

Hiscox Syndicates
Report and Accounts 2005
2003 Underwriting Year Accounts

05

MANAGING AGENT:

Managing agent

Hiscox Syndicates Limited (HSL) is the managing agent of composite Syndicate 33. HSL is a wholly owned subsidiary of Hiscox plc.

Directors

R R S Hiscox (Chairman)
S J Bridges
D J W Bruce
R S Childs
A N Foster
S H Hall (resigned 31 December 2005)
A G C Howland Jackson
S C Langley
I J Martin
B E Masojada
S J Quick
B C Ritchie
S Smith (resigned 3 January 2006)
I N Thomson
N B Tyler
R C Watson

Company secretary

J S Jones

Managing agent's registered office

1 Great St Helen's
London EC3A 6HX

Managing agent's registered number

02590623

SYNDICATE:

Active underwriter

R S Childs (resigned 31 December 2005)
R C Watson (appointed 1 January 2006)

Bankers

Barclays Bank plc
Lloyds TSB Bank plc

Investment managers

Alliance Capital Ltd
Wellington Management Company
UBS Global Asset Management

Registered auditors

KPMG Audit Plc

The directors of the managing agent present their report for the year ended 31 December 2005.

This report comprises the cumulative result to 31 December 2005 for the closed 2003 account of Syndicate 33.

Separate accounts using the annual basis of accounting as required by Statutory Instrument No. 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations"), will be made available to the Syndicate members.

Result and review of the 2003 account

The 2003 account has closed with a profit after all personal expenses of 19.4% on capacity. This is at the top end of our latest forecast of a profit of 15% to 20% on capacity.

The good result for the 2003 account has been achieved due to premium rates being at high levels in most part of the business, together with a generally low level of claims. The Specialty, Property, Offshore Energy and Reinsurance classes of business all made significant contributions to the profit.

Syndicate capacity and ownership

The capacity of Syndicate 33 and percentage ownership by Hiscox plc on the 2003 year of account is:

	Year of account 2003 £000
Syndicate capacity	841,740
Hiscox plc ownership	65.0%

Directors interests

The directors of the managing agent who served during the year ended 31 December 2005, and their beneficial interests in the shares of Hiscox plc, were as follows:

	Hiscox plc Ord shares
Issued share capital	391,406,636
R R S Hiscox (Chairman)	9,382,500
S J Bridges	460,877
D J W Bruce	1,491,690
R S Childs	1,382,067
A N Foster	2,585,999
S H Hall (resigned 31 December 2005)	45,500
A G C Howland Jackson	65,804
S C Langley	91,043
I J Martin	201,413
B E Masojada	2,702,902
S J Quick	109,388
B C Ritchie	48,123
S Smith (resigned 3 January 2006)	13,616
I N Thomson	9,315,786
N B Tyler	90,000
R C Watson	358,268

No directors were underwriting Names at Lloyd's for the 2003 year of account.

Statement of Managing Agent's responsibilities

This statement is set out on page 4 of these accounts.

Auditors

The managing agent intends to re-appoint KPMG Audit Plc as the Syndicate auditors.

By order of the Board

A handwritten signature in black ink that reads "Jason Jones". The signature is written in a cursive, flowing style.

J S Jones
Secretary
23 March 2006

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004 require the managing agent to prepare Syndicate underwriting year accounts for each Syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December.

The managing agent must prepare the Syndicate underwriting year accounts which give a true and fair view of the result of the closed year of account.

In preparing the Syndicate underwriting year accounts, the managing agent is required to:

- i) select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the Syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same Syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- ii) take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- iii) make judgements and estimates that are reasonable and prudent; and
- iv) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate underwriting year accounts comply with Lloyd's Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The only formal business conducted at the Syndicate AGM is the appointment of the Syndicate auditors for the following year. In recent years, when an AGM was held, the number of members attending the meeting had reduced to no more than one or two. Whilst we are mindful of the need to ensure a proper forum is available for members to raise issues related to the Syndicate, nevertheless, given such low level of attendance, we are also keen to limit any unnecessary cost to members of the Syndicate.

The Lloyd's Regulatory Board was also aware of the levels of attendance at such Syndicate meetings and at a meeting on 6 December 2000 the Council of Lloyd's passed the Syndicate Meetings (Amendment No.1) Byelaw (No.18 of 2000). This removed the requirement for managing agents to hold Syndicate annual general meetings, providing certain criteria are met. In accordance with the byelaw criteria, and there being no objections received from members following last year's notice, no AGM was held in 2005. This year, we again give notice that:

- i) Hiscox Syndicates Limited does not propose to hold an annual general meeting of the members of Syndicate 33 in 2006;
- ii) We propose that KPMG Audit Plc are re-appointed as the Syndicate's registered auditor for a period of one year from the date of this Annual Report.
- iii) Members may object to the matters set out above within 21 days of this notice.

If no objections to these proposals are received from any member within the specified period we shall notify the Council of Lloyd's to that effect. If any objections are received, depending on the level or nature of such objections, we shall then consider whether to:

- i) apply for the Council's consent not to hold a meeting, stating the reasons why not. The Council may give its consent subject to any such conditions and requirements as the Council may determine;

or

- ii) convene an annual general meeting.

By order of the Board



J S Jones
Secretary
23 March 2006

We have audited the Syndicate underwriting year accounts of Syndicate 33 for the year ended 31 December 2005 which comprise the Underwriting Account, the Balance Sheet, and the related notes. These accounts have been prepared in accordance with the Lloyd's Regulations and the accounting policies set out therein.

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

Respective responsibilities of the managing agent and auditors

As described in the Statement of Managing Agent's Responsibilities on page 4, the managing agent is responsible for the preparation of the Syndicate underwriting year accounts in accordance with the Lloyd's Regulations.

Our responsibility is to audit the accounts in accordance with the Lloyd's Regulations, relevant requirements established by Lloyd's Byelaws and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Syndicate underwriting year accounts give a true and fair view of the result of the closed year of account and have been properly prepared in accordance with the Lloyd's Regulations. We also report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the Syndicate, if the Syndicate underwriting year accounts are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

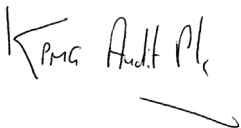
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Syndicate underwriting year accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the Syndicate underwriting year accounts, and of whether the accounting policies are appropriate to the Syndicate'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 Syndicate underwriting year accounts 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 Syndicate underwriting year accounts.

Opinion

In our opinion the financial statements:

- i) give a true and fair view of the profit of its 2003 closed year of account; and
- ii) have been properly prepared in accordance with the Lloyd's Regulations.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
23 March 2006

	Notes	at 36 months £000
Syndicate allocated capacity		841,740
Gross premiums written (net of brokerage)		780,190
Outward reinsurance premiums		(241,241)
Earned premiums net of reinsurance		538,949
Reinsurance to close premium received from earlier years of account		354,030
		892,979
Gross claims paid		(313,908)
Reinsurers' share		76,559
Net claims		(237,349)
Reinsurance premium payable to close the account	3	(432,705)
		(670,054)
Balance on technical account before Syndicate operating expenses		222,925
Syndicate operating expenses	4	(57,315)
Balance on technical account	6	165,610
Investment income	5	39,640
Investment gains less losses	5	(8,970)
Investment expenses and charges	5	(1,159)
Result for the three years ended 31 December 2005	7	195,121

The notes on pages 9 to 11 form part of these accounts.

	Notes	at 36 months £000
Assets		
Investments		
Financial investments	8	514,114
Reinsurers' share of technical provisions		
Reinsurance premium payable to close the account	3	174,239
Debtors		
Debtors arising out of direct insurance operations	9	11,698
Debtors arising out of reinsurance operations	10	21,584
Other debtors		4,347
		37,629
Other assets		
Cash at bank and in hand		30,576
Overseas deposits	11	37,002
		67,578
Total assets		793,560
Liabilities		
Capital and reserves		
Members' balances	7	83,707
Technical provisions		
Reinsurance premium payable to close the account	3	606,944
Creditors		
Creditors arising out of direct insurance operations	12	2,627
Creditors arising out of reinsurance operations	13	33,400
Inter year loans		37,305
Other creditors		29,577
		102,909
Total liabilities		793,560

The notes on pages 9 to 11 form part of these accounts. This annual report was approved by the board of Hiscox Syndicates Limited on 23 March 2006 and was signed on its behalf by



R C Watson
 Active Underwriter



I J Martin
 Director

1 Basis of preparation

The Syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2004.

Members participate on a Syndicate by reference to a year of account and each Syndicate year of account is a separate annual venture. These accounts relate to the 2003 year of account which has been closed by reinsurance to close at 31 December 2005. Consequently, the balance sheet represents the assets and liabilities of the 2003 year of account and the underwriting account reflects the transactions for that year of account during the 36 months period until closure.

As each Syndicate year of account is a separate annual venture, comparatives do not exist and are therefore not included in these accounts.

2 Accounting policies

The accounts have been prepared in accordance with the accounting policies set out below.

2(a) Underwriting transactions

- i) The underwriting account for each year is normally kept open for three years before the underwriting result is determined. The underwriting account is closed by reinsurance into the following year of account, normally at the end of the third year. If the underwriting account is not closed at the end of the third year it goes into run-off. In these circumstances provision is made for all future claims but no reinsurance to close premium is paid to the next year.
- ii) Gross premiums are allocated to a year of account on the basis of the date on which the policy incepts. Gross premiums are stated net of brokerage or commission which is usually charged by brokers as a percentage of the gross premiums payable by the insured. Claims are allocated to the same year of account as the premiums to which they relate. Reinsurance premiums and related recoveries are allocated by the underwriter to reflect the protection purchased by each year of account.
- iii) The reinsurance to close comprises a reinsurance premium, calculated by the underwriter based on estimated outstanding liabilities including claims incurred but not reported, net of estimated reinsurance recoveries, relating to the closing year and all previous years. The contract transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year and previous years to the Names on the next open year in so far as they have not been provided for in these accounts. It gives the Names on the next open year the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

2(b) Investments

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.

2(c) Investment return

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.

2(d) Rates of exchange

Transactions in US dollars, Canadian dollars and Euros are translated at the balance sheet rates of exchange. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

All assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate. Any exchange profits or losses arising on the translation of foreign currency amounts are taken to the technical account.

2(e) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'other debtors'.

No provision has been made for any overseas tax payable by members on underwriting results.

2 Accounting policies (continued)

2(f) Pension costs

The Hiscox Group operates a defined benefit pension scheme and a defined contribution pension scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses. Movements in surpluses or deficits on the defined benefit pension scheme, on an IAS 19 basis, that relate to the managed Syndicate are allocated equally between all open and constituted years of account.

2(g) Profit commission

Profit commission is charged by the managing agent at a rate of 10% on profit for the 2003 account. This calculation is subject to the operation of a 2 year deficit clause. Profit commission is not paid until after the appropriate year of account closes, normally at 36 months.

3 Reinsurance premium to close the 2003 and prior years of account

	at 36 months £000
Gross notified outstanding claims	(474,708)
Provision for gross claims incurred but not reported (IBNR)	(132,236)
	(606,944)
Reinsurance recoveries anticipated on outstanding claims	156,561
Reinsurance recoveries anticipated on IBNR	17,678
	174,239
Reinsurance premium to close the 2003 and prior years of account	(432,705)

4 Syndicate operating expenses

The cumulative Syndicate expenses charged in the 2003 underwriting account were made up as follows:

	at 36 months £000
Closing account after three years	
Salaries and related costs	22,928
Profit related remuneration	9,494
Costs of accommodation	2,902
Premium levy	10,473
Overseas operating expenses	6,600
Syndicate auditors' remuneration	135
Computer and data processing costs	4,062
Irrecoverable VAT	629
Other expenses	3,766
Qualifying quota share override recovery	(3,674)
	57,315

5 Investment return

	at 36 months £000
Closing account after three years	
Investment return analysis	
Investment income receivable	37,050
Accrued investment income	2,590
	39,640
Investment income	39,640
Investment gains less losses	(8,970)
Investment expenses and charges	(1,159)
Investment return	29,511

6 Balance on technical account

	at 36 months £000
Profit attributable to business allocated to the 2003 pure year of account	235,467
(Loss) attributable to business reinsured into the 2003 year of account	(12,542)
	222,925
Syndicate operating expenses	(57,315)
Balance on technical account	165,610

7 Members balances

	at 36 months £000
Profit for the 2003 closing year of account	195,121
Early profit release	(77,149)
Names personal expenses	(34,265)
	83,707

8 Financial investments

	Market value £000	Cost £000
Debt securities and other fixed income securities	511,478	515,653
Deposits with credit institutions	2,636	2,636
	514,114	518,289

9 Debtors arising out of direct insurance operations

	at 36 months £000
Due from intermediaries	11,698

10 Debtors arising out of reinsurance operations

	at 36 months £000
Due from intermediaries	21,584

11 Overseas deposits

Overseas deposits comprise funds which are lodged as a condition of conducting underwriting business in certain countries.

12 Creditors arising out of direct insurance operations

	at 36 months £000
Due to intermediaries	2,627

13 Creditors arising out of reinsurance operations

	at 36 months £000
Due to intermediaries	33,400

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