

Directors' Remuneration Report

This report sets out the remuneration policies for the Group's senior executives, including the executive directors, for the next and future financial years. 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) or 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 reports provided by Watson Wyatt as independent

consultants, and other publicly available reports, 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.

Base salary ranges remain competitive, with salaries assessed in accordance with the size of the role and market data.

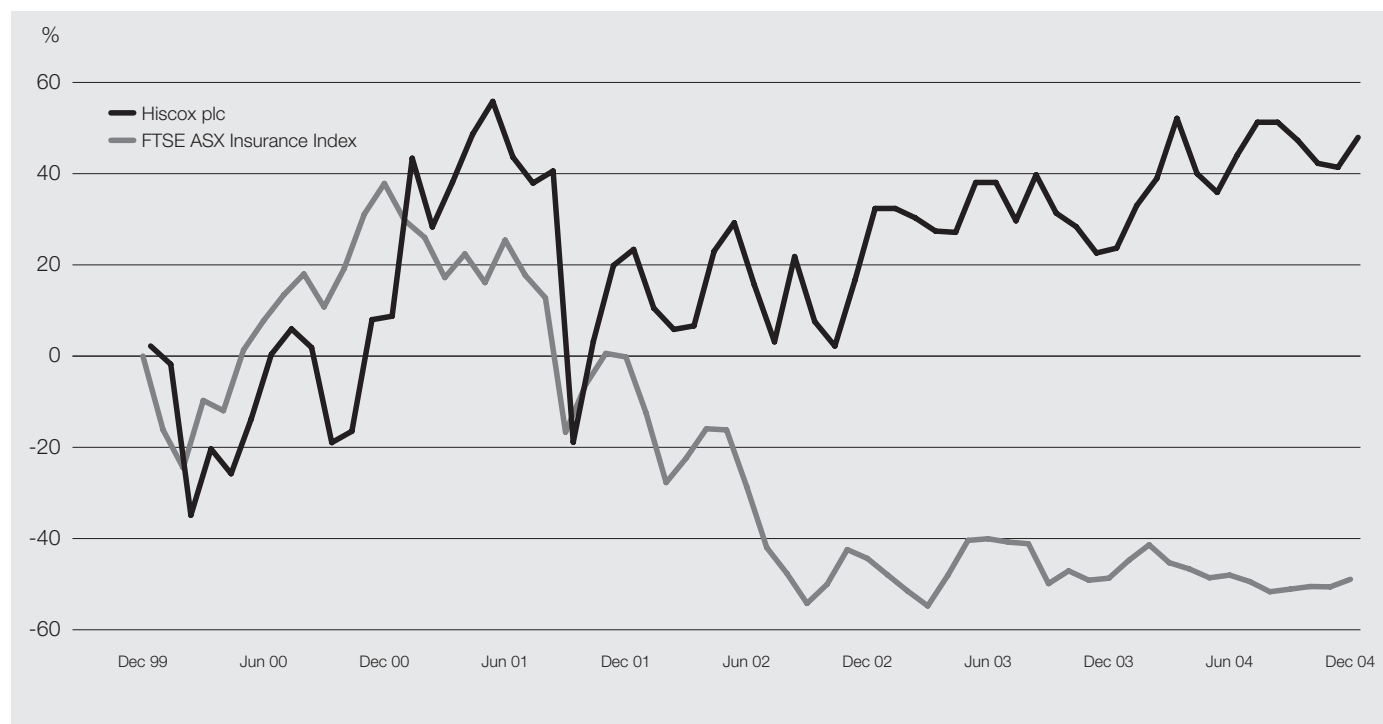
Bonuses

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 ('Hurdle Return'). The bonus pool is limited to a percentage of profits above the Hurdle Return. Similarly the bonus pools allocated to each major business division are calculated based on the business profits generated by that division above the Hurdle Return. 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.



Source: Bloomberg

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 achieving certain performance targets 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 exercise of options under this plan depends upon achieving certain performance targets over a three year period. All directors entitled to these awards are subject to these same performance criteria.

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 2003 review resulted in the Remuneration Committee

proposing 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'), and these amendments were approved and adopted on 22 June 2004. Consequently awards earned under these schemes are currently running with two different sets of terms and conditions.

Exercise of awards issued prior to 22 June 2004 under the Approved and Unapproved Share Option Schemes is dependent upon the basic earnings per share of the Group increasing at 2% more than the rate of inflation over a period of three years.

Exercise of awards issued prior to 22 June 2004 under the Performance Share Plan is subject to the following terms:

- (a) The participants will receive 100% of the award if the Group's operating EPS (note 12) 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.

All options granted under the Approved and Unapproved Share Options Schemes as well as the Performance Share Plan since 22 June 2004 are to be granted in accordance with the revised terms and conditions as follows:

- (i) There will be no facility for the re-testing of performance conditions;
- (ii) The targets for these 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 Return on

Equity ('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');
- (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 believes that using ROE as the long-term performance condition better aligns the interests of employees with shareholders because:

- (i) ROE captures the efficiency with which the Company is using shareholder funds to generate earnings, whereas EPS growth gives no indication of the level of return on the investment required to generate those additional earnings;
- (ii) 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 smooths out the cyclical fluctuations in earnings and ensures that over any given period shareholders will receive a minimum return on equity before share grants to employees will vest.

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 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 Board proposes to amend the Hiscox Unapproved Share Option Scheme (the 'Unapproved Scheme') so as to allow for the grant of options to French employees that will qualify for favourable tax treatment in France ('Approved Options in France'). The proposed amendment has arisen as a result of a recent review undertaken to ensure that all of our overseas employees are able, where possible, to qualify for any available favourable tax treatments on their share options as UK employees are able to do under the Hiscox Approved Share Option Scheme. The proposed amendment would add a new Schedule 2 to the Unapproved Scheme ('Schedule 2') under which Approved Options in France would be granted. The main provisions applying to Approved Options in France (in addition to the general provisions of the Unapproved Scheme) are that:

- (i) they may only be granted to employees who do not own more than 10% of the ordinary share capital of the Company;
- (ii) they may not be granted less than 20 dealing days after the date of declaration of a dividend (the date on which the dividend is approved) or an increase in share capital;
- (iii) they cannot be granted within ten dealing days of the announcement of the Company's results and cannot be granted while, or for ten days after, management become aware of any price sensitive information;
- (iv) they may not be granted at an exercise price that is less than the higher of the middle-

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- market quotation of the Company's shares (as derived from the London Stock Exchange Daily Official List) on the dealing day immediately preceding the grant date and the average middle market quotation for each of the 20 dealing days immediately preceding the grant date;
- (v) they may only be granted within the period of 38 months from the date of the shareholder resolution approving the adoption of Schedule 2;
 - (vi) no cash-equivalent payments may be made on the exercise of Approved Options in France and such options are not transferable; and
 - (vii) Approved Options in France may normally only be exercised four years or more after the grant date, except where the Unapproved Scheme allows for earlier exercise.

The Company will be seeking formal shareholder approval at the Annual General Meeting for the amendment of the Unapproved Scheme through an ordinary resolution, number 11.

The directors believe that the amendment to the Unapproved Scheme is in the best interests of shareholders and the Company and recommend that you vote in favour of the resolution.

Copies of the amended rules of the Unapproved Scheme, including Schedule 2, 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 dispatch 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 25 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

Other than in the case of RRS Hiscox, the contracts of employment of the directors 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 service contract with RRS Hiscox, dated 20 December 2002, provides for 12 months' notice period by either side. BE Masojada's contract is dated 6 March 1998, effective from 1 January 1998; RS Childs' contract is dated

26 March 1998, effective from 1 January 1998; and SJ Bridges' contract is dated 20 September 1998, effective from 1 January 1999.

None of the contracts include any provision for compensation payments on early termination.

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.

Contracts were sent to the non-executive directors on 14 December 2004 setting out their updated terms of appointment. The allocation of their fees is shown in note 25.

Non-executive directorships

During the year RRS Hiscox has been a non-executive director of Grainger Trust plc and is paid £25,000 for his services. BE Masojada is a non-executive director of Ins-sure Holding Limited and its subsidiaries. The fees for his services are remitted to the Group, as disclosed in note 29. Neither SJ Bridges nor RS Childs held non-executive director positions during the year.

By order of the Board
SJ Bridges
Secretary
1 Great St Helen's
London EC3A 6HX
14 March 2005