value at 31 December 2002	407	13	**420**

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

18 Investments – Group continued

b) Other financial investments

2003

	Funds at Lloyd's and other Corporate Assets		Share of Syndicate		Insurance Company		Total	
	Market value £000	Cost £000	Market value £000	Cost £000	Market value £000	Cost £000	Market value £000	Cost £000
Shares and units in unit trusts	**54,505**	**47,930**	**–**	**–**	**57,442**	**52,992**	**111,947**	**100,922**
Debt securities and other fixed interest securities	**82,261**	**84,508**	**397,507**	**394,553**	**99,702**	**100,226**	**579,470**	**579,287**
Deposits with credit institutions	**27,350**	**26,848**	**2,581**	**2,581**	**51,368**	**51,440**	**81,299**	**80,869**
Other	**573**	**304**	**–**	**–**	**–**	**–**	**573**	**304**
	164,689	**159,590**	**400,088**	**397,134**	**208,512**	**204,658**	**773,289**	**761,382**

2002

	Funds at Lloyd's and other Corporate Assets		Share of Syndicate		Insurance Company		Total	
	Market value Restated £000	Cost Restated £000	Market value £000	Cost £000	Market value £000	Cost £000	Market value Restated £000	Cost Restated £000
Shares and units in unit trusts	26,981	29,464	–	–	27,587	30,038	54,568	59,502
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
	148,558	150,216	173,760	171,616	179,456	181,510	501,774	503,342

Of the above investments, all the shares and units in unit trusts 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 £806,002,000 (2002: £795,415,000) and £544,680,000 (2002: £634,345,000) respectively.

19 Debtors arising out of direct insurance operations

	2003 £000	2002 £000
Policyholders	**27,730**	23,137
Intermediaries	**223,296**	176,235
	251,026	199,372

20 Tangible assets – Group

Cost	Plant and machinery £000	Fixtures and fittings £000	**Total £000**
At 1 January 2003	10,033	5,665	**15,698**
Additions	2,935	256	**3,191**
Disposals	(399)	(88)	**(487)**
At 31 December 2003	12,569	5,833	**18,402**
Depreciation			
At 1 January 2003	6,350	2,229	**8,579**
Charge for the year	2,342	381	**2,723**
Disposals	(148)	(84)	**(232)**
At 31 December 2003	8,544	2,526	**11,070**
Net book value at 31 December 2003	4,025	3,307	**7,332**
Net book value at 31 December 2002	3,683	3,436	**7,119**

Assets held under finance leases account for £266,000 of the net book value of the assets above (2002: £434,000). The total depreciation for the period relating to these assets amounted to £122,000 (2002: £235,000).

21 Fixed assets – Company

a) Tangible assets	**Art £000**
Cost at 1 January 2003	**498**
Additions	**86**
Cost at 31 December 2003	**584**

b) Investment in subsidiary undertakings	**2003 £000**	2002 £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 33.

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 2003	13,812	6,266	89,249	54	**109,381**
Purchases	25,246	83,767	3,666	–	**112,679**
Sales	(4,330)	(25,579)	(75,367)	–	**(105,276)**
Cost at 31 December 2003	34,728	64,454	17,548	54	**116,784**
Market value at 31 December 2003	36,633	62,780	17,565	54	**117,032**
Market value at 31 December 2002	12,395	6,463	89,265	54	**108,177**

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 30.

22 Other debtors

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Due from Group companies	**–**	–	**129,405**	109,085
Taxation recoverable	**2,739**	–	**138**	1,083
Deferred tax asset	**–**	12,824	**16**	2
Net profit commission receivable	**7,918**	2,772	**–**	–
Other debtors	**7,355**	6,971	**89**	29
Share of syndicate's overseas deposits	**27,679**	20,396	**–**	–
Share of syndicate's other debtors balances	**25,464**	4,770	**–**	–
	71,155	47,733	**129,648**	110,199

23 Other creditors including taxation and social security

	Group 2003 £000	Group 2002 £000	Company 2003 £000	Company 2002 £000
Proposed final dividend	**8,414**	6,914	**8,421**	6,914
Due to Group companies	**–**	–	**10,022**	4,541
Corporation tax payable	**–**	2,730	**–**	–
Amounts owed to credit institutions	**477**	21	**–**	–
Obligations under finance leases	**255**	454	**–**	–
Other creditors	**11,621**	11,396	**–**	1
Share of syndicate's other creditors balances	**7,647**	14,899	**–**	–
	28,414	36,414	**18,443**	11,456

24 Technical provisions

Gross technical provisions	Provision for unearned premium £000	Claims outstanding £000	Total £000
At 1 January 2003	351,594	568,365	**919,959**
Exchange adjustments	(17,106)	(31,003)	**(48,109)**
Change in Group share of syndicate	–	28,242	**28,242**
Movement in the provision	89,891	91,216	**181,107**
At 31 December 2003	424,379	656,820	**1,081,199**
Reinsurers' share of technical provisions			
At 1 January 2003	102,608	218,175	**320,783**
Exchange adjustments	(2,967)	(11,676)	**(14,643)**
Change in Group share of syndicate	–	12,840	**12,840**
Movement in the provision	(36,637)	(30,156)	**(66,793)**
At 31 December 2003	63,004	189,183	**252,187**
Net technical provisions			
At 31 December 2003	361,375	467,637	**829,012**
At 1 January 2003	248,986	350,190	**599,176**

25 Provision for other risks and charges

	Group deferred tax £000	Company deferred tax £000
At 1 January 2003	–	–
Adjustment to provisions during the year	15,503	–
At 31 December 2003	15,503	–

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

26 Share capital

	Number of shares	£000
Authorised – Ordinary shares of 5p each		
At 1 January 2003	**410,000,000**	**20,500**
At 31 December 2003	**410,000,000**	**20,500**
Issued and fully paid – Ordinary shares of 5p each		
At 1 January 2003	**289,176,685**	**14,459**
Exercise of approved and unapproved share options	**1,657,354**	**83**
Exercise of SAYE share options	**458,521**	**23**
At 31 December 2003	**291,292,560**	**14,565**

27 Reconciliation of movement in shareholders' funds

a) Total shareholders' funds Group	Issued share capital 2003 £000	Share premium reserve 2003 £000	Merger reserve 2003 £000	Capital redemption reserve 2003 £000	Capital reserve 2003 £000	Reserve for own shares 2003 £000	Profit and loss account 2003 £000	**Total shareholders' funds 2003 £000**	Total shareholders' funds Restated 2002 £000
At 1 January	14,459	230,585	4,723	33,244	–	–	(2,709)	**280,302**	164,791
Prior year restatement (see note 5)	–	–	–	–	–	(1,339)	169	**(1,170)**	(1,492)
At 1 January (restated)	14,459	230,585	4,723	33,244	–	(1,339)	(2,540)	**279,132**	163,299
Exercise of share options	106	1,756	–	–	–	–	–	**1,862**	164
Shares issued as part of Rights Issue	–	–	–	–	–	–	–	**–**	110,635
UITF 37 reserve adjustment (see note 33)	–	–	–	–	–	653	98	**751**	–
UITF 38 reserve adjustment (see note 5)	–	–	–	–	–	–	–	**–**	(102)
Exchange differences taken to reserves	–	–	–	–	–	–	(155)	**(155)**	(50)
Retained profit for the year	–	–	–	–	–	–	48,247	**48,247**	5,186
At 31 December	14,565	232,341	4,723	33,244	–	(686)	45,650	**329,837**	279,132

b) Total shareholders' funds Company	Issued share capital 2003 £000	Share premium reserve 2003 £000	Merger reserve 2003 £000	Capital redemption reserve 2003 £000	Capital reserve 2003 £000	Reserve for own shares 2003 £000	Profit and loss account 2003 £000	**Total shareholders' funds 2003 £000**	Total shareholders' funds 2002 £000
At 1 January	14,459	230,585	58,970	33,244	(1,269)	–	7,532	**343,521**	235,973
Exercise of share options	106	1,756	–	–	–	–	–	**1,862**	164
Shares issued as part of Rights Issue	–	–	–	–	–	–	–	**–**	110,635
Unrealised gains/(losses) net of tax	–	–	–	–	1,432	–	–	**1,432**	(1,620)
Retained profit/(loss) for the year	–	–	–	–	–	–	(1,955)	**(1,955)**	(1,631)
At 31 December	14,565	232,341	58,970	33,244	163	–	5,577	**344,860**	343,521

28 Directors' emoluments

a)	**2003 Basic salary/fees £000**	**2003 Benefits £000**	**2003 Bonus £000**	**2003 Total £000**	2002 Basic salary/fees £000	2002 Benefits £000	2002 Bonus £000	2002 Total £000
Executive directors								
RRS Hiscox	**250**	**16**	**450**	**716**	270	17	164	451
BE Masojada	**271**	**15**	**550**	**836**	255	16	260	531
RS Childs	**256**	**18**	**650**	**924**	247	18	250	515
SJ Bridges	**211**	**14**	**350**	**575**	201	18	205	424
Non-executive directors								
SH Hall	**48**	**–**	**–**	**48**	35	–	–	35
AGC Howland Jackson	**45**	**–**	**–**	**45**	30	–	–	30
DND Netherton	**40**	**–**	**–**	**40**	30	–	–	30
C Franklin Engler	**35**	**–**	**–**	**35**	28	–	–	28

28 Directors' emoluments continued

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 2003 £000	Transfer value of the increase in accrued pension £000	Transfer value of accrued pension at 1 Jan 2003 £000	Transfer value of accrued pension at 31 Dec 2003 £000	Increase in transfer value of accrued benefit during the year £000
RRS Hiscox	(18)	161	(438)	3,617	3,924	307
BE Masojada	3	23	23	120	289	169
RS Childs	11	118	137	1,049	2,145	1,096
SJ Bridges	3	15	24	68	173	105

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. RRS Hiscox retired on 3 January 2003 and elected to take a tax free lump sum in exchange for part of his entitlement. The figures above allow for his post commutation pension.

c)
Total directors' remuneration of which £547,000 was recharged to the managed syndicate (2002: £727,000) was:

	2003 £000	2002 £000
Salaries, benefits and bonuses	**3,051**	1,921
Fees to non-executive directors	**168**	123
	3,219	2,044

Three directors exercised share options during the year (2002: one).

d)
(i) Directors' share interests

	31 December 2003 5p Ordinary Shares Number of shares Beneficial	31 December 2003 5p Ordinary Shares Number of shares Non beneficial	31 December 2002 5p Ordinary Shares Number of shares Beneficial	31 December 2002 5p Ordinary Shares Number of shares Non beneficial
Executive directors				
RRS Hiscox	**8,880,595**	**582,715**	8,829,859	598,146
BE Masojada	**2,317,808**	**–**	1,679,535	–
RS Childs	**1,152,469**	**–**	717,078	–
SJ Bridges	**205,283**	**–**	97,500	–
Non-executive directors				
SH Hall	**35,500**	**–**	35,500	–
AGC Howland Jackson	**49,589**	**–**	49,589	–
DND Netherton	**30,000**	**–**	30,000	–
C Franklin Engler	**17,550**	**–**	17,550	–

Hiscox Trustees Ltd is the trustee of the Hiscox plc Group Employee Share Ownership Plan Trust (ESOP) and at 31 December 2003 was interested in 255,466 (2002: 255,466) 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, RS Childs exercised 10,999 options under the Employee Sharesave Scheme. No other transactions have taken place subsequent to the year end up to the date of this Report and Accounts.

28 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. The condition of exercise of the Approved and Unapproved share options is described on page 19.

	No. of options at 1 January 2003	No. of options granted	No. of options lapsed	No. of options exercised	No. of options at 1 December 2003	Adjusted exercise price £	Market price at date of exercise	Date from which exercisable	Expiry date
SJ Bridges	82,092	–	–	–	**82,092**	1.32	–	13 Oct 02	12 Oct 09
	109,457	–	–	–	**109,457**	1.05	–	15 Jun 03	14 Jun 10
	54,728	–	–	–	**54,728**	1.81	–	03 May 04	02 May 11
	136,821	–	–	–	**136,821**	0.83	–	27 Sep 04	26 Sep 11
	175,000	–	–	–	**175,000**	1.29	–	19 Nov 05	18 Nov 12
	–	150,000	–	–	**150,000**	1.51	–	02 Apr 06	01 Apr 13
	558,098	150,000	–	–	**708,098**				
RS Childs	105,763	–	–	(105,763)	**–**	0.21	1.49	7 May 96	6 May 03
	158,645	–	–	(158,645)	**–**	0.31	1.49	29 Jun 97	28 Jun 04
	211,526	–	–	(211,526)	**–**	1.10	1.49	13 May 99	12 May 03
	87,566	–	–	–	**87,566**	1.75	–	17 Dec 00	16 Dec 04
	87,566	–	–	–	**87,566**	1.62	–	20 Oct 01	19 Oct 05
	109,457	–	–	–	**109,457**	1.32	–	13 Oct 02	12 Oct 09
	164,186	–	–	–	**164,186**	1.05	–	15 Jun 03	14 Jun 10
	76,620	–	–	–	**76,620**	1.81	–	03 May 04	02 May 11
	136,821	–	–	–	**136,821**	0.83	–	27 Sep 04	26 Sep 11
	200,000	–	–	–	**200,000**	1.29	–	19 Nov 05	18 Nov 12
	–	200,000	–	–	**200,000**	1.51	–	02 Apr 06	01 Apr 13
	1,338,150	200,000	–	(475,934)	**1,062,216**				
RRS Hiscox	87,566	–	–	–	**87,566**	1.75	–	17 Dec 00	16 Dec 04
	71,147	–	–	–	**71,147**	1.62	–	20 Oct 01	19 Oct 05
	16,418	–	–	–	**16,418**	1.62	–	20 Oct 01	19 Oct 08
	54,727	–	–	–	**54,727**	1.05	–	15 Jun 03	14 Jun 10
	54,728	–	–	–	**54,728**	1.81	–	03 May 04	02 May 11
	–	50,000	–	–	**50,000**	1.51	–	02 Apr 06	01 Apr 13
	284,586	50,000	–	–	**334,586**				
BE Masojada	528,816	–	–	(528,816)	**–**	1.10	1.52	13 May 99	12 May 03
	87,566	–	–	–	**87,566**	1.75	–	17 Dec 00	16 Dec 04
	71,147	–	–	–	**71,147**	1.62	–	20 Oct 01	19 Oct 05
	16,418	–	–	–	**16,418**	1.62	–	20 Oct 01	19 Oct 08
	109,457	–	–	–	**109,457**	1.32	–	13 Oct 02	12 Oct 09
	164,185	–	–	–	**164,185**	1.05	–	15 Jun 03	14 Jun 10
	76,620	–	–	–	**76,620**	1.81	–	03 May 04	02 May 11
	136,821	–	–	–	**136,821**	0.83	–	27 Sep 04	26 Sep 11
	200,000	–	–	–	**200,000**	1.29	–	19 Nov 05	18 Nov 12
	–	200,000	–	–	**200,000**	1.51	–	02 Apr 06	01 Apr 13
	1,391,030	200,000	–	(528,816)	**1,062,214**				
Sub-total	3,571,864	600,000	–	(1,004,750)	**3,167,114**				

28 Directors' emoluments continued

d) continued
(ii) Share options continued

	No. of options at 1 January 2003	No. of options granted	No. of options lapsed	No. of options exercised	No. of options at 31 December 2003	Adjusted exercise price £	Market price at date of exercise	Date from which exercisable	Expiry date
Sub-total b'fwd	3,571,864	600,000	–	(1,004,750)	**3,167,114**				
Other employees	52,880	–	–	(52,880)	**–**	0.21	1.49-1.54	07 May 96	06 May 03
	179,798	–	–	(126,916)	**52,882**	0.31	1.49-1.55	29 Jun 97	28 Jun 04
	359,590	–	–	(359,590)	**–**	1.10	1.49-1.65	13 May 99	12 May 03
	421,405	–	–	–	**421,405**	1.75	–	17 Dec 00	16 Dec 04
	205,220	–	–	–	**205,220**	1.75	–	17 Dec 00	16 Dec 07
	470,658	–	–	–	**470,658**	1.62	–	20 Oct 01	19 Oct 05
	192,081	–	–	–	**192,081**	1.62	–	20 Oct 01	19 Oct 08
	840,601	–	–	(26,268)	**814,333**	1.32	1.46-1.59	13 Oct 02	12 Oct 09
	1,552,057	–	(5,472)	(86,950)	**1,459,635**	1.05	1.41-1.62	15 Jun 03	14 Jun 10
	114,929	–	–	–	**114,929**	1.03	–	09 Nov 03	08 Nov 10
	109,456	–	–	–	**109,456**	1.74	–	14 Feb 04	13 Feb 11
	882,180	–	(8,208)	–	**873,972**	1.81	–	03 May 04	02 May 11
	1,767,711	–	(5,472)	–	**1,762,239**	0.83	–	27 Sep 04	26 Sep 11
	2,425,000	–	(30,000)	–	**2,395,000**	1.29	–	19 Nov 05	18 Nov 12
	–	2,400,000	(20,000)	–	**2,380,000**	1.51	–	02 Apr 06	01 Apr 13
	9,573,566	2,400,000	(69,152)	(652,604)	**11,251,810**				
Total	**13,145,430**	**3,000,000**	**(69,152)**	**(1,657,354)**	14,418,924				

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 2003	No. of options granted	No. of options lapsed	No. of options exercised	No. of options at 31 December 2003	Adjusted exercise price* £/Euro	Market price at date of exercise	Date from which exercisable	Expiry date
UK Sharesave Scheme									
SJ Bridges	10,999	–	–	(10,999)	**–**	0.88	1.57	01 Aug 03	31 Jan 04
SJ Bridges	–	7,321	–	–	**7,321**	1.26	–	01 Dec 06	31 May 07
RS Childs	10,999	–	–	–	**10,999**	0.88	–	01 Aug 03	31 Jan 04
RRS Hiscox	9,282	–	–	–	**9,282**	1.02	–	01 Dec 05	31 May 06
BE Masojada	14,283	–	–	–	**14,283**	0.67	–	01 Dec 04	31 May 05
Other employees	30,617	–	–	(30,617)	**–**	1.08	1.48-1.62	01 Dec 02	31 May 03
	396,118	–	(3,255)	(386,049)	**6,814**	0.88	1.41-1.57	01 Aug 03	31 Jan 04
	1,514,598	–	(88,174)	(15,459)	**1,410,965**	0.67	1.48	01 Dec 04	31 May 05
	224,238	–	(13,736)	–	**210,502**	1.02	–	01 Dec 05	31 May 06
	–	389,302	(14,641)	–	**374,661**	1.26	–	01 Dec 06	31 May 07
	2,211,134	396,623	(119,806)	(443,124)	**2,044,827**				
International Sharesave Scheme									
Other employees	108,908	–	(19,638)	–	**89,270**	1.06	–	03 Jan 05	02 Jul 06
	30,690	–	–	–	**30,690**	1.62	–	01 Dec 05	31 May 06
	–	19,286	–	–	**19,286**	1.81	–	01 Dec 06	31 May 07
	139,598	19,286	(19,638)	–	**139,246**				
Total	**2,350,732**	**415,909**	**(139,444)**	**(443,124)**	2,184,073				

*International Sharesave Scheme exercise prices are denominated in Euros.

The Company has taken advantage of the exemptions conferred in UITF Abstract 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 £773,000 (2002: £2,000). The market price of Hiscox plc shares at 31 December 2003 was 143.0p. The highest and lowest values of Hiscox shares during 2003 was 170.5p and 137.0p (2002: 164.5p and 120.5p).

28 Directors' emoluments continued

d) continued
(iii) Performance share plan

	No. of shares at 1 January 2003	No. of shares awarded	No. of shares lapsed	No. of shares issued	**No. of shares at 31 December 2003**	Market price at date of grant	Market price at date of exercise	Date of award	Date from which exercisable	Expiry date
SJ Bridges	82,093	–	–	(82,093)	**–**	1.35	1.53	13 Oct 99	1 April 03	31 Dec 09
	27,364	–	–	–	**27,364**	1.07	–	15 Jun 00	1 April 04	31 Dec 10
	10,945	–	–	–	**10,945**	1.84	–	3 May 01	1 April 05	31 Dec 11
	120,402	–	–	(82,093)	**38,309**					
RS Childs	109,457	–	–	(109,457)	**–**	1.35	1.52	13 Oct 99	1 April 03	31 Dec 09
	27,364	–	–	–	**27,364**	1.07	–	15 Jun 00	1 April 04	31 Dec 10
	10,945	–	–	–	**10,945**	1.84	–	3 May 01	1 April 05	31 Dec 11
	147,766	–	–	(109,457)	**38,309**					
RRS Hiscox	27,364	–	–	–	**27,364**	1.07	–	15 Jun 00	1 April 04	31 Dec 10
	10,945	–	–	–	**10,945**	1.84	–	3 May 01	1 April 05	31 Dec 11
	38,309	–	–	–	**38,309**					
BE Masojada	109,457	–	–	(109,457)	**–**	1.35	1.54	13 Oct 99	1 April 03	31 Dec 09
	27,364	–	–	–	**27,364**	1.07	–	15 Jun 00	1 April 04	31 Dec 10
	10,945	–	–	–	**10,945**	1.84	–	3 May 01	1 April 05	31 Dec 11
	147,766	–	–	(109,457)	**38,309**					
Other employees	385,827	–	–	(385,827)	**–**	1.35	1.51-1.55	13 Oct 99	1 April 03	31 Dec 09
	279,104	–	–	–	**279,104**	1.07	–	15 Jun 00	1 April 04	31 Dec 10
	5,472	–	–	–	**5,472**	1.05	–	9 Nov 00	1 April 04	31 Dec 10
	172,927	–	–	–	**172,927**	1.84	–	3 May 01	1 April 05	31 Dec 11
	843,330	–	–	(385,827)	**457,503**					
Total	**1,297,573**	**–**	**–**	**(686,834)**	**610,739**					

29 Pension contributions

During the year, the Group contributed to the two sections of the Hiscox defined benefit pension scheme. 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. The Group also contributed to a defined contribution scheme introduced on 1 January 2001 for all staff joining the Group. The total pension charge for the year amounted to £2,911,000 (2002: £3,409,000) of which £1,729,000 was recharged to managed syndicates (2002: £1,814,000).

Defined benefit schemes

A full actuarial valuation was carried out at 31 December 2002 by a qualified independent actuary. The valuation was updated on an FRS 17 basis as at 31 December 2003 by a qualified independent actuary.

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

	2003	2002	2001
Rate of increase in salaries	**3.80% pa**	3.25% pa	3.50% pa
Rate of increase in RPI linked pensions in payment	**2.80% pa**	2.25% pa	2.50% pa
Rate of increase of pensions in deferment	**2.80% pa**	2.25% pa	2.50% pa
Discount rate	**5.40% pa**	5.50% pa	6.00% pa
Inflation assumption	**2.80% pa**	2.25% pa	2.50% pa

The scheme is invested primarily in unitised funds held with Fidelity Pension Management. The split of assets, their expected rate of return and the funding position at 31 December 2003, measured in accordance with the requirements of FRS 17, were as follows:

	2003 %	2003 £000	2002 %	2002 £000	2001 %	2001 £000
Equities and properties	**6.75**	**36,831**	6.50	30,935	7.00	37,262
Bonds	**5.00**	**9,512**	4.75	10,037	5.25	6,399
Cash	**3.75**	**11,859**	4.00	2,561	4.00	2,949
Total market value of assets		**58,202**		43,533		46,610
Present value of scheme liabilities		**(91,536)**		(77,258)		(59,800)
Surplus/(deficit)		**(33,334)**		(33,725)		(13,190)
Related deferred tax (liability)/asset		**10,000**		10,118		3,957
Surplus/(deficit) in the scheme – pension asset/(liability)		**(23,334)**		(23,607)		(9,233)

The impact on the net assets and retained profits of the Group at 31 December 2003 of adopting FRS17 would be:

	Net assets £000
Current position at 31 December 2003	329,837
Pension (asset)/liability on a SSAP24 basis	(5,310)
Pension asset/(liability) on a FRS17 basis	(23,334)
Restated position at 31 December 2003	301,193

During the year the Group has contributed to the scheme at the rate of 23.1% of pensionable salaries plus an additional contribution of £7,000,000. From 1 January 2004, the Group is making contributions to the scheme at the rate of 22.6% of pensionable salaries plus an additional contribution of £2,766,000 per annum.

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 under FRS17

	2003 £000
Current service cost	**2,348**
Past service cost	**–**
Gain/(loss) on settlements and curtailments	**–**
	2,348

29 Pension contributions continued

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

	2003 £000
Expected return on pension scheme assets	2,845
Interest on pension scheme liabilities	(4,278)
Net return	(1,433)

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

	2003 £000
Actual return less expected return on pension scheme asset	3,267
Experience gains and losses arising on the scheme liabilities	(2,517)
Changes in assumptions underlying the present value of the scheme liabilities	(6,418)
	(5,668)

Movement in scheme deficit during the year

	2003 £000
At 1 January	(33,725)
Current service cost	(2,348)
Contributions	9,840
Past service costs	–
Net finance income/(costs)	(1,433)
Actuarial gain/(loss)	(5,668)
At 31 December	(33,334)

History of experience gains and losses

	2003
Difference between the expected and actual return on scheme assets:	
Amount (£000)	3,267
Percentage of scheme assets	6%
Experience gains and losses on scheme liabilities:	
Amount (£000)	(2,517)
Percentage of the present value of scheme liabilities	3%
Total actuarial gain in the statement of total recognised gains and losses:	
Amount (£000)	(5,668)
Percentage of the present value of scheme liabilities	6%

30 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 to J 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 £108,167,046 (2002: Hiscox plc gave a guarantee of £80,248,738 and its subsidiary Hiscox Select Insurance Fund PLC gave a guarantee of £34,123,823). 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 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 2004, £132,354,060 was drawn down to support part of the Group's underwriting activities for the 2004 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.

iv) The managed syndicate is subject to the New Central Fund annual contribution, which is an annual fee calculated on capacity. This fee was 3% on capacity for 2003, including the 2% premium levy, and is 1.25% for 2004. In addition to this annual fee, the Council of Lloyd's has the discretion to call a further contribution of up to 3% per annum of capacity if required.

31 Lease commitments

a) Operating leases
The Group has the following commitments under operating leases:

	Land and buildings 2003 £000	Other 2003 £000	Total 2003 £000	Land and buildings 2002 £000	Other 2002 £000	Total 2002 £000
Operating leases which expire:						
Within one year	**212**	**22**	**234**	–	67	67
From two to five years inclusive	**62**	**47**	**109**	681	–	681
Over five years	**2,890**	**70**	**2,960**	2,577	–	2,577
	3,164	**139**	**3,303**	3,258	67	3,325

The Company has no operating lease commitments.

b) Finance leases
The finance lease obligations to which the Group is committed are:

	2003 £000	2002 £000
In one year or less	**136**	351
Between two and five years	**119**	103
	255	454

32 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:

	2003 £000	2002 £000
Services provided by Hiscox Syndicates Limited to the undertakings below:		
Lloyd's Syndicate 33	**18,931**	11,429
Balances due to the Hiscox Group at the balance sheet dates were as follows:		
Due (to)/from respective related parties as at 31 December:		
Lloyd's Syndicate 33	**(89)**	1,400

BE Masojada is a non-executive director of Ins-sure Holdings Limited and its subsidiaries, appointed in October 2002. These companies operate in a joint venture between Lloyd's, the International Underwriting Association (IUA) and Xchanging. These companies provide policy issuance, premium collection, claims settlement and clearing services to the Lloyd's and London insurance company markets. Hiscox Underwriting Group Services Ltd receives a fee in relation to this directorship. The balance due at 31 December 2003 was £19,858.

33 Principal subsidiary companies

As at 31 December 2003

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
Hiscox NV†	Underwriting agent	Belgium
Hiscox Trustees Limited‡	Corporate trustee	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 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 loss in the year of $680,363 (2002: profit of $910,621) which has been included in the figures of Hiscox Insurance Company (Guernsey) Limited and consolidated in this Report and Accounts. The cumulative loss of Cell Hiscox to date is $1,067,174.

‡Hiscox Holdings held 406,884 shares (2002: 1,094,334 shares) in Hiscox plc at 31 December 2003. In accordance with UITF Abstract 37, which came into force during 2003, the cost of these shares of £386,000 (2002: £1,039,000) has been taken to a separate reserve for own shares.

During 2003, 687,450 of these shares were issued to staff at a price of £1.069 as part of the employee performance share plans. This gave rise to a profit on disposal of £82,000 which has been credited to reserves along with proceeds of £16,000 received on the sale of rights received from the Rights Issue in relation to these shares. These gains on own shares have not been taken through the profit and loss account nor through the statement of total recognised gains or losses in accordance with UITF Abstract 37.

Hiscox Trustees Limited is the trustee of the Hiscox plc Group Employee Share Ownership Plan (ESOP). The ESOP owns 255,466 shares (2002: 255,466 shares) in Hiscox plc at 31 December 2003. The shares have been purchased by the ESOP for future use in employee share option schemes. None of these shares are currently under option to employees, nor have been conditionally gifted to them. In accordance with UITF Abstract 38, which the Company has adopted early in 2003, the cost of these shares of £300,000 (2002: £300,000) has been taken to a separate reserve for own shares.

The adoption of UITF Abstracts 37 and 38 has resulted in a restatement of the comparative figures for 2002 and an adjustment to the opening reserves at 1 January 2002. More information on the impact of this prior year restatement can be found in note 5.

34

a) Reconciliation of operating profit to net cash inflow from operating activities	2003 £000	2002 Restated £000
Operating profit before taxation after interest, based on longer term investment return	**77,122**	34,584
Depreciation and amortisation of fixed assets	**4,125**	3,422
Increase in general insurance technical provisions, net of reinsurance	**43,482**	22,254
Increase/(decrease) in amounts owed to agents	**(2,591)**	13,238
(Increase)/decrease in amounts owed by agents	**(11,295)**	(3,729)
(Increase)/decrease in other debtors	**(24,979)**	(1,024)
Increase/(decrease) in other creditors	**482**	2,721
Cash transferred (to)/from Lloyd's business (note 34c)	**(7,712)**	(23,037)
Realised and unrealised investment (gains)/losses	**(8,004)**	4,519
Short term fluctuations in investment return	**8,792**	(11,142)
Interest expense	**1,946**	1,432
(Profits)/losses relating to Lloyd's business	**(56,516)**	(21,034)
Other non-cash transactions	**(1,264)**	(70)
Net cash inflow from operating activities	**23,588**	22,134

b) Movement in opening and closing portfolio investments net of financing	Notes	2003 £000	2002 Restated £000
Net cash inflow/(outflow) for the period	34(e)	**(25,608)**	25,288
Portfolio investments	34(d), 34(e)	**35,968**	98,483
Decrease/(increase) in loans	34(e)	**(257)**	2,626
Movement arising from cash flows		**10,103**	126,397
Movement in Lloyd's business	34(c), 34(e)	**182,711**	95,975
Changes in market value and exchange rate effects	34(e)	**10,042**	(2,407)
Increase in portfolio investments net of financing		**202,856**	219,965
Total portfolio investments net of financing at 1 January		**622,127**	402,162
Total portfolio investments net of financing at 31 December		**824,983**	622,127

c) Cash flows of the Lloyd's business	2003 £000	2002 £000
Premiums received, net of reinsurance	**442,742**	254,365
Claims paid, net of reinsurance	**(104,587)**	(80,382)
Net portfolio investments	**12,055**	6,652
Other net cash flows	**(175,211)**	(107,697)
Net cash flow before retention and transfer from/(to) the Group	**174,999**	72,938
Transfer from/(to) the Group	**7,712**	23,037
Cash retained in the Lloyd's business	**182,711**	95,975

34 continued

d) Analysis of cash flows for headings netted in the cash flow statement	2003 £000	2002 Restated £000
Servicing of finance		
Interest paid	**(2,194)**	(1,644)
Interest paid element of finance leases	**(39)**	(65)
	(2,233)	(1,709)
Capital expenditure		
Payments to acquire tangible fixed assets	**(2,935)**	(2,470)
Receipts from sales of tangible fixed assets	**–**	(398)
Payments to acquire intangible fixed assets	**(117)**	(701)
	(3,052)	(3,569)
Acquisitions and disposals		
Payments to acquire investment in associated undertaking	**(50)**	–
Acquisition of subsidiary undertaking	**–**	–
Net cash and investments acquired with subsidiary	**–**	–
	(50)	–
Financing		
Proceeds from share issues*	**1,862**	110,799
(Payments)/receipts relating to own shares	**751**	(102)
New bank loan	**456**	–
Repayment of bank loan	**–**	(2,038)
Capital element of finance leases	**(159)**	(222)
	2,910	108,437

*Net of expenses of £nil (2002: £4,986,413).

Portfolio investment		
Purchase of shares and units in unit trusts	**74,316**	19,911
Purchase of debt securities and other fixed interest securities	**301,303**	175,765
Sale of shares and units in unit trusts	**(29,730)**	–
Sale of debt securities and other fixed interest securities	**(241,646)**	(165,451)
Increase/(decrease) in deposits with credit institutions	**(68,275)**	68,265
Increase/(decrease) in other investments	**–**	(7)
	35,968	98,483

e) Movement in cash, portfolio investments and financing*	At 1 Jan 2003 Restated £000	Cash flow £000	Changes in other business £000	Changes to market value and currencies £000	At 31 Dec 2003 £000
Cash at bank and in hand	121,196	(25,608)	(42,643)	–	**52,945**
Shares and units in unit trusts	54,568	44,586	–	12,793	**111,947**
Debt securities and other fixed interest securities	298,271	59,657	224,221	(2,679)	**579,470**
Deposits with credit institutions	148,513	(68,275)	1,133	(72)	**81,299**
Other investments	54	–	–	–	**54**
	622,602	10,360	182,711	10,042	**825,715**
Amounts owed to credit institutions	(21)	(456)	–	–	**(477)**
Finance leases	(454)	199	–	–	**(255)**
Total	622,127	10,103	182,711	10,042	**824,983**

*These balances include amounts relating to syndicate participations, but exclude participations in associated undertakings of £519,000 (2002: £368,000).

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

	2003 £000	2002 Restated £000	2001 £000	2000 £000	1999 £000
Results					
Gross premiums written	797,380	676,705	548,926	384,736	323,677
Net premiums written	660,966	416,144	412,577	260,687	245,371
Net premiums earned	547,451	385,129	344,199	241,450	201,452
Operating profit/(loss) before taxation	77,122	34,584	(21,220)	2,950	5,427
Short term fluctuations in investment return	8,792	(11,142)	(8,694)	1,043	(3,672)
Exceptional items	–	–	–	1,803	–
Movement in equalisation provision	(2,506)	(2,703)	(2,582)	(2,309)	(1,643)
Profit/(loss) on ordinary activities before taxation	83,408	20,739	(32,496)	3,487	112
Profit/(loss) on ordinary activities after taxation	60,491	14,399	(23,107)	5,430	84
Combined ratio	87.2%	94.8%	109.9%	103.1%	102.7%
Assets employed					
Intangible assets	21,753	23,086	23,797	24,407	21,785
Financial investments	773,289	501,774	344,402	263,655	228,979
Cash at bank and in hand	52,945	121,196	62,520	38,466	27,602
Net technical provisions	(845,450)	(613,108)	(512,993)	(303,652)	(295,042)
Other net assets	327,300	246,184	247,065	110,686	146,261
Net assets	329,837	279,132	164,791	133,562	129,585
Net asset value per share	113.5p	97.0p	85.5p	90.2p	89.7p
Financed by					
Shareholders' funds	329,837	279,132	164,791	133,562	129,585
Key statistics					
Adjusted earnings/(loss) per share based on operating profit/(loss) after tax*	19.3p	11.3p	(9.7)p	3.2p	2.4p
Earnings/(loss) per share based on profit/(loss) on ordinary activities after tax*	20.9p	6.9p	(14.8)p	3.5p	0.1p
Diluted earnings/(loss) per share based on profit/(loss) on ordinary activities after tax*	20.6p	6.7p	(14.8)p	3.4p	0.1p
Dividends per share*	4.20p	3.54p	0.00p	3.17p	3.17p
Return on shareholders' funds***	21.7%	8.7%	(17.3%)	4.2%	0.1%
Share price – high**	170.5p	164.5p	226.0p	144.0p	202.5p
Share price – low**	137.0p	120.5p	72.5p	83.0p	130.5p

*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 is hereby given that the Annual General Meeting of Hiscox plc will be held at 1 Great St Helen's London EC3A 6HX on 22 June 2004 at 11.00 am for the following purposes:

Ordinary business

1) To receive the accounts of the Company for the year ended 31 December 2003 together with the directors' and auditors' reports thereon.

To re-appoint the following who retire as directors in accordance with the Articles of Association, special notice having been given for resolution 3:

2) BE Masojada

3) SH Hall (aged 70)

4) 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.

5) To authorise the directors to determine the level of auditors' remuneration.

6) To declare a final dividend for the year ended 31 December 2003 of 2.9 pence (net) per ordinary share payable to shareholders on the register at the close of business on 23 April 2004.

Special business

To consider, and if thought fit, pass the following resolutions, of which resolutions 7 to 11 will be proposed as ordinary resolutions and resolutions 12 and 13 will be proposed as special resolutions.

Ordinary resolutions

7) That the directors be generally and unconditionally authorised (in substitution for all existing authorities) pursuant to Section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (within the meaning of that Section) up to a maximum aggregate nominal value of £4,855,172.85, representing 33.3% of the issued ordinary share capital as at 22 March 2004, for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) fifteen months from the date of the passing of this resolution provided that the authority of the directors shall extend to the making of any offer or agreement before the expiration or revocation of the authority which would or might require relevant securities to be allotted after the expiration or revocation of this authority and the directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry or revocation of this authority.

8) That the Remuneration Report contained within the Report and Accounts for the year ended 31 December 2003 be approved.

9) That the amendment to the Rules of the Hiscox Approved Share Option Scheme by the addition of a replacement Schedule in the form produced to the Meeting and initialled by the Chairman for the purposes of identification, be and hereby is approved and that the directors be authorised to do all acts and things which they may consider necessary or expedient to carry the amendment into effect.

10) That the amendment to the Rules of the Hiscox Unapproved Share Option Scheme by the addition of a replacement Schedule in the form produced to the Meeting and initialled by the Chairman for the purposes of identification, be and hereby is approved and that the directors be authorised to do all acts and things which they may consider necessary or expedient to carry the amendment into effect.

11) That the amendment to the Rules of the Hiscox Performance Share Plan by the addition of a Schedule in the form produced to the Meeting and initialled by the Chairman for the purposes of identification, be and hereby is approved and that the directors be authorised to do all acts and things which they may consider necessary or expedient to carry the amendment into effect.

Special resolutions

12) 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 £728,275.90.

13) That the Company be authorised to purchase its own shares from the market. The authority will be limited to a purchase of own shares up to a maximum number of 15,000,000 shares and the cost of the shares will be limited to a minimum share price of £0.50 per share and a maximum share price of £2.50 per share. This authority will terminate no later than fifteen months after the date of the Annual General Meeting.

By order of the Board
SJ Bridges
Secretary
22 March 2004

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.

Copies of the register of directors' interests and copies of any directors' service contracts kept by the Company will be available for at least 15 minutes before the commencement of the meeting and will remain available during the continuance of the meeting to any person attending the meeting.

To be effective, the proxy and, unless previously registered with the Company, the authority or power of attorney under which it is executed or a notarially certified copy thereof must be lodged with the Company's registrars not later than 48 hours before the time for holding the meeting or (as the case may be) the adjourned meeting.

In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the relevant register of members of the Company as at 6.00 pm on 20 June 2004 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after 6.00 pm on 20 June 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

KEY SHAREHOLDER INFORMATION

• Annual General Meeting	22 June 2004
• Ex-dividend date*	21 April 2004
• Record date for 2003 final dividend**	23 April 2004
• Payment for final dividend	28 June 2004

*Shares bought on or after this date will not qualify for the dividend.
**Shareholders must be on our register on this date to receive the dividend.

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

Or visit our website at www.hiscox.com

Designed and produced by Baber Smith