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# Hiscox Ltd Interim Statement 2012



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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.



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Japan ASTER Science Team

Cover: Thailand floods, 2011

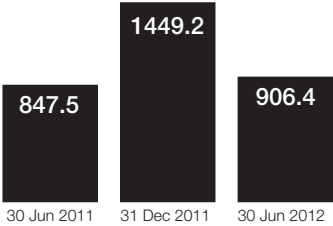
# Corporate highlights

**339.3p**  
Net asset value  
per share

## Group key performance indicators

- Gross premiums written £906.4m (2011: 847.5m)
- Net premiums earned £567.8m (2011: £554.7m)
- Profit before tax £125.8m (2011: £85.6m loss)
- Earnings per share 32.0p (2011: (22.8)p)
- Interim dividend increased to 6.0p per share (2011: 5.1p)
- Net asset value per share 339.3p (2011: 296.3p)
- Group combined ratio 81.7% (2011: 116.9%)
- Return on equity annualised 20.9% (2011: (13.3)%)

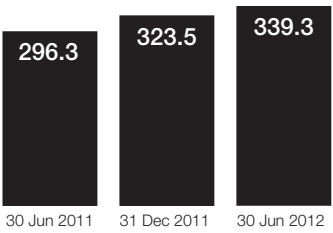
## Gross premiums written £m



## Operational highlights

- Catastrophe reserves holding steady.
- Investment return of 3.1% annualised (2011: 2.0% annualised).
- Robert Childs to succeed Robert Hiscox as Chairman.

## Net asset value p per share



## Chairman's statement

**A pre-tax profit of £125.8 million for the first six months of this year is a welcome return to our profitable course after the battering we and the insurance industry received from Mother Nature last year. As ever, I am writing this on the eve of the US hurricane season, but this year we enter it in good shape.**

### Results

The half-year result to 30 June 2012 was a pre-tax profit of £125.8 million (2011: £85.6 million loss). Gross written premiums rose by 7.0% to £906.4 million (2011: £847.5 million). Net earned premiums were £567.8 million (2011: £554.7 million). The Group net combined ratio was 81.7% (2011: 116.9%). Earnings per share increased to 32.0p (2011: -22.8p) and net assets per share grew to 339.3p (2011: 296.3p). The return on equity was 20.9% (2011: -13.3%).

### Dividend, balance sheet and capital management

The board of Hiscox Ltd proposes to pay an interim dividend for 2012 of 6.0p per share (2011: 5.1p) an increase of 17.6%. This increase is intended to bring the interim dividend back into line with our goal to pay one third of the annual total at the interim stage. The record date for the dividend will be 10 August and the payment date will be 19 September.

The board proposes to offer again a scrip dividend alternative in respect of the interim dividend, subject to the terms and conditions of Hiscox Ltd's Scrip Dividend Alternative. A circular will be sent to shareholders with details of the scrip dividend on 13 August. The final date for making elections in order to be eligible to receive new shares in respect of the interim dividend will be 29 August 2012.

Net asset value per share has increased by 14.5% since June 2011, or 4.9% from the year end, and the balance sheet remains strong.

### Overall comment

Our reinsurance teams in London and Bermuda have benefited from the low incidence of catastrophes or large losses

during the period and taken advantage of higher rates in selective areas. The retail businesses in the UK and Europe have both had some bad weather losses, but have demonstrated their core strength by turning in a reasonable profit even after increased marketing spend. The US business is developing strongly and Guernsey continues to shine.

Our UK businesses were distracted during the period by preparations for Solvency II. The chorus of complaints to the regulators has had an effect and their demands have ameliorated to some extent. Sense must prevail and I hope we can make the processes which Solvency II requires an intrinsic part of our risk management without them stripping us of the use of intuition and common-sense. After all, no model could ever have predicted the amount of rain falling this year in the UK and tipping down outside my window as I write.

### Rates

Rates for US property catastrophe reinsurance grew in excess of 10% in the first quarter, and then between 0-5% in the second quarter. Japanese earthquake catastrophe rates have doubled since the Tohoku earthquake, and Japanese wind rates rose by between 10-30% at the April renewals.

Large casualty business is still under pressure, but rates are continuing to improve in internationally traded property lines.

In other specialty insurance lines rates are generally flat, with some under continuing downward pressure.

### People

Since I announced in February my retirement as chairman in February 2013, the Nominations Committee has conducted a rigorous search for a new Chairman. Outside consultants searched from within and outside the company and a shortlist was produced. Ultimately, the Board accepted the Nominations Committee's recommendation of our current Chief Underwriting Officer and member of the Board of Hiscox Ltd, Robert Childs.

I know that the UK Corporate Governance Code favours an independent chairman. However, I agree with the recommendation of the Nominations Committee as do the major shareholders who were consulted. The Board believes that Robert Childs has the strength of character, the commercial experience and the detailed knowledge of our business that will make him an excellent Chairman of the Board. He was the active underwriter of our Lloyd's Syndicate 33, he then started and built our businesses in Bermuda and the US, and he has recently had an oversight role covering all the underwriting in the Group as Chief Underwriting Officer.

During consultation, the question was asked whether he can move from reporting to the CEO to having the CEO report to him. I believe that in underwriting matters he has been in effect the ultimate arbiter, and underwriting is our business, and I know (and have witnessed) that he has the strength to insist if need be. Another question was can he move from executive to non-executive (if any chairman can be deemed non-executive). Well, I have seen him go from CEO of Bermuda and Executive Chairman of Hiscox US to an oversight role, and his Chief Underwriting Officer role is an oversight role in the main, so I am confident that he can and will.

Finally, if I am to leave my life's work and my family's financial health in the hands of others, I feel safe in the knowledge that the chairman at the head of the table has an incisive knowledge of the risks in our business, and is unlikely to allow foolishness to take place. A few more insiders at the helms of some other financial institutions in the City might have stopped some of the idiocy that occurred.

I am also pleased to announce that Jeremy Pinchin has been appointed Chief Executive of Hiscox Bermuda and Group Company Secretary as of 14 August taking over from Charles Dupplin who will be returning to the UK. Charles performed these roles for the past three years and certainly made his mark in Bermuda. Jeremy joined us in 2005 as

Group Claims Director and he will also continue to oversee Group claims.

### Hiscox London Market

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

Profit before tax	£69.5 million (2011: £26.6 million loss)
Gross written premiums	£371.3 million (2011: £349.0 million)
Combined ratio	68.4% (2011: 113.9%)

Hiscox London Market had an extremely low combined ratio due to the absence of catastrophe losses and through avoidance of attritional losses from the considerable number of weather events in the US and the earthquake in Italy. This resulted in an excellent first half profit of £69.5 million. Premium income grew by 6.4% with growth in terrorism, upstream energy, commercial property and aviation, and a stable income in other lines. Terrorism business is ahead of budget due to our continued strong focus on the class and increased new business from the Middle East and North Africa. Rates remain strong in political risks business. After several years of pulling back whilst rates were falling, the property division is once again growing, with well-rated business coming from the US as well as loss impacted areas such as New Zealand.

The gross premium income of the reinsurance division grew 2% year-on-year. Increased writings of Japanese catastrophe business were offset by the non-renewal of certain inwards proportional treaties, and the (welcome) lack of reinstatement premiums due to the absence of catastrophe losses. Rates on the core US catastrophe reinsurance account remain strong.

### Hiscox UK

This division writes personal insurances (high value households, art, luxury motor, and associated risks) and commercial insurances for small to medium businesses which in the main rely on their brains (rather than infrastructure) to make money. It also specialises in insuring

technology and media companies. All three areas made profits in the period.

Profit before tax	£15.8 million (2011: £25.2 million)
Gross written premiums	£184.0 million (2011: £182.9 million)
Combined ratio	95.2% (2011: 87.9%)

Premium income was marginally ahead of last year despite our previously announced withdrawal from two underwriting partnerships as they had not lived up to expectations. We replaced the lost income through strong growth in the specialty commercial business.

Despite the appalling weather there have been fewer than expected flood or cancellation losses, but we have made an appropriate reserve in case of late notifications. We do specialise in event cancellation, so the underwriters are to be congratulated for avoiding the high profile outdoor events which have had to be cancelled. We will cover such events at a fair price, but others have had a lower definition of 'fair'. However, we did suffer our largest-ever residential fire where the fire started on the top floor of a house in London, but the efforts of the fire brigade to put the fire out swamped the rest of the house with water – a regrettably common experience in household fires.

The direct to consumer business continues to grow and we have returned to TV advertising in the UK with a message on our values and service. The campaign has already had a measurable impact on how people view Hiscox, and we hope that our target insureds will choose a trustworthy and principled insurer over the cheapest. We are acutely aware that proclaiming that we will adhere to strong ethical and service standards means we must perform to a high level or be deservedly condemned.

We have long regarded excellent service and the swift and fair settlement of claims to be our core product. Insurance is a promise to pay and only when a customer makes a claim can that promise be tested. So it is very pleasing that our efforts have been recognized by winning the Customer Care Award at the

prestigious British Insurance Awards.

### Hiscox Europe

This division's core business is much the same as the UK's: household, and specialist commercial accounts. It also underwrites larger fine art risks, technology and media risks and kidnap and ransom insurance.

Profit before tax	£0.6 million (2011: £0.1 million)
Gross written premiums	£84.0 million (2011: £80.6 million)
Combined ratio	102.1% (2011: 100.2%)

A profit of £0.6 million is a fair result, considering that France was hit by a severe winter freeze and our Benelux household book experienced higher-than-normal claims activity, mainly from armed burglary.

Hiscox Europe's premium income rose slightly, with art and household business remaining flat but good growth in professional liability and specialty commercial lines.

We continue to distribute through financial institutions. Some banks and composite insurers understand the benefits of giving their clients access to a specialist insurer rather than trying to build expertise themselves in a product which may never be a core part of their business. To that end, Hiscox France has forged a new relationship with Generali France to provide high-value household cover to its clients.

### Hiscox International

This division comprises our Bermuda, USA and Guernsey units.

Profit before tax	£46.2 million (2011: £82.2 million loss)
Gross written premium	£267.2 million (2011: £234.9 million)
Combined ratio	78.7% (2011: 160.1%)

**Bermuda:** Hiscox Bermuda underwrites catastrophe reinsurance and healthcare business.

The division made a healthy profit thanks to the absence of catastrophe losses and grew by 11.4% helped by the steep rise in rates that followed last year's

# Chairman's statement continued

series of very large natural disasters. Rates for Japanese earthquake excess of loss business have doubled since the Tohoku earthquake, and Bermuda has quadrupled its income in this area. We had followed our usual practice of gently withdrawing as rates drop and others wish to take our place, and then increasing rapidly when the inevitable loss drives prices up and wounded competitors away.

In Bermuda and London we are currently underwriting a book of catastrophe business on behalf of Aviva, but following their recent reorganisation they will not be renewing this quota share arrangement next year. We are working to replace them as it is commercially sensible for us to be able to use our specialist expertise for others, and for our partners to gain profitable diversification if they are not involved in this area.

**Guernsey:** Hiscox Guernsey underwrites kidnap and ransom, as well as personal accident, terrorism and fine art risks.

Guernsey has for long been one of the jewels in our crown and it continues to perform well. The team has concentrated on expanding its distribution in the Middle East and Far East. They have remained cautious about the piracy market, choosing to underwrite only those risks which they regard as being sensibly priced.

**USA:** Hiscox USA underwrites a book of small commercial business to wholesale brokers, and larger specialist business mainly to retail brokers. It also sells cover directly to small commercial businesses through the internet.

Hiscox USA continues to benefit from the decisions we made two years ago to narrow its product range and focus its distribution channels to better effect. It saw good top-line growth of 29.1%, with particularly strong performances in construction, terrorism and management liability. The expense ratio continues to improve as the business grows and is better than plan.

We continue to invest in developing our brand in the US and have been accelerating our marketing efforts to promote our direct-to-consumer business. This includes the second season of our branded web series Leap Year ([www.youtube.com/theleapyeartv](http://www.youtube.com/theleapyeartv)) which has had over one million views since June. These efforts are having a positive effect with weekly sales three times 2011 levels on a year-on-year basis. This business is performing well and recently expanded to include coverage for allied health professionals, which expands our target appetite by over two million small businesses. New distribution and marketing partnerships are also helping drive sales.

**Investments**  
Assets under management at 30 June 2012 totalled £2,989 million (2011: £2,859 million) and the annualised return was 3.1% (2011: 2.0%) leading to an investment return on financial assets of £44.5 million (2011: £27.6 million). In the world of low interest rates that we currently operate in, this can be considered as a creditable result.

Once again investment markets have been prone to bouts of 'risk on' or 'risk off' sentiment with moments of financial or political stress being countered by central bank action or political compromise. As a result of the improved tone in the first quarter our non-government bonds recovered sharply from their year end weakness and contributed to a better than expected result from the bond portfolios. Our allocation to equities provided a useful additional return. The second quarter proved less productive as worries over Spain and Greece tested nerves once again. The bonds essentially earned their yield and risk assets trimmed some of their earlier gains. For the first six months, the return from our bonds of 1.5% far exceeded the short dated government bond benchmark of a paltry 0.2%.

Economic uncertainty, volatile capital markets and sovereign debt issues remain a feature of the investment landscape. The latest concerns over the outlook for economic growth have driven yields in many bond markets to historic lows

with, in some cases, investors having to settle for a negative return on their money. Against this background our asset allocation has remained largely unchanged albeit that cash levels have increased following distributions from Syndicate 33 and due to a high level of cash equivalents in some of the bond portfolios. The allocations to cash and highly rated Government securities provide substantial liquidity but we retain a good weighting to corporate bonds in order to earn some extra yield from solvent borrowers. Our conservative stance still precludes investment in higher yielding European sovereign debt and entails close monitoring of the banks we have exposure to in the bond and money markets. We continue to view equities as an asset class which is likely to generate capital gains over the medium term and would be inclined to add more if good opportunities occur as they did last autumn.

A return to normalised interest rates and more stable equity markets appears to be some way off and our expectation for investment returns are accordingly relatively modest for the time being.

**Outlook**  
Investment returns have traditionally been a large part of the return for us and the insurance industry. Now that they are so much reduced, our underwriting skill will be even more essential in the near future. Reinsurance rates are healthy and property rates in some areas are rising. Otherwise in our retail books life remains competitive, but it always has been and we have specialist products and volume which enables us to compete and grow profitably. As usual, we wait to see what Mother Nature throws at us in the second half, but given nothing absolutely extraordinary happens, I believe I will be handing over to Robert next February the chairmanship of a very healthy business.

*Robert Hiscox*

Robert Hiscox  
Chairman  
30 July 2012

# Condensed consolidated interim income statement For the six month period ended 30 June 2012

	Note	6 months to 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
<b>Income</b>				
Gross premiums written	7	906,443	847,451	1,449,219
Outward reinsurance premiums		(204,934)	(179,890)	(275,208)
Net premiums written		701,509	667,561	1,174,011
Gross premiums earned		701,568	688,207	1,428,954
Premiums ceded to reinsurers		(133,795)	(133,539)	(283,947)
Net premiums earned		567,773	554,668	1,145,007
Investment result	10	44,687	25,463	24,495
Other revenues	11	7,067	7,625	17,322
Revenue		619,527	587,756	1,186,824
<b>Expenses</b>				
Claims and claim adjustment expenses, net of reinsurance		(232,571)	(438,350)	(697,898)
Expenses for the acquisition of insurance contracts		(133,663)	(127,417)	(269,792)
Operational expenses	11	(118,108)	(100,600)	(203,204)
Foreign exchange (losses)/gains	19	(4,452)	(3,547)	7,816
Total expenses		(488,794)	(669,914)	(1,163,078)
Results of operating activities		130,733	(82,158)	23,746
Finance costs	12	(4,490)	(3,500)	(6,698)
Share of (loss)/profit of associates after tax		(441)	62	223
Profit/(loss) before tax		125,802	(85,596)	17,271
Tax (expense)/credit	13	(1,011)	(1,445)	4,001
Profit/(loss) for the period (all attributable to owners of the Company)		124,791	(87,041)	21,272
Earnings per share on profit attributable to owners of the Company				
Basic	15	32.0p	(22.8)p	5.5p
Diluted	15	30.7p	(22.8)p	5.3p

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 2012, after tax

	6 months to 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Profit/(loss) for the period	<b>124,791</b>	(87,041)	21,272
<b>Other comprehensive income</b>			
Currency translation (losses)/gains (net of tax of £nil)	<b>(8,399)</b>	(8,550)	11,060
<b>Total other comprehensive (loss)/income</b>	<b>(8,399)</b>	(8,550)	11,060
<b>Total comprehensive income/(loss) recognised (all attributable to owners of Company)</b>	<b>116,392</b>	(95,591)	32,332

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

## Condensed consolidated interim balance sheet

### At 30 June 2012

	Note	30 June 2012 £000	30 June 2011 £000	31 December 2011 £000
<b>Assets</b>				
Intangible assets		<b>68,690</b>	64,882	67,552
Property, plant and equipment		<b>18,063</b>	18,578	18,155
Investments in associates		<b>5,938</b>	6,188	6,380
Deferred tax		<b>25,152</b>	14,077	25,748
Deferred acquisition costs		<b>181,169</b>	172,668	150,050
Financial assets carried at fair value	17	<b>2,321,163</b>	2,368,069	2,368,636
Reinsurance assets	14	<b>518,972</b>	530,661	492,515
Loans and receivables including insurance receivables		<b>606,788</b>	636,636	507,722
Current tax asset		<b>3,445</b>	–	69,436
Cash and cash equivalents		<b>680,231</b>	502,954	516,547
<b>Total assets</b>		<b>4,429,611</b>	4,314,713	4,222,741
<b>Equity and liabilities</b>				
Shareholders' equity				
Share capital		<b>20,623</b>	20,494	20,563
Share premium		<b>35,325</b>	29,294	32,086
Contributed surplus		<b>245,005</b>	245,005	245,005
Currency translation reserve		<b>52,118</b>	40,907	60,517
Retained earnings		<b>979,120</b>	810,765	897,728
<b>Total equity (all attributable to owners of the Company)</b>		<b>1,332,191</b>	1,146,465	1,255,899
Deferred tax		<b>140,635</b>	19,776	152,447
Insurance liabilities	14	<b>2,647,977</b>	2,672,123	2,500,260
Financial liabilities	17	<b>219</b>	75,061	–
Current tax		<b>4,917</b>	21,550	–
Trade and other payables		<b>303,672</b>	379,738	314,135
<b>Total liabilities</b>		<b>3,097,420</b>	3,168,248	2,966,842
<b>Total equity and liabilities</b>		<b>4,429,611</b>	4,314,713	4,222,741

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 2012

	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2012	20,563	32,086	245,005	60,517	897,728	1,255,899
Total recognised comprehensive income/(expense) for the period (all attributable to owners of the Company)	–	–	–	(8,399)	124,791	116,392
Employee share options:						
Equity settled share based payments	–	–	–	–	2,952	2,952
Proceeds from shares issued	32	962	–	–	–	994
Deferred tax	–	–	–	–	255	255
Shares issued in relation to Scrip Dividend	28	2,277	–	–	–	2,305
Dividends paid to owners of the Company (note 16)	–	–	–	–	(46,606)	(46,606)
<b>Balance at 30 June 2012</b>	<b>20,623</b>	<b>35,325</b>	<b>245,005</b>	<b>52,118</b>	<b>979,120</b>	<b>1,332,191</b>

	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2011	20,297	15,800	245,005	49,457	935,555	1,266,114
Total recognised comprehensive expense for the period (all attributable to owners of the Company)	–	–	–	(8,550)	(87,041)	(95,591)
Employee share options:						
Equity settled share based payments	–	–	–	–	4,620	4,620
Proceeds from shares issued	36	1,347	–	–	–	1,383
Deferred tax	–	–	–	–	1,742	1,742
Shares issued in relation to Scrip Dividend	161	12,147	–	–	–	12,308
Dividends paid to owners of the Company (note 16)	–	–	–	–	(44,111)	(44,111)
<b>Balance at 30 June 2011</b>	<b>20,494</b>	<b>29,294</b>	<b>245,005</b>	<b>40,907</b>	<b>810,765</b>	<b>1,146,465</b>

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 2012

	Note	6 months to 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Profit/(loss) before tax		125,802	(85,596)	17,271
Adjustments for:				
Interest and equity dividend income		(23,206)	(27,431)	(50,333)
Interest expense	12	4,490	3,500	6,698
Net fair value (gains)/losses on financial assets		(19,578)	15,876	30,878
Depreciation and amortisation		3,244	4,671	8,098
Charges in respect of share based payments		2,952	4,620	8,677
Other non-cash movements		440	(67)	(1,070)
Effect of exchange rate fluctuations on cash presented separately		5,214	(680)	(1,451)
<b>Changes in operational assets and liabilities:</b>				
Insurance and reinsurance contracts		(28,703)	201,640	138,667
Financial assets carried at fair value		55,496	60,642	78,501
Financial liabilities carried at fair value		219	396	(457)
Other assets and liabilities		8,039	(19,777)	(18,888)
<b>Cash flows from operations</b>		<b>134,409</b>	<b>157,794</b>	<b>216,591</b>
Interest received		28,006	26,724	50,244
Equity dividends received		934	707	1,531
Interest paid		(5,792)	(3,271)	(6,163)
Current tax received/(paid)		58,935	(33,793)	(4,003)
<b>Net cash flows from operating activities</b>		<b>216,492</b>	<b>148,161</b>	<b>258,200</b>
<b>Cash flow from sale and purchase of associates</b>		<b>–</b>	<b>723</b>	<b>729</b>
<b>Cash flows from the purchase of property, plant and equipment</b>		<b>(735)</b>	<b>(590)</b>	<b>(2,561)</b>
<b>Cash flows from the purchase of intangible assets</b>		<b>(3,552)</b>	<b>(6,160)</b>	<b>(9,992)</b>
<b>Net cash flows from investing activities</b>		<b>(4,287)</b>	<b>(6,027)</b>	<b>(11,824)</b>
Proceeds from the issue of ordinary shares		994	1,383	3,215
Dividends paid to owners of the Company	16	(44,301)	(31,803)	(50,512)
Net increase/(repayments) of borrowings		–	54,543	(20,000)
<b>Net cash flows from financing activities</b>		<b>(43,307)</b>	<b>24,123</b>	<b>(67,297)</b>
<b>Net increase in cash and cash equivalents</b>		<b>168,898</b>	<b>166,257</b>	<b>179,079</b>
<b>Cash and cash equivalents at 1 January</b>		<b>516,547</b>	<b>336,017</b>	<b>336,017</b>
<b>Net increase in cash and cash equivalents</b>		<b>168,898</b>	<b>166,257</b>	<b>179,079</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>		<b>(5,214)</b>	<b>680</b>	<b>1,451</b>
<b>Cash and cash equivalents at end of period</b>	20	<b>680,231</b>	<b>502,954</b>	<b>516,547</b>

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 2012 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 2012.

The Directors of Hiscox Ltd are listed in the Group's 2011 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 HM 12, Bermuda.

## 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 2011 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.

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 2011. The report of the independent auditors was not qualified. The amounts presented for the 30 June 2012 and 30 June 2011 periods are unaudited.

These condensed consolidated interim financial statements were approved by the Board of Directors on 30 July 2012.

## 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 2011. The consolidated financial statements as at, and for the year ended, 31 December 2011 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.

## 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 2011. 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.

As the significant strains on the Euro countries continue and the remnants of the credit issues of 2007 and 2008 linger on, the Group has been mindful of the ongoing dislocation in specific asset classes and their 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.

The table in note 17 v) shows the Group's position at 30 June 2012 for all government issued or supported debt and all bank issued debt by country. The Group has no direct government exposure to Portugal, Italy, Ireland, Greece or Spain. The bank debt exposure to Spain is rated A and to that in Italy is rated BBB.

As detailed in note 17, the Group's investment allocation is broadly comparable to that at 31 December 2011 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.

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 2011 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 38 of the Group's 2011 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.



# 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. It also includes the fire and aviation business from Syndicate 3624 and the larger TMT business written by Hiscox Insurance Company Limited. In addition, it excludes 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. In addition, it includes the European errors and omissions business from Syndicate 3624. It excludes the results of the larger TMT business written by Hiscox Insurance Company Limited. It also includes an element of kidnap and ransom and terrorism written in Syndicate 33.

**International** comprises the results of Hiscox Insurance Company (Guernsey) Limited, Hiscox Insurance Company (Bermuda) Limited, Hiscox Inc., Hiscox Insurance Company Inc. and Syndicate 3624 excluding the European errors and omissions, fire and aviation business.

**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. These relate to certain foreign currency items on economic hedges and intragroup borrowings, further details of these can be found in note 13 of the Group's Report and Accounts for the year ended 31 December 2011. Corporate Centre forms a reportable segment due to its investment activities which earn significant external coupon revenues.

	6 months to 30 June 2012					6 months to 30 June 2011					Year to 31 December 2011				
	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	371,250	267,980	267,213	–	906,443	348,993	263,510	234,948	–	847,451	585,441	498,006	365,772	–	1,449,219
Net premiums written	246,337	256,129	199,043	–	701,509	237,975	248,810	180,776	–	667,561	413,390	472,608	288,013	–	1,174,011
Net premiums earned	186,665	234,886	146,222	–	567,773	192,793	215,341	146,534	–	554,668	418,764	448,594	277,649	–	1,145,007
Investment result	13,975	7,895	15,010	7,807	44,687	8,174	5,806	8,067	3,416	25,463	8,782	7,248	6,313	2,152	24,495
Other revenues	2,914	1,640	2,139	374	7,067	4,008	1,748	1,869	–	7,625	9,858	3,938	3,311	215	17,322
Revenue	203,554	244,421	163,371	8,181	619,527	204,975	222,895	156,470	3,416	587,756	437,404	459,780	287,273	2,367	1,186,824
Claims and claim adjustment expenses, net of reinsurance	(64,728)	(117,002)	(50,841)	–	(232,571)	(158,544)	(102,235)	(177,571)	–	(438,350)	(238,026)	(207,018)	(252,854)	–	(679,898)
Expenses for the acquisition of insurance contracts	(44,093)	(55,316)	(34,254)	–	(133,663)	(43,173)	(50,737)	(33,507)	–	(127,417)	(99,257)	(106,300)	(64,235)	–	(269,792)
Operational expenses	(24,078)	(52,170)	(33,161)	(8,699)	(118,108)	(18,998)	(47,193)	(28,309)	(6,100)	(100,600)	(39,685)	(94,985)	(56,229)	(12,305)	(203,204)
Foreign exchange (losses)/gains	(681)	(3,531)	1,353	(1,593)	(4,452)	(10,194)	2,569	895	3,183	(3,547)	(1,507)	(25)	(3,097)	12,445	7,816
Total expenses	(133,580)	(228,019)	(116,903)	(10,292)	(488,794)	(230,909)	(197,596)	(238,492)	(2,917)	(669,914)	(378,475)	(408,328)	(376,415)	140	(1,163,078)
Results of operating activities	69,974	16,402	46,468	(2,111)	130,733	(25,934)	25,299	(82,022)	499	(82,158)	58,929	51,452	(89,142)	2,507	23,746
Finance costs	(514)	–	(227)	(3,749)	(4,490)	(680)	–	(209)	(2,611)	(3,500)	(1,308)	–	(399)	(4,991)	(6,698)
Share of profit of associates after tax	–	–	(42)	(399)	(441)	–	–	–	62	62	–	–	65	158	223
<b>Profit/(loss) before tax</b>	<b>69,460</b>	<b>16,402</b>	<b>46,199</b>	<b>(6,259)</b>	<b>125,802</b>	<b>(26,614)</b>	<b>25,299</b>	<b>(82,231)</b>	<b>(2,050)</b>	<b>(85,596)</b>	<b>57,621</b>	<b>51,452</b>	<b>(89,476)</b>	<b>(2,326)</b>	<b>17,271</b>
<b>100% ratio analysis*</b>															
Claims ratio (%)	32.7	49.8	34.3	–	39.6	82.7	47.2	118.9	–	78.8	55.6	46.3	89.9	–	60.2
Expense ratio (%)	35.4	45.7	45.3	–	41.6	26.9	45.3	41.8	–	36.9	32.5	44.7	42.9	–	39.1
Combined ratio excluding foreign exchange impact (%)	68.1	95.5	79.6	–	81.2	109.6	92.5	160.7	–	115.7	89.1	91.0	132.8	–	99.3
Foreign exchange impact (%)	0.3	1.5	(0.9)	–	0.5	4.3	(1.2)	(0.6)	–	1.2	–	–	1.1	–	0.2
<b>Combined ratio (%)</b>	<b>68.4</b>	<b>97.0</b>	<b>78.7</b>	<b>–</b>	<b>81.7</b>	<b>113.9</b>	<b>91.3</b>	<b>160.1</b>	<b>–</b>	<b>116.9</b>	<b>89.1</b>	<b>91.0</b>	<b>133.9</b>	<b>–</b>	<b>99.5</b>
Total assets before intragroup items and eliminations	2,581,556	1,068,667	1,520,983	1,145,443	6,316,649	2,432,419	936,321	1,438,769	1,066,178	5,873,687	2,259,574	958,646	1,461,951	1,091,609	5,771,780
Intragroup items and eliminations				(1,887,038)						(1,558,974)					(1,549,039)
<b>Total assets</b>					<b>4,429,611</b>					<b>4,314,713</b>					<b>4,222,741</b>

\* The Group's percentage participation in Syndicate 33 can fluctuate from year to year and consequently, presentation of the ratios at the 100% level removes any distortions arising therefrom.

# Notes to the condensed consolidated interim financial statements

## continued

### 8 Net asset value per share

	30 June 2012		30 June 2011		31 Dec 2011	
	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	<b>1,332,191</b>	<b>339.3</b>	1,146,465	296.3	1,255,899	323.5
Net tangible asset value	<b>1,263,501</b>	<b>321.8</b>	1,081,583	279.6	1,188,347	306.1

The net asset value per share is based on 392,591,402 shares (30 June 2011: 386,863,124; 31 December 2011: 388,233,074), being the adjusted number of shares in issue at each reference date. Net tangible assets comprise total equity excluding intangible assets.

### 9 Return on equity

	6 months to 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Profit/(loss) for the period	<b>124,791</b>	(87,041)	21,272
Opening shareholders' equity	<b>1,255,899</b>	1,266,114	1,266,114
Adjusted for the time weighted impact of capital distributions and issuance of shares	<b>(2,489)</b>	(1,970)	(14,025)
Adjusted opening shareholders' equity	<b>1,253,410</b>	1,264,144	1,252,089
Annualised return on equity (%)	<b>20.9</b>	(13.3)	1.7

### 10 Investment result

#### i) Analysis of investment result

The total investment result for the Group before taxation comprises:

	6 months to 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Investment income including interest receivable	<b>23,206</b>	27,431	50,333
Net realised gains on financial investments at fair value through profit or loss	<b>1,761</b>	13,908	5,040
Net fair value gains/(losses) on financial investments at fair value through profit or loss	<b>19,530</b>	(13,749)	(29,431)
Investment result - financial assets	<b>44,497</b>	27,590	25,942
Fair value gains/(losses) on derivative financial instruments	<b>190</b>	(2,127)	(1,447)
Total result	<b>44,687</b>	25,463	24,495

Investment expenses are presented within other expenses (note 11).

#### ii) Annualised investment yields

	6 months to 30 June 2012		6 months to 30 June 2011		Year to 31 Dec 2011	
	Return £000	Yield %	Return £000	Yield %	Return £000	Yield %
Debt and fixed income securities	<b>33,230</b>	<b>3.0</b>	23,779	2.1	29,933	1.3
Equities and shares in unit trusts	<b>9,602</b>	<b>10.9</b>	2,668	3.7	(5,935)	(3.8)
Deposits with credit institutions/cash and cash equivalents	<b>1,665</b>	<b>0.7</b>	1,143	0.6	1,944	0.4
	<b>44,497</b>	<b>3.1</b>	27,590	2.0	25,942	0.9

### 11 Other revenues and expenses

	6 months to 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Agency related income	<b>3,695</b>	3,478	6,769
Profit commission	<b>2,167</b>	3,462	7,383
Other underwriting income, catastrophe bonds	<b>365</b>	599	1,006
Other income	<b>840</b>	86	2,164
Other revenues	<b>7,067</b>	7,625	17,322
Wages and salaries	<b>43,975</b>	32,191	69,185
Social security costs	<b>6,886</b>	5,157	12,930
Pension cost - defined contribution	<b>2,959</b>	2,805	5,724
Pension cost - defined benefit	<b>–</b>	–	1,700
Share based payments	<b>2,952</b>	4,620	8,677
Other expenses	<b>44,876</b>	39,672	73,575
Marketing expenses	<b>11,700</b>	9,799	19,955
Investment expenses	<b>1,516</b>	1,685	3,360
Depreciation and amortisation	<b>3,244</b>	4,671	8,098
Operational expenses	<b>118,108</b>	100,600	203,204

### 12 Finance costs

	6 months to 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Interest and expenses associated with bank borrowings	<b>2,044</b>	1,493	1,960
Interest and charges associated with Letters of Credit	<b>2,186</b>	1,613	3,933
Interest charges on experience account	<b>260</b>	393	804
Interest charges arising on finance leases	<b>–</b>	1	1
	<b>4,490</b>	3,500	6,698

As at 30 June 2012, the total amount drawn by way of Letter of Credit to support the Funds at Lloyd's requirement was \$340 million (30 June 2011: \$340 million, 31 December 2011: \$340 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 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Current tax			
Expense for the year	<b>11,972</b>	25,348	380
Adjustments in respect of prior years	<b>–</b>	–	(95,809)
Total current tax	<b>11,972</b>	25,348	(95,429)
Deferred tax			
Expense/(credit) for the year	<b>(5,219)</b>	(22,606)	17,090
Adjustments in respect of prior years	<b>–</b>	11	77,992
Effect of rate change	<b>(5,742)</b>	(1,308)	(3,654)
Total deferred tax	<b>(10,961)</b>	(23,903)	91,428
Total tax charged to the income statement	<b>1,011</b>	1,445	(4,001)

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 2012 £000	30 June 2011 £000	31 Dec 2011 £000
<b>Gross</b>			
Claims and loss adjustment expenses outstanding	<b>1,845,635</b>	1,941,986	1,902,571
Unearned premiums	<b>802,342</b>	730,137	597,689
Total insurance liabilities, gross	<b>2,647,977</b>	2,672,123	2,500,260
<b>Recoverable from reinsurers</b>			
Claims and loss adjustment expenses outstanding	<b>366,821</b>	395,855	412,828
Unearned premiums	<b>152,151</b>	134,806	79,687
<b>Total reinsurers' share of insurance liabilities</b>	<b>518,972</b>	530,661	492,515
<b>Net</b>			
Claims and loss adjustment expenses outstanding	<b>1,478,814</b>	1,546,131	1,489,743
Unearned premiums	<b>650,191</b>	595,331	518,002
<b>Total insurance liabilities, net</b>	<b>2,129,005</b>	2,141,462	2,007,745

Net claims and claim adjustment expenses include releases of £116m (30 June 2011: £95m, 31 December 2011: £199m) 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 31 December**	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year**	364,167	581,476	685,709	533,992	696,124	778,588	689,559	812,934	1,027,103	393,827	6,563,479
one period later**	384,497	635,731	788,315	525,082	633,113	695,754	580,092	714,042	935,211	–	5,891,837
two periods later**	350,012	610,560	779,204	508,025	613,224	692,571	553,682	707,841	–	–	4,815,119
three periods later**	360,758	572,557	754,053	465,263	581,366	652,867	555,115	–	–	–	3,941,979
four periods later**	351,695	573,481	743,650	481,773	577,729	649,650	–	–	–	–	3,377,978
five periods later**	346,946	558,093	744,062	469,534	572,341	–	–	–	–	–	2,690,976
six periods later**	342,876	558,372	722,743	469,105	–	–	–	–	–	–	2,093,096
seven periods later**	331,503	542,271	718,436	–	–	–	–	–	–	–	1,592,210
eight periods later**	323,331	542,747	–	–	–	–	–	–	–	–	866,078
nine periods later**	328,129	–	–	–	–	–	–	–	–	–	328,129
Current estimate of cumulative claims	328,129	542,747	718,436	469,105	572,341	649,650	555,115	707,841	935,211	393,827	5,872,402
Cumulative payments to date)	(320,777)	(500,542)	(671,511)	(415,574)	(476,606)	(503,793)	(429,001)	(409,631)	(381,799)	(60,625)	(4,169,859)
Liability recognised at 100% level	7,352	42,205	46,925	53,531	95,735	145,857	126,114	298,210	553,412	333,202	1,702,543
Liability recognised in respect of prior accident years at 100% level											73,886
<b>Total net liability to external parties at 100% level</b>											1,776,429

\* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 30 June 2012.  
\*\* With the exception of the most recent development data for each accident year, which only relates to the six months ending 30 June 2012, the term period refers to one full calendar year.

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

Accident year	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	Total £000
Current estimate of cumulative claims	328,129	542,747	718,436	469,105	572,341	649,650	555,115	707,841	935,211	393,827	5,872,402
Less: attributable to external Names	(72,104)	(128,337)	(176,046)	(97,928)	(115,607)	(118,747)	(89,472)	(102,019)	(121,899)	(46,927)	(1,069,086)
Group share of current ultimate claims estimate	256,025	414,410	542,390	371,177	456,734	530,903	465,643	605,822	813,312	346,900	4,803,316
Cumulative payments to date	(320,777)	(500,542)	(671,511)	(415,574)	(476,606)	(503,793)	(429,001)	(409,631)	(381,799)	(60,625)	(4,169,859)
Less: attributable to external Names	70,549	117,723	162,226	85,145	92,794	85,785	66,905	54,396	47,055	8,093	790,671
Group share of cumulative payments	(250,228)	(382,819)	(509,285)	(330,429)	(383,812)	(418,008)	(362,096)	(355,235)	(334,744)	(52,532)	(3,379,188)
Liability for 2003 to 2012 accident years recognised on Group's balance sheet	5,797	31,591	33,105	40,748	72,922	112,895	103,547	250,587	478,568	294,368	1,424,128
Liability for accident years before 2003 recognised on Group's balance sheet											54,686
<b>Total Group liability to external parties included in the balance sheet, net†</b>											1,478,814

† This represents the claims element of the Group's insurance liabilities and reinsurance assets.

### 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 30 June 2012	6 months to 30 June 2011	Year to 31 Dec 2011
Profit/(loss) for the period attributable to owners of the Company (£000)	<b>124,791</b>	(87,041)	21,272
Weighted average number of ordinary shares in issue (thousands)	<b>389,772</b>	381,999	383,602
Basic earnings per share (pence per share)	<b>32.0p</b>	(22.8)p	5.5p

#### Diluted

Diluted earnings per share is calculated by adjusting 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. If the inclusion of potentially issuable shares would decrease the loss per share, the potentially issuable shares are excluded from the diluted earnings per share calculation.

	6 months to 30 June 2012	6 months to 30 June 2011	Year to 31 Dec 2011
Profit/(loss) for the period attributable to owners of the Company (£000)	<b>124,791</b>	(87,041)	21,272
Weighted average number of ordinary shares in issue (thousands)	<b>389,772</b>	381,999	383,602
Adjustment for share options (thousands)	<b>16,306</b>	–	15,610
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<b>406,078</b>	381,999	399,212
Diluted earnings per share (pence per share)	<b>30.7p</b>	(22.8)p	5.3p

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 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Final dividend for the year ended: 31 December 2011 of 11.9p (net) per share	46,606	–	–
Interim dividend for the year ended: 31 December 2011 of 5.1p (net) per share	–	–	19,738
Final dividend for the year ended: 31 December 2010 of 11.5p (net) per share	–	44,111	44,111
	46,606	44,111	63,849

The final dividend for the year ended 31 December 2011 was part paid in scrip dividend. 562,194 shares were issued for the scrip dividend, with £44,301,000 being paid in cash.

An interim dividend of 6.0p (net) per ordinary share has been declared payable on 19 September 2012 to shareholders registered on 10 August 2012 in respect of the six months to 30 June 2012 (30 June 2011: 5.1p (net) per ordinary share). A scrip dividend alternative will be offered to the owners of the Company. The dividend was approved by the Board on 25 July 2012 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 2012 £000	30 June 2011 £000	31 Dec 2011 £000
Debt and fixed income securities	2,115,527	2,195,319	2,170,588
Equities and shares in unit trusts	181,946	155,283	173,432
Deposits with credit institutions	11,352	5,717	12,848
Total investments	2,308,825	2,356,319	2,356,868
Catastrophe bonds	12,338	11,674	11,639
Derivative instruments	–	76	129
<b>Total financial assets carried at fair value</b>	<b>2,321,163</b>	<b>2,368,069</b>	<b>2,368,636</b>

#### ii) Analysis of financial liabilities

	30 June 2012 £000	30 June 2011 £000	31 Dec 2011 £000
Borrowings from credit institutions carried at amortised cost	–	75,000	–
Derivative financial instruments	219	61	–
<b>Total financial liabilities</b>	<b>219</b>	<b>75,061</b>	<b>–</b>

#### iii) Investment and cash allocation

	30 June 2012 £000	%	30 June 2011 £000	%	31 Dec 2011 £000	%
Debt and fixed income securities	2,115,527	70.8	2,195,319	76.8	2,170,588	75.6
Equities and shares in unit trusts	181,946	6.1	155,283	5.4	173,432	6.0
Deposits with credit institutions/cash and cash equivalents	691,583	23.1	508,671	17.8	529,395	18.4
<b>Total</b>	<b>2,989,056</b>		<b>2,859,273</b>		<b>2,873,415</b>	

### iv) Investment and cash allocation by currency

	30 June 2012 %	30 June 2011 %	31 Dec 2011 %
Sterling	21.5	24.0	21.7
US Dollars	68.3	61.6	67.5
Euro and other currencies	10.2	14.4	10.8

### v) Analysis of government issued and supported debt and bank issued debt by geographic location

#### As at 30 June 2012

Country	Government debt			Bank debt			Total £000
	Issued £000	Supported £000	Sub-total £000	Senior £000	Subordinated £000	Sub-total £000	
United States	395,444	218,275	613,719	67,972	1,340	69,312	683,031
United Kingdom	271,475	18,320	289,795	39,269	2,961	42,230	332,025
Australia	–	11,743	11,743	9,856	300	10,156	21,899
Belgium	23,504	1,563	25,067	–	–	–	25,067
Canada	21,294	40,915	62,209	25,123	2,740	27,863	90,072
Denmark	–	7,786	7,786	876	–	876	8,662
Finland	250	9,591	9,841	–	–	–	9,841
France	23,546	12,250	35,796	13,858	482	14,340	50,136
Germany	10,835	41,848	52,683	3,632	–	3,632	56,315
Italy	–	–	–	3,482	–	3,482	3,482
Netherlands	34,002	8,509	42,511	7,324	735	8,059	50,570
New Zealand	–	269	269	1,694	–	1,694	1,963
Norway	–	5,561	5,561	2,530	–	2,530	8,091
South Korea	2,766	–	2,766	–	–	–	2,766
Spain	–	–	–	1,505	–	1,505	1,505
Sweden	2,218	2,156	4,374	10,867	–	10,867	15,241
Switzerland	–	–	–	11,593	–	11,593	11,593
Supranationals	–	27,520	27,520	–	–	–	27,520
Other	342	598	940	1,515	–	1,515	2,455
<b>Total</b>	<b>785,676</b>	<b>406,904</b>	<b>1,192,580</b>	<b>201,096</b>	<b>8,558</b>	<b>209,654</b>	<b>1,402,234</b>

Included above are £1,204m in relation to debt securities and £198m in relation to cash equivalents, having a maturity of less than three months at the time of purchase.

The Group's exposure to bank debt issued by Spain is rated A and to that in Italy is rated BBB.

### 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:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>As at 30 June 2012</b>				
Debt and fixed income securities	591,268	1,524,259	–	2,115,527
Equities and shares in unit trusts	–	170,461	11,485	181,946
Deposits with credit institutions	11,352	–	–	11,352
Catastrophe bonds	–	12,338	–	12,338
<b>Total</b>	<b>602,620</b>	<b>1,707,058</b>	<b>11,485</b>	<b>2,321,163</b>

# Notes to the condensed consolidated interim financial statements

## continued

### 18 Fair value measurements continued

As at 30 June 2011	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt and fixed income securities	447,163	1,748,156	–	2,195,319
Equities and shares in unit trusts	70	147,000	8,213	155,283
Deposits with credit institutions	5,717	–	–	5,717
Catastrophe bonds	–	11,674	–	11,674
Derivative financial instruments	–	76	–	76
Total	452,950	1,906,906	8,213	2,368,069

As at 31 December 2011	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt and fixed income securities	500,672	1,669,916	–	2,170,588
Equities and shares in unit trusts	–	162,806	10,626	173,432
Deposits with credit institutions	12,848	–	–	12,848
Catastrophe bonds	–	11,639	–	11,639
Derivative financial instruments	–	129	–	129
Total	513,520	1,844,490	10,626	2,368,636

As at 30 June 2012, the Group had derivative financial liabilities of £219,000 which are classified as level 2 (30 June 2011: £61,000, 31 December 2011: £nil).

The levels of the fair value hierarchy are defined by the standard 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 is 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.

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 Mortgage 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 as 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, including event linked future contracts.

### 18 Fair value measurements continued

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 2011.

### 19 Impact of foreign exchange related items

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

	6 months to 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Exchange (losses)/gains recognised in the consolidated income statement	(4,452)	(3,547)	7,816
Exchange (losses)/gains classified as a separate component of equity	(8,399)	(8,550)	11,060
<b>Overall impact of foreign exchange related items on net assets</b>	<b>(12,851)</b>	<b>(12,097)</b>	<b>18,876</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 the end of each period. The impact of this mismatch on the income statement is shown in the table below.

	6 months to 30 June 2012 £000	6 months to 30 June 2011 £000	Year to 31 Dec 2011 £000
Opening balance sheet impact of non retranslation of non monetary items	2,144	(1,251)	(1,251)
Gain/(loss) included within profit representing the non retranslation of non monetary items	(1,532)	2,759	3,395
Closing balance sheet impact of non retranslation of non monetary items	612	1,508	2,144

### 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 £56,458,000 (30 June 2011: £82,690,000; 31 December 2011: £77,203,000) 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 review 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 30 July 2012.

## 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 2012 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 Directors are responsible for ensuring that the condensed set of financial statements included in this Interim Statement have 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 2012 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  
30 July 2012

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.