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# Hiscox Ltd Interim Statement 2010

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**Disclaimer in respect of forward looking statements**

This interim statement may contain forward looking statements based on current expectations of, and assumptions made by, the Group's management. The Group is exposed to a multitude of risks and uncertainties and therefore cannot accept any obligation to publicly revise or update forward looking statements as a result of future events or the emergence of new information regarding past events, except to the extent legally required. Therefore undue reliance should not be placed on any forward looking statements.



# Corporate highlights

**318.9p**  
Net asset value per share

## Group key performance indicators

Gross written premiums £904.3m (2009: 906.0m)

Net premiums earned £592.7m (2009: £545.4m)

Profit before tax £97.2m (2009: £141.4m)

Earnings per share 20.9p (2009: 33.2p)

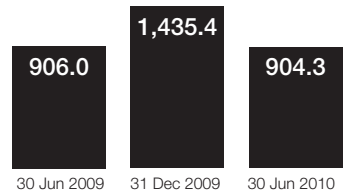
Interim dividend increased by 11% to 5p per share (2009: 4.5p)

Group combined ratio 93.6% (2009: 87.8%)

Group combined ratio before monetary FX 94.8% (2009: 78.6%)

Return on equity 14.8% (2009: 27.5%)

## Gross premiums written £m



## Operational highlights

Our local specialist businesses continue to grow well, with Hiscox UK up 11.6%, Hiscox Europe up 12.0% and Hiscox USA up 22.5%.

Our successful brand building in the UK shows that customers are prepared to pay for quality.

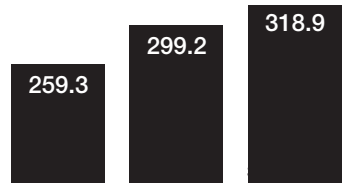
Hiscox London Market showed restraint in a weakening market and reduced income by 15.1%, but opportunities are arising in the energy markets.

Hiscox Bermuda grew by 21.3% as it took advantage of favourable US catastrophe reinsurance rates in the first half on behalf of itself and third party capital.

\$750 million bank facility gives us the capability to exploit market opportunities as they arise.

Our estimates for the Chilean earthquake and Windstorm Xynthia remain unchanged at possible net claims of £100 million, based on an insured market loss of US\$8 billion for Chile and US\$3 billion for Xynthia. Our estimate for claims from the Deepwater Horizon event and the subsequent clean up is also unchanged at less than £10 million.

## Net asset value p per share



## Chairman's statement

**A pre-tax interim profit of £97.2 million against a backdrop of large natural catastrophes, much tougher investment markets and continued investment in our brand, our US offices and our direct operations is a testament to the strength of our business. Selective underwriting and sensible reinsurance buying reduced the impact of the losses, and shrewd investing helped produce a good return within the constraints of our conservative investment parameters.**

The Group's long-term strategy of building a well-balanced international insurance group continues to develop well. Our regional businesses, which focus on specialist lines that are less prone to the pressures of the cycle, have shown healthy growth. Europe's underwriting performance has rebounded in the absence of the series of unconnected claims that blighted the first half of 2009. Our London Market business continues to underwrite with discipline, trimming its sails to the prevailing market winds and will take advantage of improving conditions in the offshore energy market. We continue to reserve prudently and have released £93 million from prior years (2009: £73 million).

### Results

Pre-tax profits for the half year to 30 June 2010 of £97.2 million (2009: £141.4 million). Gross written premiums remained constant at £904.3 million (2009: £906.0 million). Net premiums earned improved to £592.7 million (2009: £545.4 million). The Group combined ratio rose to 93.6% (2009: 87.8%) as a result of the string of catastrophe losses and before monetary FX to 94.8% (2009: 78.6%). Earnings per share fell to 20.9p (2009: 33.2p) and net assets per share rose to 318.9p (2009: 259.3p).

### Dividend, balance sheet and capital management

Continuing our policy of progressive dividend growth, the Board has approved an increase in the interim dividend of 11% to 5p (2009: 4.5p) which will be paid on 28 September to shareholders on the register at the close of business on 3 September.

We are focused on growing the value of the business for our shareholders, so I am pleased to report the total net asset value per share (the bedrock under the share price) rose 59.6 pence over the year and 19.7 pence from the end of 2009.

The \$750 million banking facility, completed at a competitive rate, gives us the capability to exploit market opportunities that may arise.

We remain prepared to buy-back shares if their price falls to an irresistible level.

### Overall comment

Dirk Stuurup resigned as Non Executive Director of Hiscox Ltd on 19 August 2010 due to personal commitments and the consequent difficulty in attending board meetings. We are deeply grateful for the very wise advice he has given us since he joined the board on 11 October 2006, especially in helping us keep our nerve during the banking crisis.

A year ago I wrote that the insurance cycle was alive and well, albeit split, with reinsurance more disciplined than insurance, and I hoped that CEO's would crack their whips to stop the decline in rates, especially when there are such slim investment pickings. Well it would appear that the record profits last year have caused a triumph of optimism over discipline. Despite the low investment returns and substantial losses of the first six months of this year, rates in many areas (particularly big ticket risks) have got steadily more competitive. However, motor and household rates have increased, and the reinsurance market has been steadier.

We are defensively placed as 30% of our income comes from reinsurance and

**Hiscox is defensively placed for these market conditions with a robust book of reinsurance balanced by growing specialist businesses.**

our specialist businesses are in control of their own pricing. We are reaping the reward of our heavy investment in the brand (both financial and in living up to the promises) and clients are prepared to pay a little extra for quality. The message is getting through that insurance is not a commodity and not all insurers behave the same.

### Hiscox London Market

This division uses the global licences, distribution network and credit rating available through Lloyd's to serve clients throughout the world.

|                                   |  |
|-----------------------------------|--|
| Profit before tax                 | £69.8 million<br>(2009: £77.4 million)   |
| Gross written premiums            | £383.1 million<br>(2009: £451.4 million) |
| Combined ratio                    | 82.2% (2009: 86.6%)                      |
| Combined ratio before monetary FX | 90.7% (2009: 66.4%)                      |

Gross written premium income in our London Market unit reduced by 15% due to deliberate shrinking of lines where rates are under the greatest pressure, particularly large US property and catastrophe exposed small property.

The combined ratio improved despite the impact of claims from the Chilean earthquake, Windstorm Xynthia and the Deepwater Horizon energy loss, but helped by foreign exchange gains of £20.9 million.

As ever I am writing this in the midst of the hurricane season. After a benign year in 2009, Mother Nature has shown how capricious she can be. We wait to see if her temper improves.

We are ready to take advantage of improving market conditions in the offshore energy area where we have seen rates rises in excess of 20%. We expect a further tightening of capacity as competition retreats from the recent series of market losses.

As previously announced, aviation is another sector in which we see potential, and we have recruited a small but experienced team, led by David Slevin,

to underwrite an aviation book, subject to the approval of Lloyd's.

If competitive market conditions remain in the big-ticket risk arena, we currently plan to reduce Syndicate 33's capacity to £900 million in 2011 (2010: £1 billion). However, we have doubled Syndicate 3624's capacity next year to £300 million (2010: £150 million) to cater for aviation, the US and a new agreement to provide capacity to Dual International, a professional liabilities underwriter in Europe and Australia. Capacity for Syndicate 6104, which is funded entirely by external capital providers, remains static at £45 million.

### Hiscox UK and Europe

This unit comprises our specialist retail businesses in the UK and mainland Europe.

|                                   |  |
|-----------------------------------|--|
| Profit before tax                 | £19.6 million<br>(2009: £3.6 million)    |
| Gross written premiums            | £248.2 million<br>(2009: £222.1 million) |
| Combined ratio                    | 93.1% (2009: 106.3%)                     |
| Combined ratio before monetary FX | 90.9% (2009: 103.0%)                     |

**UK:** The UK's gross written premiums rose by 11.6% year-on-year, mainly as a result of growth in our direct and specialty commercial businesses. We have recently been recognised by the Reputation Institute as having the best reputation among UK insurers in a consumer study of top companies, proof that our investment in marketing is helping to build a brand you can trust. More tangible evidence is the overall 4% rate increase we have achieved across our household book whilst maintaining premium income. In a market known for its cut-throat (and often irrational) competition, clients are willing to pay for a better product with better service from a name they can depend on.

The UK maintained a good loss ratio despite a high volume of claims from the winter freeze, the disruption or cancellation of events due to the volcanic ash cloud and claims activity in the solicitors account. We have decided to withdraw from the solicitors' Pl market,

where we believe it is impossible to make a satisfactory return from the standard policy terms insurers are currently obliged to sell.

The combined ratio also improved as Hiscox UK continues to find efficiencies and to reduce its cost base.

**Europe:** Europe has rebounded from the string of unrelated losses last year. Good underwriting led by strong management has improved the loss ratio significantly in spite of the impact of Windstorm Xynthia.

Gross written premiums rose by 12%, boosted by favourable retention rates at the start of the year and growth in the Professional Specialty Commercial and Technology, Media and Telecoms (TMT) businesses.

### Hiscox International

This division comprises our Bermuda, USA and Guernsey units.

|                                   |  |
|-----------------------------------|--|
| Profit before tax                 | £-6.4 million<br>(2009: £72.3 million)   |
| Gross written premiums            | £273.1 million<br>(2009: £232.5 million) |
| Combined ratio                    | 114.0% (2009: 66.9%)                     |
| Combined ratio before monetary FX | 106.8% (2009: 75.5%)                     |

**Bermuda:** Gross written premiums grew by 21.3% as Hiscox Bermuda continued to find new opportunities, including the use of additional quota share capacity provided by third parties to take on more attractively priced business in the January renewal season. Bermuda achieved a small profit despite the reserves we have made for the Chilean earthquake and Windstorm Xynthia.

**Guernsey:** Hiscox Guernsey remained profitable and stable. Competition has increased for piracy risks, with new entrants quoting prices which seemingly ignore the amount of recent losses and the fact that the pirates have substantially increased their demands. Although our underwriters have been raising prices for this niche dramatically, our leadership and expertise in this area has kept orders coming in as, again,

## Chairman's statement continued

buyers want quality and longevity in their insurer.

**USA:** Hiscox USA delivered solid growth up 22.5%, driven partly by a gradual expansion into admitted lines. The good news is that the core Miscellaneous Errors and Omissions business we started in 2006 is doing well. The bigger ticket business we expanded into in expectation of a hard market following the problems of AIG has found growth difficult due to the government supported AIG becoming even more competitive, but the underwriters are maintaining discipline, competing with intelligent underwriting and service, not just on price. Their time will come. The difficult area has been our longstanding Global Technology account (previously written in London) which has had a number of claims from the larger insured companies. The competition has been more optimistic than us and continued to quote premiums we consider inadequate, so we have retreated from the larger risks, ready to return if rates improve. We will continue to expand the specialist lines and be extremely selective in the larger business until conditions improve.

### Investments

Assets under management at 30 June 2010 totalled £2,705 million (2009:

£2,379 million) and the annualised yield was 3.5% (2009: 7.0%), leading to an investment return on financial assets of £46.6 million (2009: £85.4 million). Given the low yields on offer from cash and short dated government bonds, a repeat of 2009 was never on the cards. In the context of what was available therefore, the portfolio delivered a creditable result.

The main contribution has come from our allocation to bonds and especially from the corporate exposure contained within the portfolios. We have benefited from the better returns available in the corporate sector where balance sheets and liquidity are improving compared to many sovereign borrowers where the reverse is true. The Group continues to hold no sovereign debt of Greece, Italy, Ireland, Portugal or Spain. The Government bond exposure is high in quality and short in duration. As the second quarter demonstrated, volatility is likely to rear its head from time to time causing short term price fluctuations but we are willing to hold our bonds to maturity if necessary. Cash remains an unexciting asset class from an investment standpoint and we maintained a low but prudent level during the period.

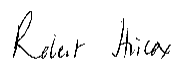
Our portfolio of equities and hedge funds proved particularly resilient during the second quarter's turbulence and comfortably outperformed the broader indices. Exposure was held at approximately 5% of assets with some modest additions made at moments of market weakness in the second quarter.

Recent events and economic evidence point to the likelihood of interest rates staying lower for longer. The higher yields on offer in certain areas of the non-government bond market are therefore likely to persist and we would expect to maintain our allocation, providing interest rate rises continue to be deferred and valuations do not become extreme. The outlook remains very uncertain and parts of the market are still being artificially supported. Our focus remains on caution and conservatism.

### Outlook

Capacity in the world insurance market remains plentiful despite insured disaster losses of \$22 billion in the first six months of this year, and is likely to continue to remain so in the absence of any market-turning hurricanes over the coming months. But competition is the norm rather than the exception in our markets.

The Hiscox story remains the same and it is a good one. Hiscox is defensively placed for these market conditions with a robust book of reinsurance balanced by growing specialist businesses. When the market turns, which it inevitably will, and interest rates rise, which they must one day, we will make another surge of growth. In the meantime, we will keep our tinder dry with disciplined, selective underwriting and cautious investing.



Robert Hiscox  
Chairman  
23 August 2010

## Condensed consolidated interim income statement For the six month period ended 30 June 2010

|  |      | 6 months to<br>30 June 2010 | 6 months to<br>30 June 2009 | Year to<br>31 Dec 2009 |
|--|------|-----------------------------|-----------------------------|------------------------|
|  | Note | £000                        | £000                        | £000                   |
| <b>Income</b>  |      |                             |                             |                        |
| Gross premiums written   | 7    | <b>904,326</b>              | 906,029                     | 1,435,401              |
| Outward reinsurance premiums   |      | <b>(220,627)</b>            | (214,625)                   | (278,378)              |
| Net premiums written   |      | <b>683,699</b>              | 691,404                     | 1,157,023              |
| Gross premiums earned  |      | <b>735,218</b>              | 668,169                     | 1,363,698              |
| Premiums ceded to reinsurers   |      | <b>(142,469)</b>            | (122,770)                   | (265,596)              |
| Net premiums earned  |      | <b>592,749</b>              | 545,399                     | 1,098,102              |
| Investment result - financial assets                                     | 10   | <b>46,600</b>               | 85,433                      | 182,769                |
| Investment result - derivatives  | 10   | <b>4,149</b>                | 2,476                       | 396                    |
| Other revenues   | 11   | <b>10,595</b>               | 8,228                       | 19,498                 |
| Revenue  |      | <b>654,093</b>              | 641,536                     | 1,300,765              |
| <b>Expenses</b>  |      |                             |                             |                        |
| Claims and claim adjustment expenses, net of reinsurance                 |      | <b>(324,909)</b>            | (231,071)                   | (463,218)              |
| Expenses for the acquisition of insurance contracts                      |      | <b>(147,217)</b>            | (127,853)                   | (256,634)              |
| Administration expenses  |      | <b>(52,868)</b>             | (47,566)                    | (112,627)              |
| Other expenses   | 11   | <b>(50,860)</b>             | (48,409)                    | (116,939)              |
| Foreign exchange gains/(losses)  | 19   | <b>22,022</b>               | (42,820)                    | (25,554)               |
| Total expenses   |      | <b>(553,832)</b>            | (497,719)                   | (974,972)              |
| Results of operating activities  |      | <b>100,261</b>              | 143,817                     | 325,793                |
| Finance costs  | 12   | <b>(3,179)</b>              | (2,429)                     | (5,293)                |
| Share of profit of associates after tax                                  |      | <b>70</b>                   | -                           | 118                    |
| <b>Profit before tax</b>   |      | <b>97,152</b>               | 141,388                     | 320,618                |
| Tax expense  | 13   | <b>(18,542)</b>             | (19,309)                    | (40,121)               |
| <b>Profit for the period (all attributable to owners of the Company)</b> |      | <b>78,610</b>               | 122,079                     | 280,497                |
| Earnings per share on profit attributable to owners of the Company       |      |                             |                             |                        |
| Basic  | 15   | <b>20.9p</b>                | 33.2p                       | 75.2p                  |
| Diluted  | 15   | <b>20.0p</b>                | 31.8p                       | 72.3p                  |

The notes to the condensed consolidated interim financial statements are an integral part of this document.

## Condensed consolidated interim statement of comprehensive income

### For the six month period ended 30 June 2010, after tax

|  | 6 months to<br>30 June 2010<br>£000 | 6 months to<br>30 June 2009<br>£000 | Year to<br>31 Dec 2009<br>£000 |
|--|-------------------------------------|-------------------------------------|--------------------------------|
| Profit for the period  | 78,610                              | 122,079                             | 280,497                        |
| <b>Other comprehensive income</b>  |                                     |                                     |                                |
| Currency translation differences (net of tax of £nil)                                    | 34,363                              | (78,075)                            | (69,589)                       |
| <b>Total other comprehensive income/(expense)</b>  | <b>34,363</b>                       | <b>(78,075)</b>                     | <b>(69,589)</b>                |
| <b>Total comprehensive income recognised (all attributable to owners of the Company)</b> | <b>112,973</b>                      | <b>44,004</b>                       | <b>210,908</b>                 |

The notes to the condensed consolidated interim financial statements are an integral part of this document.

## Condensed consolidated interim balance sheet

### At 30 June 2010

|   | Note | 30 June<br>2010<br>£000 | 30 June<br>2009<br>£000 | 31 December<br>2009<br>£000 |
|---|------|-------------------------|-------------------------|-----------------------------|
| <b>Assets</b>   |      |                         |                         |                             |
| Intangible assets   |      | 53,283                  | 49,775                  | 50,413                      |
| Property, plant and equipment                                   |      | 19,230                  | 19,120                  | 22,244                      |
| Investments in associates                                       |      | 7,388                   | 7,200                   | 7,318                       |
| Deferred tax  |      | 19,049                  | 7,761                   | 14,077                      |
| Deferred acquisition costs                                      |      | 172,685                 | 172,991                 | 141,505                     |
| Financial assets carried at fair value                          | 17   | 2,361,504               | 1,945,448               | 2,413,300                   |
| Reinsurance assets  | 14   | 586,905                 | 528,069                 | 420,126                     |
| Loans and receivables including insurance receivables           |      | 622,020                 | 592,496                 | 488,782                     |
| Cash and cash equivalents                                       |      | 357,544                 | 434,099                 | 259,647                     |
| <b>Total assets</b>   |      | <b>4,199,608</b>        | <b>3,756,959</b>        | <b>3,817,412</b>            |
| <b>Equity and liabilities</b>                                   |      |                         |                         |                             |
| Shareholders' equity  |      |                         |                         |                             |
| Share capital   |      | 20,267                  | 20,115                  | 20,158                      |
| Share premium   |      | 14,864                  | 10,701                  | 11,831                      |
| Contributed surplus   |      | 264,023                 | 320,300                 | 303,465                     |
| Currency translation reserve                                    |      | 72,091                  | 29,242                  | 37,728                      |
| Retained earnings   |      | 830,956                 | 584,493                 | 748,104                     |
| <b>Total equity (all attributable to owners of the Company)</b> |      | <b>1,202,201</b>        | <b>964,851</b>          | <b>1,121,286</b>            |
| Deferred tax  |      | 34,186                  | 27,895                  | 69,673                      |
| Insurance liabilities   | 14   | 2,528,114               | 2,289,707               | 2,122,351                   |
| Financial liabilities   | 17   | 239                     | 98,000                  | 138,539                     |
| Current tax   |      | 59,516                  | 34,790                  | 26,080                      |
| Trade and other payables  |      | 375,352                 | 341,716                 | 339,483                     |
| <b>Total liabilities</b>  |      | <b>2,997,407</b>        | <b>2,792,108</b>        | <b>2,696,126</b>            |
| <b>Total equity and liabilities</b>                             |      | <b>4,199,608</b>        | <b>3,756,959</b>        | <b>3,817,412</b>            |

The notes to the condensed consolidated interim financial statements are an integral part of this document.

## Condensed consolidated interim statement of changes in equity

### For the six month period ended 30 June 2010

|  | Share capital<br>£000 | Share premium<br>£000 | Contributed surplus<br>£000 | Currency translation reserve<br>£000 | Retained earnings<br>£000 | Total<br>£000    |
|--|-----------------------|-----------------------|-----------------------------|--------------------------------------|---------------------------|------------------|
| Balance at 1 January 2010  | 20,158                | 11,831                | 303,465                     | 37,728                               | 748,104                   | 1,121,286        |
| Total recognised comprehensive income/(expense) for the period (all attributable to owners of the Company) | –                     | –                     | –                           | 34,363                               | 78,610                    | 112,973          |
| Employee share options:  |                       |                       |                             |                                      |                           |                  |
| Equity settled share based payments  | –                     | –                     | –                           | –                                    | 5,991                     | 5,991            |
| Proceeds from shares issued  | 109                   | 3,033                 | –                           | –                                    | –                         | 3,142            |
| Deferred tax   | –                     | –                     | –                           | –                                    | (1,749)                   | (1,749)          |
| Dividends paid to owners of the Company (note 16)  | –                     | –                     | (39,442)                    | –                                    | –                         | (39,442)         |
| <b>Balance at 30 June 2010</b>   | <b>20,267</b>         | <b>14,864</b>         | <b>264,023</b>              | <b>72,091</b>                        | <b>830,956</b>            | <b>1,202,201</b> |

|  | Share capital<br>£000 | Share premium<br>£000 | Contributed surplus<br>£000 | Currency translation reserve<br>£000 | Retained earnings<br>£000 | Total<br>£000 |
|--|-----------------------|-----------------------|-----------------------------|--------------------------------------|---------------------------|---------------|
| Balance at 1 January 2009  | 20,067                | 9,418                 | 352,078                     | 107,317                              | 462,146                   | 951,026       |
| Total recognised comprehensive income/(expense) for the period (all attributable to owners of the Company) | –                     | –                     | –                           | (78,075)                             | 122,079                   | 44,004        |
| Employee share options:  |                       |                       |                             |                                      |                           |               |
| Equity settled share based payments  | –                     | –                     | –                           | –                                    | 2,049                     | 2,049         |
| Proceeds from shares issued  | 48                    | 1,283                 | –                           | –                                    | –                         | 1,331         |
| Deferred tax   | –                     | –                     | –                           | –                                    | (1,781)                   | (1,781)       |
| Dividends paid to owners of the Company (note 16)  | –                     | –                     | (31,778)                    | –                                    | –                         | (31,778)      |
| Balance at 30 June 2009  | 20,115                | 10,701                | 320,300                     | 29,242                               | 584,493                   | 964,851       |

The notes to the condensed consolidated interim financial statements are an integral part of this document.

## Condensed consolidated interim cash flow statement

### For the six month period ended 30 June 2010

|   | Note | 6 months to<br>30 June 2010<br>£000 | 6 months to<br>30 June 2009<br>£000 | Year to<br>31 Dec 2009<br>£000 |
|---|------|-------------------------------------|-------------------------------------|--------------------------------|
| Profit before tax   |      | 97,152                              | 141,388                             | 320,618                        |
| Adjustments for:  |      |                                     |                                     |                                |
| Interest and equity dividend income                                       |      | (32,351)                            | (36,568)                            | (78,298)                       |
| Interest expense  | 12   | 3,179                               | 2,429                               | 5,293                          |
| Net fair value gains on financial investments, derivatives and borrowings |      | (14,150)                            | (40,821)                            | (87,692)                       |
| Depreciation and amortisation   |      | 3,062                               | 2,797                               | 6,046                          |
| Charges in respect of share based payments                                |      | 5,991                               | 2,049                               | 5,260                          |
| Other non-cash movements  |      | (812)                               | (1,842)                             | (975)                          |
| Effect of exchange rate fluctuations on cash presented separately         |      | (2,890)                             | 38,154                              | 30,844                         |
| Changes in operational assets and liabilities:                            |      |                                     |                                     |                                |
| Insurance and reinsurance contracts                                       |      | 163,754                             | (88,751)                            | (58,366)                       |
| Financial assets carries at fair value                                    |      | 117,029                             | 63,266                              | (338,556)                      |
| Financial liabilities   |      | –                                   | (48,430)                            | (52,533)                       |
| Other assets and liabilities  |      | (68,906)                            | 753                                 | 36,560                         |
| Cash flows from operations  |      | 271,058                             | 34,424                              | (211,799)                      |
| Interest received   |      | 31,422                              | 33,956                              | 74,584                         |
| Equity dividends received   |      | 929                                 | 2,612                               | 3,714                          |
| Interest paid   |      | (2,532)                             | (2,240)                             | (5,066)                        |
| Current tax paid  |      | (27,314)                            | (8,526)                             | (1,463)                        |
| <b>Net cash flows from operating activities</b>                           |      | <b>273,563</b>                      | <b>60,226</b>                       | <b>(140,030)</b>               |
| Cash flows from the purchase of property, plant and equipment             |      | (1,147)                             | (4,644)                             | (8,802)                        |
| Cash flows from the purchase of intangible assets                         |      | (2,809)                             | (2,949)                             | (2,911)                        |
| <b>Net cash flows from investing activities</b>                           |      | <b>(3,956)</b>                      | <b>(7,593)</b>                      | <b>(11,713)</b>                |
| Proceeds from the issue of ordinary shares                                |      | 3,142                               | 1,331                               | 2,504                          |
| Dividends paid to owners of the Company                                   | 16   | (39,442)                            | (31,778)                            | (48,613)                       |
| Net (repayments)/increase of borrowings and financial liabilities         |      | (138,300)                           | 9,445                               | 47,721                         |
| <b>Net cash flows from financing activities</b>                           |      | <b>(174,600)</b>                    | <b>(21,002)</b>                     | <b>1,612</b>                   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>               |      | <b>95,007</b>                       | <b>31,631</b>                       | <b>(150,131)</b>               |
| Cash and cash equivalents at 1 January                                    |      | 259,647                             | 440,622                             | 440,622                        |
| Net increase/(decrease) in cash and cash equivalents                      |      | 95,007                              | 31,631                              | (150,131)                      |
| Effect of exchange rate fluctuations on cash and cash equivalents         |      | 2,890                               | (38,154)                            | (30,844)                       |
| Cash and cash equivalents at end of period                                | 20   | 357,544                             | 434,099                             | 259,647                        |

The notes to the condensed consolidated interim financial statements are an integral part of this document.

# Notes to the condensed consolidated interim financial statements

## 1 Reporting entity

Hiscox Ltd (the 'Company') is a public limited company registered and domiciled in Bermuda. The condensed consolidated interim financial statements for the Company as at, and for the six months ended, 30 June 2010 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates. The Chairman's statement accompanying these condensed interim financial statements forms the Interim Management Report for the half year ended 30 June 2010.

The Directors of Hiscox Ltd are listed in the Group's 2009 Report and Accounts. A list of current Directors is maintained and available for inspection at the registered office of the Company located at 4th Floor, Wessex House, 45 Reid Street, Hamilton, Bermuda HM 12.

## 2 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with the Listing Rules issued by the Financial Services Authority. The information presented herein does not include all of the disclosures typically required for full consolidated financial statements. Consequently these financial statements should be read in conjunction with the full consolidated financial statements of the Group as at, and for the year ended, 31 December 2009 which are available from the Company's registered office or at [www.hiscox.com](http://www.hiscox.com). Except where otherwise indicated, all amounts are presented in Pounds Sterling and rounded to the nearest thousand.

After making enquiries, the Directors have an expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the condensed consolidated interim financial statements have been prepared

on a going concern basis and are prepared on the historical cost basis except that pension scheme assets included in the measurement of the employee retirement benefit obligation, and certain financial instruments including derivative instruments are measured at fair value.

The comparative amounts reported herein for the period ended 30 June 2009, are as per those previously reported for that period, except that they have been adjusted for the reclassification of acquisition costs on the purchase of reinsurance contracts from 'outward reinsurance premiums' to 'expenses for the acquisition of insurance contracts'. The effect of the reclassification for the period ended 30 June 2009 is an increase to 'outward reinsurance premiums' of £23,749,000, a decrease in 'net premiums earned' of £19,766,000 and a decrease in 'expenses for the acquisition of insurance contracts' of £19,766,000. The effect on the balance sheet for 30 June 2009 is an increase to 'reinsurance assets' and an increase to 'trade and other payables' of £20,057,457. The presentational adjustment has no impact on the Group's previously reported profit before tax, shareholders' equity or result from operating activities. The Directors believe that the amended classification of the expense and commissions provides a more appropriate presentation of their operating nature.

The Group has also reclassified the 30 June 2009 comparative for deferred tax assets arising from overseas tax jurisdictions from net deferred tax liabilities to deferred tax assets. The reclassification provides a more appropriate presentation due to the increase in the size of the asset. The effect of the reclassification is an increase to deferred tax assets and deferred tax liabilities of £7,761,000. The presentational adjustment has no impact to the Group's previously reported profit after tax, shareholders equity or results from operating activities.

From 1 July 2009, following a new management structure for the geographic lines and as a result of new business written through Syndicate 3624, the Group changed its segmental reporting in order to provide more effective financial reporting for the evaluation of business segments by the chief operating decision maker in order to make decisions about future allocation of resources. The 2009 half year segmental results have been restated accordingly.

Taxes on income for the interim period are accrued using the estimated effective tax rate that would be applicable to estimated total annual earnings.

The independent auditors have reported on the Group's full consolidated financial statements as at, and for the year ended, 31 December 2009. The report of the independent auditors was not qualified. The amounts presented for the 30 June 2010 and 30 June 2009 periods are unaudited.

These condensed consolidated interim financial statements were approved by the Board of Directors on 23 August 2010.

## 3 Accounting policies and methods of computation

The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied by the Group in its consolidated financial statements as at, and for the year ended, 31 December 2009. The consolidated financial statements as at, and for the year ended, 31 December 2009 were compliant with International Financial Reporting Standards as adopted by the European Union and in accordance with the provisions of the Bermuda Companies Act 1981. The Interim Report is compliant with IAS 34, Interim Financial Reporting, as adopted by the European Union.

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2009, except as described below.

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 38, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after 1 January 2010.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared to IFRS 3. The changes will impact the amount of goodwill recognised and the results reported in the period of the combination and future reporting periods. The amendments in IAS 27 require that a change in the ownership interest of a subsidiary, provided that control is maintained, to be accounted for as an equity transaction. As such, a transaction of this nature will no longer give rise to goodwill or gains or losses. The revised standard has no impact on the Group's results for the period.

## 4 Financial, insurance and other risk management

The Group's financial, insurance and other risk management objectives and policies are consistent with that disclosed in note 3 of the full consolidated financial statements as at, and for the year ended, 31 December 2009. The principal risks and uncertainties are unchanged and may be summarised as insurance risk, equity price risk, interest rate risk, liquidity risk, credit risk, currency risk, capital risk and operational risk.

Since the onset of global concerns regarding sub prime and credit issues during Autumn 2007, the Group has been mindful of the ongoing dislocation in specific asset classes and their resultant impact on investment markets and the solvency of counterparties more generally. The Group continues to monitor all aspects of its financial risk appetite and the resultant exposure taken with caution, and has consequently suffered insignificant defaults on investments held during

the period under review.

As detailed in note 17, the Group's investment allocation is broadly comparable to that at 31 December 2009 as outlined in the Group Report and Accounts. The Group also continues to be mindful of the processes required for establishing the reliability of fair values obtained for some classes of financial assets affected by ongoing periods of diminished liquidity. In order to assist users, the Group has disclosed the measurement attributes of its investment portfolio in a fair value hierarchy in note 18 in accordance with the Amendments to IFRS 7, Financial Instruments: Disclosures.

The Group remains susceptible to fluctuations in rates of foreign exchange. In particular between Pound Sterling and the US Dollar.

Profitable trading and strong treasury management has ensured that the Group's balance sheet remains well capitalised and its operations are financed to accommodate foreseen liquidity demands together with a high level of capital sufficient to meet future catastrophe obligations even if difficult investment market conditions were to prevail for a period of time.

## 5 Seasonality and weather

Historically the Group's most material exposure to catastrophe losses on certain lines of business such as reinsurance inwards and marine and major property risk have been greater during the second half of the calendar year, broadly in line with the most active period of the North Atlantic hurricane season. In contrast a majority of gross premium income written in these lines of business occurs during the first half of the calendar year. The Group actively participates in many regions and if any catastrophic events do occur, it is likely that the Group will share some of the market's losses. Consequently, the potential for significantly greater volatility in expected returns remains during the second half of the year. Details of the

Group's recent exposures to these classes of business are disclosed in note 3 of the Group's 2009 Report and Accounts.

## 6 Related party transactions

Transactions with related parties during the period are consistent in nature and scope with those disclosed in note 39 of the Group's 2009 Report and Accounts.

## 7 Operating segments

The Group's operating segments consist of four segments which recognise the differences between products and services, customer groupings and geographical areas. Financial information is used in this format by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The format is representative of the management structure of the segments.

From 1 July 2009, following a new geographic management structure including new business written through Syndicate 3624, the Group changed its segmental reporting to provide more effective financial reporting for the evaluation of business segments by the chief operating decision maker in order to aide decisions regarding the future allocation of resources. Accordingly, the 2009 half year segmental comparatives have been restated in order to enable comparison of results by the user.



# Notes to the condensed consolidated interim financial statements

continued

## 7 Operating segments continued

The Group's four operating segments are:

**London Market** comprises the results of Syndicate 33, excluding the results of fine art, UK regional events coverage and non US household business which is included within the results of the UK and Europe. In addition, it excludes the larger TMT business which is allocated to the International segment and an element of kidnap and ransom and terrorism included in UK and Europe.

**UK and Europe** comprises the results of Hiscox Insurance Company Limited, the results of Syndicate 33's fine art, UK regional events coverage and non US household business, together with the income and expenses arising from the Group's retail agency activities in the UK and continental Europe. It also includes an element of kidnap and ransom and terrorism written in Syndicate 33. It excludes the results of the larger TMT business written by Hiscox Insurance Company Limited.

**International** comprises the results of Hiscox Insurance Company (Guernsey) Limited, Hiscox Insurance Company (Bermuda) Limited, Syndicate 3624, Hiscox Inc. and Hiscox Insurance Company Inc.. It also includes the results of the larger TMT business written by Hiscox Insurance Company Limited and Syndicate 33.

**Corporate Centre** comprises the investment return, finance costs and administrative costs associated with Group management activities. Corporate Centre also includes the majority of foreign currency items on economic hedges and intragroup borrowings, further details of these can be found in note 14 of the Group's Report and Accounts for the year ended 31 December 2009. Corporate Centre forms a reportable segment due to its investment activities which earn significant external coupon revenues.

Information regarding the Group's operating segments is presented below. All amounts reported below represent transactions with external parties only, with all inter-segment amounts eliminated which is consistent with the information used by the chief operating decision maker when evaluating the results of the Group. Performance is measured based on each reportable segment's profit before tax.

|   | 6 months to 30 June 2010 |                       |                       |                          |                  | 6 months to 30 June 2009<br>Restated |                       |                       |                          |                  | Year to 31 December 2009 |                       |                       |                          |                  |
|---|--------------------------|-----------------------|-----------------------|--------------------------|------------------|--------------------------------------|-----------------------|-----------------------|--------------------------|------------------|--------------------------|-----------------------|-----------------------|--------------------------|------------------|
|   | London Market<br>£000    | UK and Europe<br>£000 | International<br>£000 | Corporate Centre<br>£000 | Total<br>£000    | London Market<br>£000                | UK and Europe<br>£000 | International<br>£000 | Corporate Centre<br>£000 | Total<br>£000    | London Market<br>£000    | UK and Europe<br>£000 | International<br>£000 | Corporate Centre<br>£000 | Total<br>£000    |
| Gross premiums written  | 383,072                  | 248,165               | 273,089               | –                        | 904,326          | 451,419                              | 222,103               | 232,507               | –                        | 906,029          | 663,034                  | 420,982               | 351,385               | –                        | 1,435,401        |
| Net premiums written  | 246,412                  | 234,595               | 202,692               | –                        | 683,699          | 319,164                              | 204,399               | 167,841               | –                        | 691,404          | 483,611                  | 391,461               | 281,951               | –                        | 1,157,023        |
| Net premiums earned   | 216,787                  | 210,105               | 165,857               | –                        | 592,749          | 235,615                              | 174,660               | 135,124               | –                        | 545,399          | 453,281                  | 367,326               | 277,495               | –                        | 1,098,102        |
| Investment result - financial assets                              | 24,025                   | 4,142                 | 11,367                | 7,066                    | 46,600           | 44,399                               | 11,495                | 27,405                | 2,134                    | 85,433           | 80,901                   | 34,935                | 57,765                | 9,168                    | 182,769          |
| Investment result - derivatives                                   | 979                      | 1,604                 | 1,571                 | (5)                      | 4,149            | –                                    | 2,213                 | –                     | 263                      | 2,476            | (1,192)                  | 1,967                 | (83)                  | (296)                    | 396              |
| Other revenues  | 6,675                    | 1,139                 | 2,774                 | 7                        | 10,595           | 5,763                                | 1,303                 | 1,162                 | –                        | 8,228            | 12,841                   | 3,955                 | 2,700                 | 2                        | 19,498           |
| Revenue   | 248,466                  | 216,990               | 181,569               | 7,068                    | 654,093          | 285,777                              | 189,671               | 163,691               | 2,397                    | 641,536          | 545,831                  | 408,183               | 337,877               | 8,874                    | 1,300,765        |
| Claims and claim adjustment expenses, net of reinsurance          | (120,393)                | (99,618)              | (104,898)             | –                        | (324,909)        | (75,630)                             | (99,031)              | (56,410)              | –                        | (231,071)        | (175,823)                | (195,967)             | (91,428)              | –                        | (463,218)        |
| Expenses for the acquisition of insurance contracts               | (56,501)                 | (50,469)              | (40,247)              | –                        | (147,217)        | (56,941)                             | (40,404)              | (30,508)              | –                        | (127,853)        | (101,518)                | (87,393)              | (67,723)              | –                        | (256,634)        |
| Administration expenses   | (12,886)                 | (25,424)              | (14,437)              | (121)                    | (52,868)         | (13,275)                             | (24,758)              | (9,533)               | –                        | (47,566)         | (25,794)                 | (56,057)              | (29,531)              | (1,245)                  | (112,627)        |
| Other expenses  | (9,371)                  | (17,383)              | (16,757)              | (7,349)                  | (50,860)         | (14,311)                             | (15,941)              | (6,914)               | (11,243)                 | (48,409)         | (26,384)                 | (41,136)              | (31,597)              | (17,822)                 | (116,939)        |
| Foreign exchange gains/(losses)                                   | 20,893                   | (4,487)               | (11,426)              | 17,042                   | 22,022           | (48,034)                             | (5,910)               | 12,149                | (1,025)                  | (42,820)         | (35,800)                 | (7,065)               | 6,989                 | 10,322                   | (25,554)         |
| Total expenses  | (178,258)                | (197,381)             | (187,765)             | 9,572                    | (553,832)        | (208,191)                            | (186,044)             | (91,216)              | (12,268)                 | (497,719)        | (365,319)                | (387,618)             | (213,290)             | (8,745)                  | (974,972)        |
| Results of operating activities                                   | 70,208                   | 19,609                | (6,196)               | 16,640                   | 100,261          | 77,586                               | 3,627                 | 72,475                | (9,871)                  | 143,817          | 180,512                  | 20,565                | 124,587               | 129                      | 325,793          |
| Finance costs   | (382)                    | (6)                   | (225)                 | (2,566)                  | (3,179)          | (234)                                | (12)                  | (199)                 | (1,984)                  | (2,429)          | (616)                    | (20)                  | (407)                 | (4,250)                  | (5,293)          |
| Share of profit of associates after tax                           | –                        | –                     | –                     | 70                       | 70               | –                                    | –                     | –                     | –                        | –                | –                        | –                     | –                     | 118                      | 118              |
| <b>Profit before tax</b>  | <b>69,826</b>            | <b>19,603</b>         | <b>(6,421)</b>        | <b>14,144</b>            | <b>97,152</b>    | <b>77,352</b>                        | <b>3,615</b>          | <b>72,276</b>         | <b>(11,855)</b>          | <b>141,388</b>   | <b>179,896</b>           | <b>20,545</b>         | <b>124,180</b>        | <b>(4,003)</b>           | <b>320,618</b>   |
| <b>100% ratio analysis</b>  |                          |                       |                       |                          |                  |                                      |                       |                       |                          |                  |                          |                       |                       |                          |                  |
| Claims ratio (%)  | 55.3                     | 46.6                  | 64.4                  | –                        | 54.8             | 32.0                                 | 56.9                  | 42.3                  | –                        | 41.2             | 38.8                     | 53.4                  | 33.0                  | –                        | 41.8             |
| Expense ratio (%)   | 35.4                     | 44.3                  | 42.4                  | –                        | 40.0             | 34.4                                 | 46.1                  | 33.2                  | –                        | 37.4             | 32.2                     | 49.9                  | 45.6                  | –                        | 40.4             |
| Combined ratio excluding foreign exchange impact (%)              | 90.7                     | 90.9                  | 106.8                 | –                        | 94.8             | 66.4                                 | 103.0                 | 75.5                  | –                        | 78.6             | 71.0                     | 103.3                 | 78.6                  | –                        | 82.2             |
| Foreign exchange impact (%)                                       | (8.5)                    | 2.2                   | 7.2                   | –                        | (1.2)            | 20.2                                 | 3.3                   | (8.6)                 | –                        | 9.2              | 7.8                      | 1.8                   | (2.3)                 | –                        | 3.8              |
| <b>Combined ratio (%)</b>   | <b>82.2</b>              | <b>93.1</b>           | <b>114.0</b>          | <b>–</b>                 | <b>93.6</b>      | <b>86.6</b>                          | <b>106.3</b>          | <b>66.9</b>           | <b>–</b>                 | <b>87.8</b>      | <b>78.8</b>              | <b>105.1</b>          | <b>76.3</b>           | <b>–</b>                 | <b>86.0</b>      |
| Combined ratio excluding non monetary foreign exchange impact (%) | 83.9                     | 92.5                  | 114.0                 | –                        | 94.3             | 77.4                                 | 104.2                 | 66.9                  | –                        | 82.3             | 71.5                     | 103.9                 | 76.3                  | –                        | 81.7             |
| Total assets before intragroup items and eliminations             | 2,510,171                | 851,520               | 1,296,982             | 985,991                  | 5,644,664        | 2,309,402                            | 730,903               | 1,274,814             | 844,322                  | 5,159,441        | 2,096,749                | 794,228               | 1,047,645             | 1,007,587                | 4,946,209        |
| Intragroup items and eliminations                                 |                          |                       |                       |                          | (1,445,056)      |                                      |                       |                       |                          | (1,402,482)      |                          |                       |                       |                          | (1,128,797)      |
| <b>Total assets</b>   |                          |                       |                       |                          | <b>4,199,608</b> |                                      |                       |                       |                          | <b>3,756,959</b> |                          |                       |                       |                          | <b>3,817,412</b> |

# Notes to the condensed consolidated interim financial statements

continued

## 8 Net asset value per share

|                          | 30 June 2010                        |                     | 30 June 2009                        |                     | 31 Dec 2009                         |                     |
|--------------------------|-------------------------------------|---------------------|-------------------------------------|---------------------|-------------------------------------|---------------------|
|                          | Net asset value (total equity) £000 | NAV per share pence | Net asset value (total equity) £000 | NAV per share pence | Net asset value (total equity) £000 | NAV per share pence |
| Net asset value          | 1,202,201                           | 318.9               | 964,851                             | 259.3               | 1,121,286                           | 299.2               |
| Net tangible asset value | 1,148,918                           | 304.7               | 915,076                             | 246.0               | 1,070,873                           | 285.7               |

The net asset value per share is based on 377,003,655 shares (30 June 2009: 372,035,093; 31 December 2009: 374,819,025), being the adjusted number of shares in issue at each reference date. Net tangible assets comprise total shareholders' equity excluding intangible assets.

## 9 Return on equity

|   | 6 months to 30 June 2010 £000 | 6 months to 30 June 2009 £000 | Year to 31 Dec 2009 £000 |
|---|-------------------------------|-------------------------------|--------------------------|
| Profit for the period   | 78,610                        | 122,079                       | 280,497                  |
| Opening shareholders' equity  | 1,121,286                     | 951,026                       | 951,026                  |
| Adjusted for the time weighted impact of capital distributions and issuance of shares | (19,485)                      | (4,565)                       | (20,429)                 |
| Adjusted opening shareholders' equity   | 1,101,801                     | 946,461                       | 930,597                  |
| Annualised return on equity (%)   | 14.8                          | 27.5                          | 30.1                     |

## 10 Investment result

### i) Analysis of investment result

|   | 6 months to 30 June 2010 £000 | 6 months to 30 June 2009 £000 | Year to 31 Dec 2009 £000 |
|---|-------------------------------|-------------------------------|--------------------------|
| The total investment result for the Group before taxation comprises:                        |                               |                               |                          |
| Investment income including interest receivable   | 31,001                        | 38,947                        | 75,740                   |
| Net realised gains on financial investments at fair value through profit or loss            | 5,598                         | 8,141                         | 19,733                   |
| Net fair value gains/(losses) on financial investments at fair value through profit or loss | 10,001                        | 38,345                        | 87,296                   |
| Investment result - financial assets  | 46,600                        | 85,433                        | 182,769                  |
| Fair value gains/(losses) on derivative financial instruments                               | 4,149                         | 2,476                         | 396                      |
| Total result  | 50,749                        | 87,909                        | 183,165                  |

Investment expenses are presented within other expenses (note 11). Included within fair value gains/(losses) on derivative instruments above, are derivative gains/(losses) on foreign exchange contracts.

### ii) Annualised investment yields

|   | 6 months to 30 June 2010 |         | 6 months to 30 June 2009 |         | Year to 31 Dec 2009 |         |
|---|--------------------------|---------|--------------------------|---------|---------------------|---------|
|   | Return £000              | Yield % | Return £000              | Yield % | Return £000         | Yield % |
| Debt and fixed income securities                            | 48,738                   | 4.4     | 77,611                   | 8.3     | 152,954             | 7.7     |
| Equities and shares in unit trusts                          | (2,679)                  | (3.9)   | 6,141                    | 10.6    | 26,360              | 20.7    |
| Deposits with credit institutions/cash and cash equivalents | 541                      | 0.3     | 1,681                    | 0.7     | 3,455               | 0.8     |
|   | 46,600                   | 3.5     | 85,433                   | 7.0     | 182,769             | 7.2     |

## 11 Other revenues and expenses

|  | 6 months to 30 June 2010 £000 | 6 months to 30 June 2009 £000 | Year to 31 Dec 2009 £000 |
|--|-------------------------------|-------------------------------|--------------------------|
| Agency related income                            | 2,351                         | 3,166                         | 6,651                    |
| Profit commission                                | 6,549                         | 5,049                         | 12,248                   |
| Other underwriting income, catastrophe bonds     | 323                           | –                             | 410                      |
| Other income                                     | 1,372                         | 13                            | 189                      |
| Other revenues                                   | 10,595                        | 8,228                         | 19,498                   |
| Managing agency expenses                         | 10,656                        | 12,366                        | 33,051                   |
| Overseas underwriting agency expenses            | 23,840                        | 14,566                        | 47,943                   |
| Connect agency expenses                          | 6,107                         | 5,599                         | 11,795                   |
| Investment expenses                              | 1,496                         | 1,193                         | 2,690                    |
| Other Group expenses including central overheads | 8,761                         | 14,685                        | 21,460                   |
| Other expenses                                   | 50,860                        | 48,409                        | 116,939                  |

## 12 Finance costs

|  | 6 months to 30 June 2010 £000 | 6 months to 30 June 2009 £000 | Year to 31 Dec 2009 £000 |
|--|-------------------------------|-------------------------------|--------------------------|
| Interest and expenses associated with bank borrowings  | 1,556                         | 1,118                         | 2,493                    |
| Interest and charges associated with Letters of Credit | 1,617                         | 1,299                         | 2,780                    |
| Interest charges arising on finance leases             | 6                             | 12                            | 20                       |
|  | 3,179                         | 2,429                         | 5,293                    |

As at 30 June 2010, the total amount drawn by way of Letter of Credit to support the Funds at Lloyd's requirement was \$225 million (30 June 2009: £180 million, 31 December 2009: \$225 million).

## 13 Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled. The amounts charged in the condensed consolidated income statement comprise the following:

|                     | 6 months to 30 June 2010 £000 | 6 months to 30 June 2009 £000 | Year to 31 Dec 2009 £000 |
|---------------------|-------------------------------|-------------------------------|--------------------------|
| Current tax expense | 60,750                        | 69,606                        | 53,375                   |
| Deferred tax credit | (42,208)                      | (50,297)                      | (13,254)                 |
| Tax expense         | 18,542                        | 19,309                        | 40,121                   |

The Group records its income tax expense based on the expected effective rate for the full year.

# Notes to the condensed consolidated interim financial statements

continued

## 14 Insurance liabilities and reinsurance assets

|   | 30 June 2010<br>£000 | 30 June 2009<br>£000 | 31 Dec 2009<br>£000 |
|---|----------------------|----------------------|---------------------|
| <b>Gross</b>  |                      |                      |                     |
| Claims and loss adjustment expenses outstanding         | 1,775,154            | 1,556,483            | 1,549,323           |
| Unearned premiums                                       | 752,960              | 733,224              | 573,028             |
| <b>Total insurance liabilities, gross</b>               | <b>2,528,114</b>     | <b>2,289,707</b>     | <b>2,122,351</b>    |
| <b>Recoverable from reinsurers</b>                      |                      |                      |                     |
| Claims and loss adjustment expenses outstanding         | 415,072              | 358,314              | 328,890             |
| Unearned premiums                                       | 171,833              | 169,755              | 91,236              |
| <b>Total reinsurers' share of insurance liabilities</b> | <b>586,905</b>       | <b>528,069</b>       | <b>420,126</b>      |
| <b>Net</b>  |                      |                      |                     |
| Claims and loss adjustment expenses outstanding         | 1,360,082            | 1,198,169            | 1,220,433           |
| Unearned premiums                                       | 581,127              | 563,469              | 481,792             |
| <b>Total insurance liabilities, net</b>                 | <b>1,941,209</b>     | <b>1,761,638</b>     | <b>1,702,225</b>    |

Net claims and claim adjustment expenses include releases of £93m (30 June 2009: £73m, 31 December 2009: £139m) of reserves established in prior reporting periods.

The development of net claims reserves by accident years are detailed below:

### Insurance claims and claims expenses reserves – net at 100%

| Accident year ending<br>31 December**                                 | 2001<br>£000 | 2002<br>£000 | 2003<br>£000 | 2004<br>£000 | 2005<br>£000 | 2006<br>£000 | 2007<br>£000 | 2008<br>£000 | 2009<br>£000 | 2010<br>£000 | Total<br>£000    |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|
| Estimate of ultimate claims costs as adjusted for foreign exchange*:  |              |              |              |              |              |              |              |              |              |              |                  |
| at end of accident year**   | 346,852      | 282,017      | 375,897      | 600,926      | 708,968      | 549,710      | 717,419      | 805,630      | 712,520      | 498,080      | 5,598,019        |
| one period later**  | 390,137      | 307,794      | 397,341      | 657,537      | 815,964      | 541,194      | 652,404      | 719,359      | 631,590      | –            | 5,113,320        |
| two periods later**   | 466,454      | 318,843      | 360,882      | 631,264      | 806,933      | 523,644      | 631,478      | 702,061      | –            | –            | 4,441,559        |
| three periods later**   | 507,564      | 292,861      | 371,698      | 592,065      | 780,783      | 479,634      | 599,185      | –            | –            | –            | 3,623,790        |
| four periods later*   | 495,391      | 287,009      | 362,919      | 593,051      | 769,863      | 499,873      | –            | –            | –            | –            | 3,008,106        |
| five periods later**  | 479,974      | 272,166      | 357,229      | 576,926      | 771,054      | –            | –            | –            | –            | –            | 2,457,349        |
| six periods later**   | 471,509      | 265,947      | 353,537      | 587,087      | –            | –            | –            | –            | –            | –            | 1,678,080        |
| seven periods later**   | 473,849      | 271,802      | 356,271      | –            | –            | –            | –            | –            | –            | –            | 1,101,922        |
| eight periods later**   | 474,600      | 260,903      | –            | –            | –            | –            | –            | –            | –            | –            | 735,503          |
| nine periods later**  | 464,507      | –            | –            | –            | –            | –            | –            | –            | –            | –            | 464,507          |
| Current estimate of cumulative claims                                 | 464,507      | 260,903      | 356,271      | 587,087      | 771,054      | 499,873      | 599,185      | 702,061      | 631,590      | 498,080      | 5,370,611        |
| Cumulative payments to date   | (389,931)    | (231,966)    | (305,480)    | (495,716)    | (650,330)    | (425,241)    | (429,286)    | (452,952)    | (263,978)    | (61,023)     | (3,705,903)      |
| Liability recognised at 100% level                                    | 74,576       | 28,937       | 50,791       | 91,371       | 120,724      | 74,632       | 169,899      | 249,109      | 367,612      | 437,057      | 1,664,708        |
| Liability recognised in respect of prior accident years at 100% level |              |              |              |              |              |              |              |              |              |              | 39,804           |
| <b>Total net liability to external parties at 100% level</b>          |              |              |              |              |              |              |              |              |              |              | <b>1,704,512</b> |

\* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 30 June 2010.

\*\* With the exception of the most recent development data for each accident year, which only relates to the six months ending 30 June 2010, the term period refers to one full calendar year.

## Reconciliation of 100% disclosures above to Group's share - net

| Accident year   | 2001<br>£000 | 2002<br>£000 | 2003<br>£000 | 2004<br>£000 | 2005<br>£000 | 2006<br>£000 | 2007<br>£000 | 2008<br>£000 | 2009<br>£000 | 2010<br>£000 | Total<br>£000    |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|
| Current estimate of cumulative claims   | 464,507      | 260,903      | 356,271      | 587,087      | 771,054      | 499,873      | 599,185      | 702,061      | 631,590      | 498,080      | 5,370,611        |
| Less: attributable to external names  | (109,055)    | (51,397)     | (79,450)     | (137,384)    | (186,143)    | (106,053)    | (118,867)    | (133,596)    | (100,862)    | (79,609)     | (1,102,416)      |
| Group share of current ultimate claims estimate   | 355,452      | 209,506      | 276,821      | 449,703      | 584,911      | 393,820      | 480,318      | 568,465      | 530,728      | 418,471      | 4,268,195        |
| Cumulative payments to date   | (389,931)    | (231,966)    | (305,480)    | (495,716)    | (650,330)    | (425,241)    | (429,286)    | (452,952)    | (263,978)    | (61,023)     | (3,705,903)      |
| Less: attributable to external names  | 88,915       | 43,902       | 66,169       | 117,069      | 157,623      | 90,178       | 81,369       | 75,558       | 37,351       | 9,377        | 767,511          |
| Group share of cumulative payments  | (301,016)    | (188,064)    | (239,311)    | (378,647)    | (492,707)    | (335,063)    | (347,917)    | (377,394)    | (226,627)    | (51,646)     | (2,938,392)      |
| Liability for 2001 to 2010 accident years recognised on Group's balance sheet                   | 54,436       | 21,442       | 37,510       | 71,056       | 92,204       | 58,757       | 132,401      | 191,071      | 304,101      | 366,825      | 1,329,803        |
| Liability for accident years before 2001 recognised on Group's balance sheet                    |              |              |              |              |              |              |              |              |              |              | 30,279           |
| <b>Total Group liability to external parties included in the balance sheet, net<sup>†</sup></b> |              |              |              |              |              |              |              |              |              |              | <b>1,360,082</b> |

<sup>†</sup> This represents the claims element of the Group's insurance liabilities.

## 15 Earnings per share

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held in treasury as own shares.

|  | 6 months to<br>30 June 2010 | 6 months to<br>30 June 2009 | Year to<br>31 Dec 2009 |
|--|-----------------------------|-----------------------------|------------------------|
| Profit for the period attributable to owners of the Company (£000) | 78,610                      | 122,079                     | 280,497                |
| Weighted average number of ordinary shares in issue (thousands)    | 375,956                     | 368,209                     | 372,848                |
| Basic earnings per share (pence per share)                         | 20.9p                       | 33.2p                       | 75.2p                  |

### Diluted

Diluted earnings per share is calculated by adjusting for the assumed conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options and awards. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

|   | 6 months to<br>30 June 2010 | 6 months to<br>30 June 2009 | Year to<br>31 Dec 2009 |
|---|-----------------------------|-----------------------------|------------------------|
| Profit for the period attributable to owners of the Company (£000)                    | 78,610                      | 122,079                     | 280,497                |
| Weighted average number of ordinary shares in issue (thousands)                       | 375,956                     | 368,209                     | 372,848                |
| Adjustment for share options (thousands)  | 17,313                      | 15,139                      | 14,966                 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 393,269                     | 383,348                     | 387,814                |
| Diluted earnings per share (pence per share)  | 20.0p                       | 31.8p                       | 72.3p                  |

Diluted earnings per share has been calculated after taking account of outstanding options under both employee share schemes and also SAYE schemes.



# Notes to the condensed consolidated interim financial statements

## continued

### 16 Dividends paid to owners of the Company

|  | 6 months to<br>30 June 2010<br>£000 | 6 months to<br>30 June 2009<br>£000 | Year to<br>31 Dec 2009<br>£000 |
|--|-------------------------------------|-------------------------------------|--------------------------------|
| Second interim dividend for the year ended:<br>31 December 2009 of 10.5p (net) per share | 39,442                              | –                                   | –                              |
| Interim dividend for the year ended:<br>31 December 2009 of 4.5p (net) per share         | –                                   | –                                   | 16,835                         |
| Final dividend for the year ended:<br>31 December 2008 of 8.5p (net) per share           | –                                   | 31,778                              | 31,778                         |
|  | <b>39,442</b>                       | <b>31,778</b>                       | <b>48,613</b>                  |

An interim dividend of 5p (net) per ordinary share has been declared payable on 28 September 2010 to shareholders registered on 3 September 2010 in respect of the six months to 30 June 2010 (30 June 2009: 4.5p (net) per ordinary share). The dividend was approved by the Board on 19 August 2010 and accordingly has not been included as a distribution or liability in this interim consolidated financial information in accordance with IAS 10 Events after the balance sheet date.

### 17 Financial assets and liabilities

#### i) Analysis of financial assets carried at fair value

|  | 30 June 2010<br>£000 | 30 June 2009<br>£000 | 31 Dec 2009<br>£000 |
|--|----------------------|----------------------|---------------------|
| Debt and fixed income securities             | 2,199,561            | 1,815,855            | 2,255,737           |
| Equities and shares in unit trusts           | 139,635              | 120,748              | 133,841             |
| Deposits with credit institutions            | 7,839                | 8,745                | 11,394              |
| Total investments                            | <b>2,347,035</b>     | <b>1,945,348</b>     | <b>2,400,972</b>    |
| Catastrophe bonds                            | 14,071               | –                    | 11,310              |
| Derivative instruments                       | 398                  | 100                  | 1,018               |
| Total financial assets carried at fair value | <b>2,361,504</b>     | <b>1,945,448</b>     | <b>2,413,300</b>    |

#### ii) Analysis of financial liabilities

|   | 30 June 2010<br>£000 | 30 June 2009<br>£000 | 31 Dec 2009<br>£000 |
|---|----------------------|----------------------|---------------------|
| Borrowings from credit institutions carried at amortised cost | –                    | 98,000               | 138,000             |
| Derivative financial instruments                              | 239                  | –                    | 539                 |
| Total financial liabilities                                   | <b>239</b>           | <b>98,000</b>        | <b>138,539</b>      |

#### iii) Investment and cash allocation

|   | 30 June 2010<br>£000 | %    | 30 June 2009<br>£000 | %    | 31 Dec 2009<br>£000 | %    |
|---|----------------------|------|----------------------|------|---------------------|------|
| Debt and fixed income securities                            | 2,199,561            | 81.3 | 1,815,855            | 76.3 | 2,255,737           | 84.8 |
| Equities and shares in unit trusts                          | 139,635              | 5.2  | 120,748              | 5.1  | 133,841             | 5.0  |
| Deposits with credit institutions/cash and cash equivalents | 365,383              | 13.5 | 442,844              | 18.6 | 271,041             | 10.2 |
| Total   | <b>2,704,579</b>     |      | <b>2,379,447</b>     |      | <b>2,660,619</b>    |      |

#### iv) Investment and cash allocation by currency

|                           | 30 June 2010<br>% | 30 June 2009<br>% | 31 Dec 2009<br>% |
|---------------------------|-------------------|-------------------|------------------|
| Sterling                  | 26.6              | 23.6              | 20.6             |
| US Dollars                | 63.1              | 66.1              | 69.1             |
| Euro and other currencies | 10.3              | 10.3              | 10.3             |

### 18 Fair value measurements

In accordance with the amendments to IFRS 7 Financial Instruments: Disclosures, the fair value of financial instruments based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value is set out below:

#### As at 30 June 2010

|                                    | Level 1<br>£000 | Level 2<br>£000  | Level 3<br>£000 | Total<br>£000    |
|------------------------------------|-----------------|------------------|-----------------|------------------|
| Debt and fixed income securities   | 483,947         | 1,715,614        | –               | 2,199,561        |
| Equities and shares in unit trusts | 174             | 134,519          | 4,942           | 139,635          |
| Deposits with credit institutions  | 7,839           | –                | –               | 7,839            |
| Catastrophe bonds                  | –               | 14,071           | –               | 14,071           |
| Derivative financial instruments   | –               | 398              | –               | 398              |
| Total                              | <b>491,960</b>  | <b>1,864,602</b> | <b>4,942</b>    | <b>2,361,504</b> |

#### As at 30 June 2009

|                                    | Level 1<br>£000 | Level 2<br>£000  | Level 3<br>£000 | Total<br>£000    |
|------------------------------------|-----------------|------------------|-----------------|------------------|
| Debt and fixed income securities   | 562,915         | 1,252,940        | –               | 1,815,855        |
| Equities and shares in unit trusts | 210             | 118,516          | 2,022           | 120,748          |
| Deposits with credit institutions  | 8,745           | –                | –               | 8,745            |
| Catastrophe bonds                  | –               | –                | –               | –                |
| Derivative financial instruments   | –               | –                | 100             | 100              |
| Total                              | <b>571,870</b>  | <b>1,371,456</b> | <b>2,122</b>    | <b>1,945,448</b> |

#### As at 31 December 2009

|                                    | Level 1<br>£000 | Level 2<br>£000  | Level 3<br>£000 | Total<br>£000    |
|------------------------------------|-----------------|------------------|-----------------|------------------|
| Debt and fixed income securities   | 627,702         | 1,628,035        | –               | 2,255,737        |
| Equities and shares in unit trusts | 162             | 129,419          | 4,260           | 133,841          |
| Deposits with credit institutions  | 11,394          | –                | –               | 11,394           |
| Catastrophe bonds                  | –               | 11,310           | –               | 11,310           |
| Derivative financial instruments   | –               | 1,018            | –               | 1,018            |
| Total                              | <b>639,258</b>  | <b>1,769,782</b> | <b>4,260</b>    | <b>2,413,300</b> |

As at 30 June 2010, the Group had derivative financial liabilities of £239,000 which are classified as Level 2 (30 June 2009: £nil, 31 December 2009: £539,000).

The levels of the fair value hierarchy are defined by IFRS 7 as follows:

- Level 1 – fair values measured using quoted prices (unadjusted) in active markets for identical instruments,
- Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data,
- Level 3 – fair values measured using valuation techniques for which significant inputs are not based on market observable data.

The fair values of the Group's financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment managers obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

The fair value of the Group's investment in catastrophe bonds are based on quoted market prices or, where such prices are not available, by reference to broker or underwriter bid indications.

Investments in mutual funds comprise a portfolio of stock investments in trading entities which are invested in various quoted investments. The fair value of shares in unit trusts are based on the net asset value of the fund reported by independent pricing sources or the fund manager.

## Notes to the condensed consolidated interim financial statements

continued

### 18 Fair value measurements continued

Included within Level 1 of the fair value hierarchy are Government bonds, Treasury bills and exchange traded equities which are measured based on quoted prices.

Level 2 of the hierarchy contains US Government Agencies, Corporate Securities, Asset Backed Securities and Catastrophe bonds. The fair value of these assets are based on the prices obtained from both investment managers and investment custodians as discussed above. The Group records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US Government Agencies and Corporate Securities are based on a limited number of transactions for those securities and as such the Group considers these instruments to have similar characteristics of those instruments classified as Level 2. Also included within Level 2 are units held in traditional long funds and long and short special funds and over the counter derivatives.

Level 3 contains investments in a limited partnership and unquoted equity securities which have limited observable inputs on which to measure fair value. Unquoted equities are carried at cost which is deemed to be comparable to fair value. The effect of changing one or more of the inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant and no further analysis has been performed.

In certain cases, the inputs used to measure the fair value of a financial instrument may fall into different levels within the fair value hierarchy. In this instance, the fair value of the instrument in its entirety is classified based on the lowest level of input that is significant to the fair value measurement.

During the period, there were no significant transfers made between Level 1 and Level 2 of the fair value hierarchy. In addition, there were no significant movements in the Level 3 assets from 31 December 2009.

### 19 Impact of foreign exchange related items

The net foreign exchange gains/(losses) for the year include the following amounts:

|   | 6 months to<br>30 June 2010<br>£000 | 6 months to<br>30 June 2009<br>£000 | Year to<br>31 Dec 2009<br>£000 |
|---|-------------------------------------|-------------------------------------|--------------------------------|
| Exchange gains/(losses) recognised in the condensed consolidated income statement | 22,022                              | (42,820)                            | (25,554)                       |
| Exchange gains/(losses) classified as a separate component of equity              | 34,363                              | (78,075)                            | (69,589)                       |
| <b>Overall impact of foreign exchange related items on net assets</b>             | <b>56,385</b>                       | <b>(120,895)</b>                    | <b>(95,143)</b>                |

The above excludes profit or losses on foreign exchange derivative contracts which are included within the investment result.

Net unearned premiums and deferred acquisition costs are treated as non monetary items in accordance with IFRS. As a result, a foreign exchange mismatch arises caused by these items being translated at historical rates of exchange prevailing at the original transaction date and not being retranslated at each period end. The impact of this mismatch on the income statement is shown below.

|   | 6 months to<br>30 June 2010<br>£000 | 6 months to<br>30 June 2009<br>£000 | Year to<br>31 Dec 2009<br>£000 |
|---|-------------------------------------|-------------------------------------|--------------------------------|
| Opening balance sheet impact of non retranslation of non monetary items                     | (3,207)                             | 50,525                              | 50,525                         |
| Gain/(loss) included within profit representing the non retranslation of non monetary items | 5,136                               | (59,468)                            | (53,732)                       |
| Closing balance sheet impact of non retranslation of non monetary items                     | 1,929                               | (8,943)                             | (3,207)                        |

### 20 Condensed consolidated interim cash flow statement

The purchase, maturity and disposal of financial assets is part of the Group's insurance activities and is therefore classified as an operating cash flow. The purchase, settlement and disposal of derivative contracts is also classified as an operating cash flow.

Included within cash and cash equivalents held by the Group are balances totalling £78,428,000 (30 June 2009: £85,321,000; 31 December 2009: £31,607,000) not available for use by the Group outside of the Lloyd's Syndicates within which they are held.

## Directors' responsibility statement

The Directors confirm, to the best of our knowledge, that the Chairman's statement and condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and the Interim Statement includes a fair view of the information required by sections 4.2.7R and 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority, being:

1. an indication of important events during the first six months of the current financial year and their impact on the condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
2. related party transactions that have taken place in the first six months of the current year and that have materially affected the consolidated financial position or performance of Hiscox Ltd during that period, and any changes in the related party transactions described in the last Annual Report that could have such a material effect.

The individuals responsible for authorising the responsibility statement on behalf of the Board are the Chairman, RRS Hiscox and the Group Finance Director, SJ Bridges. The statements were approved for issue on 23 August 2010.

# Independent review report by KPMG to Hiscox Ltd

## Introduction

We have been engaged by the company to review the condensed consolidated interim financial statements in the Interim Statement for the six months ended 30 June 2010 which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim cash flow statement and related explanatory notes. We have read the other information contained in the Interim Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirement of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Services Authority ('the UK FSA'). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The Interim Statement is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Statement in accordance with the DTR of the UK FSA.

As disclosed in note 3, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this Interim Statement has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the Interim Statement based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Statement for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG  
Hamilton  
Bermuda  
23 August 2010

Neither an audit nor a review provides assurance on the maintenance and integrity of the Group's website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in Bermuda and in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.