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# Hiscox Ltd Interim Statement 2014

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## Financial summary

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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

425.6p  
Net asset value  
per share

## Group key performance indicators

Gross premiums written £978.9m (2013: £1,017.9m)

Net premiums earned £643.5m (2013: £628.7m)

Profit before tax £124.6m (2013: £180.7m)

Earnings per share 36.4p (2013: 42.4p)

Interim dividend increased to 7.5p per share (2013: 7.0p)

Net asset value per share 425.6p (2013: 393.3p)

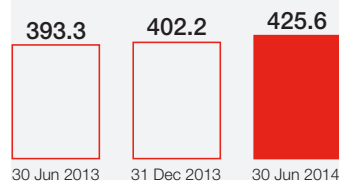
Group combined ratio 82.0% (2013: 74.7%)

Return on equity annualised 18.9% (2013: 25.8%)

Investment return (annualised) 2.0% (2013: 1.5%)

Reserve releases £90.0m (2013: £73.6m)

## Net asset value p per share



## Operational highlights

Strong start to the year with gross premiums written growing by 4.6% in local currency.

Profit before tax of £124.6m impacted by £51m foreign exchange swing (from 2013).

The long-term investment in Hiscox's retail businesses continues to deliver good profitable growth.

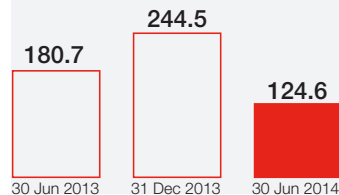
Acquisition of DirectAsia complete.

Hiscox London Market performs well, benefiting from product diversity.

Hiscox Re premium income down by 21.6% (13.0% in local currency) as pressure on rates continues.

Dividend increase of 7.1% per share.

## Profit before tax (£m)



# Chairman's statement

It is very pleasing to report another good profit, £124.6 million in the first half. Despite the early impact of the UK floods and storms the Group benefited from a benign global catastrophe claims environment. The top-line is up 4.6% in local currency but down 3.8% in Sterling following a substantial (21.6%) but expected, reduction in reinsurance income, much of which was offset by good growth through our regional distribution network in the USA, Europe and UK. We have also been affected by foreign exchange movements which, unlike the first half of 2013, have gone against us. It has been a strong start to the year, however we still have a hurricane season to face and earthquakes can happen at any time.

We expect the current soft market to deteriorate further, particularly for larger insurance lines and catastrophe reinsurance. However opportunities continue to present themselves as we pursue our strategy of building balance and diversity in the specialist insurance market. We have good underlying growth in many of these areas, a testament to our long-term investment in the brand.

## Results

The half-year result to 30 June 2014 was a pre-tax profit of £124.6 million (2013: £180.7 million). Gross written premiums reduced to £978.9 million (2013: £1,017.9 million). Net earned premiums were £643.5 million (2013: £628.7 million). The Group was impacted by foreign exchange losses of £16.4 million (2013: gains of £34.9 million). The net combined ratio was 82.0% (2013: 74.7%). Earnings per share were 36.4p (2013: 42.4p) and net assets per share grew to 425.6p (2013: 393.3p). The annualised return on equity was 18.9% (2013: 25.8%).

## Dividend, balance sheet and capital management

The Board of Hiscox Ltd has declared

an interim dividend for 2014 of 7.5p per share (2013: 7.0p) an increase of 7.1%. The record date for the dividend will be 8 August and the payment date will be 17 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. On 11 August a circular will be sent to shareholders with details of the scrip dividend. The final date for making elections in order to be eligible to receive new shares in respect of the interim dividend will be 27 August 2014.

During the period the Group returned capital via a special distribution of £128 million and consolidated its share capital on 18 March, reducing the number of ordinary shares by 11% from 355,203,587 to 316,131,192 (excluding Treasury shares). A final dividend equivalent of 14p per share was paid to coincide with the return of capital, resulting in a total distribution (including interim) to shareholders of £200 million. There is no guarantee of future special distributions however.

Net asset value per share has increased by 5.8% from the year end, and the balance sheet remains strong.

## Rates

After a difficult January, rates in reinsurance continue to decline. The market, already affected by a benign period for catastrophe claims, continues to adjust to new competition. During the 1 April renewals Japanese earthquake rates fell by around 15%. Rates for US property catastrophe business were down on average by 15%. Rates for international business reduced by around 8%.

Rates in insurance lines are either broadly stable or softening. We have transferred some of our catastrophe exposure to areas where rates are

healthy, particularly in binding authority property business written in the London Market.

## Business segments

During 2013 the Group restructured its reinsurance business written by the London, Bermuda and Paris teams and combined them into one operating unit, Hiscox Re. In addition we introduced a single management structure for UK and Europe and brought all retail business under one umbrella. From 1 January 2014 the Group commenced reporting and monitoring its performance along this structure.

- Hiscox Retail: Our retail business areas or local specialty lines, including Hiscox UK and Europe and Hiscox International combine to form Hiscox Retail. Hiscox International comprises Hiscox Guernsey, Hiscox USA and the newly acquired DirectAsia.
- Hiscox London Market: This segment now includes internationally-traded insurance lines only. Reinsurance lines have been combined with our Bermudian product lines to form Hiscox Re.
- Hiscox Re: Reinsurance written by the teams in London, Bermuda and Paris.
- The Corporate Centre division has remained unchanged.

There is no impact to the overall profit before tax or the net asset value of the Group for this restatement.

I cover each segment in turn below:

## Hiscox Retail

The Hiscox Retail segment comprises Hiscox UK and Europe, and Hiscox International.

## Hiscox UK and Europe

This division provides personal lines cover – from high-value household, fine art and collectibles to luxury motor – and commercial insurance for small-

and medium-sized businesses, typically operating in white collar industries. These products are distributed via brokers and through a growing network of partnerships. We distribute cover for some simple risks direct-to-consumer in the UK, France and Germany.

Gross written premiums	£309.4 million (2013: £295.1 million)
Profit before tax	£26.3 million (2013: £44.4 million)
Combined ratio	92.9% (2013: 87.9%)

Hiscox UK and Europe delivered a good result despite the floods and storms in the UK and a small impact from foreign exchange.

In February Steve Langan was promoted to Managing Director of the newly created division, Hiscox UK and Europe, taking on responsibility for the oversight of Europe in addition to the UK and Ireland.

## Hiscox UK and Ireland

Premium income grew by 3.4% to £212.6 million (2013: £205.5 million). The regional network of offices across the UK continues to perform very well, producing good growth and excellent business retention of over 90%. As mentioned previously an emphasis on performance has led to a further reduction of our business with Dual, an independent managing agent.

Overall, the UK experienced a return to normality in claims frequency after a quiet 2013, with the storms and floods in January and February impacting profits. Our brand is built on our claims promise, so we are happy to prove our worth when our clients need us.

Hiscox has been raising concerns over Flood Re, the Government's insurance scheme for those at flood risk. We believe the industry is building a problem for the future as too many people will be excluded from the scheme, including many of our customers. Floods are

devastating, high profile events, and when the next major one occurs insurers will bear the brunt of the blame for the scheme's shortcomings.

We have launched our new Cyber and Data Risks product, which will support those affected by cyber crimes practically as well as financially. Cover includes access to a formidable panel – from lawyers to IT forensic experts – who will be available to help customers get back on their feet.

We continue to invest heavily in marketing and see real value in building a strong brand. Our 'small and the brave' commercial lines campaign continues to deliver good new business for our direct-to-consumer channel and Hiscox UK will return to TV in the autumn.

As announced previously the UK is undertaking a major IT project to replace the legacy system that supports underwriting, policy administration and claims. Progressing according to plan, we expect the project to cost £45 million over four to five years.

Hiscox was recognised for our investment in training and our focus on professional exams as a chartered insurer, winning the Investing in the Profession award at the British Insurance Awards.

## Hiscox Europe

Gross written premiums grew by 8.0% to £96.8 million (2013: £89.6 million), driven mainly by further progress in specialist commercial business and technology, media and directors and officers' lines. Growth was particularly good in Germany as relationships with new broker networks start to deliver. Our businesses in the Benelux and Spain have also done well. In Spain a focus on service and broker relations has improved retention. During the period we intensified efforts around our small office product, building on success we have seen in the UK and Ireland.

Hiscox UK and Europe delivered a good result despite the floods and storms in the UK.



# Chairman's statement

## continued

Hiscox Europe also benefited from a sustained focus on improving expenses and another largely benign period for claims, after having paid a small number of losses from the European hailstorms which devastated many parts of Northern Germany, France and the Benelux.

We continue to invest in our direct operations in Europe where we see good opportunity in the small business product area.

### Hiscox International

This division comprises Hiscox Guernsey, Hiscox USA and DirectAsia.

Gross written premiums	£146.4 million (2013: £128.4 million)
Profit before tax	£11.1 million (2013: £14.5 million)
Combined ratio	92.1% (2013: 85.0%)

### Hiscox Guernsey

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

Despite the competitive market, Guernsey continues to perform well with gross written premiums only down slightly to £34.0 million (2013: £35.8 million). We are maintaining market share in kidnap and ransom business where clients benefit from our expertise and exclusive relationship with Control Risks. Hiscox Guernsey remains focused on distributing specialist products worldwide.

Overall, Hiscox Guernsey has had an uneventful period for claims, however, we have provided for a small impact from repatriation claims due to the recent violence in Iraq.

As well as investing in new marketing and underwriting talent we have brought together different teams across the Group that focus on special risks, including kidnap and ransom and executive security, in a structure

designed to boost local and global collaboration.

### Hiscox USA

Hiscox USA underwrites the small-to mid-market commercial segment through brokers and directly to businesses online and over the phone.

We had another good start, increasing premiums by 16.4% to £107.8 million (2013: £92.6 million), 25.4% in local currency, with continued good claims experience. Every product area grew premium income well except for the property division where the team remains disciplined in the face of strong competition.

In kidnap and ransom we have been creating new opportunities with smaller sized clients, outside of the saturated market for larger risks. We are also now offering general liability and crime as stand-alone products, giving customers the type of flexibility they increasingly want.

We are seeing strong demand for our core errors and omissions and directors and officers' products where we continue to differentiate with our brand and service model.

Ongoing investment in building the Hiscox brand in the US is delivering results with direct-to-consumer policy numbers nearly doubling in 12 months to 65,000. The direct business has also focused on driving growth from our distribution partners by improving service and hunting for new opportunities. These relationships include companies such as Geico and Progressive, who like our specialist expertise in insuring smaller enterprises.

### DirectAsia

At the end of March Hiscox completed the acquisition of DirectAsia, a direct-to-consumer business in Singapore, Hong Kong and Thailand. DirectAsia sells predominantly motor insurance with

ancillary lines in travel, healthcare and life. Hiscox acquired its combined debt and equity of approximately US\$38 million for a total consideration of US\$55 million plus earn out over four years. DirectAsia is Hiscox's first business in Asia and builds on its other direct-to-consumer operations in Europe and the US.

In its first three months as part of the Hiscox Group, DirectAsia continues to make good progress, growing premium income healthily to £4.6 million.

### Hiscox London Market

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

Gross written premiums	£251.7 million (2013: £248.1 million)
Profit before tax	£24.8 million (2013: £48.1 million)
Combined ratio	87.2% (2013: 67.0%)

Hiscox London Market performed well despite strong competition in many lines. Profits were hit by an adverse foreign exchange movement and some medium-sized losses in the marine and energy business.

Excluding any impact from foreign exchange movements, growth was a pleasing 7.9%, driven mainly by opportunities in property lines including binding authority business in the US and international property.

Terrorism business reduced as the team remains disciplined in the face of strong competition. Political unrest and sanctions in Russia has also had an impact on the political risks team as less business comes to the market.

We continue to grow the extended warranty business, particularly in China through our partnership with underwriting agency White Oak. Our automotive physical damage business,

also with White Oak, has benefited from rate increases due to a hardening market mainly in the US. Given its increasing importance to our business, Hiscox recently acquired a 10% stake in White Oak and Richard Watson, our Chief Underwriting Officer, has now joined the White Oak Board.

We continue to develop our e-trading proposition. Our US-focused marine employers' liability and small value household products are both now sold in this way, and we plan to roll-out our terrorism product later this year.

Our London Market business is hunting for opportunities, recently adding a business development executive in Brazil, after similar success in the US. After significantly boosting our casualty team with over seven new hires over the past 18 months this area is performing well, opening up new areas for Hiscox in what remains a challenging market. This includes a new management liability team focused on building our US and international directors and officers' liability business, and we have also bolstered our contingency and personal accident teams.

Despite the deteriorating Costa Concordia market loss, Hiscox remains well reserved and well reinsured. Our net loss remains unchanged at \$19 million.

Hiscox was awarded 'Insurer of the Year' at the Reactions London Market Awards.

### Hiscox Re

The Hiscox Re segment comprises the Group's reinsurance businesses in London, Paris and Bermuda, Insurance Linked Security (ILS) activity and the Bermudian healthcare business.

Gross written premiums	£271.5 million (2013: £346.3 million)
Profit before tax	£75.6 million (2013: £65.6 million)
Combined ratio	41.8% (2013: 56.6%)

Hiscox Re increased profits by 15.2% despite the challenging market. Careful risk selection meant we avoided some of the larger losses in the market and were helped by the absence of any major global catastrophes. However, Hiscox Re does have a small exposure to the February snowstorms in Japan.

Rates in reinsurance have succumbed to pressure from increased competition and a benign period for catastrophes. Gross written premiums reduced as predicted, due to this soft market and our disciplined response.

Our established relationships are serving us well. The team is using their extensive market knowledge to develop new products and these are being well received in the market. Hiscox has a strong track record of underwriting on behalf of others and we continue to enjoy good support from our quota share business partners who like our underwriting expertise and our focus on profit over volume. As a business we have the flexibility to respond to market changes; underwriting in the conventional way, using quota share arrangements or via the Insurance Linked Securities (ILS) market.

Our ILS strategy continues to develop following the launch in January of our two funds – Select and Diversified – under the Chairmanship of Alan Cossar, former Chairman of the Bermuda Monetary Authority. We are seeking new investors in these funds, and are working on a number of potentially bespoke portfolios on behalf of third-parties.

### Investments

The investment performance for the first six months has been much as we expected, given the ongoing low level of interest rates and bond yields and the more subdued returns from equity markets. Following the £178 million return of capital to shareholders in April, assets under management at

Our diversity by geography and product allows us options.

## Chairman's statement continued

30 June 2014 reduced to £2,996 million (2013: £3,153 million) and our investment result, before derivatives, was £30.1 million (2013: £23.3 million), 2.0% on an annualised basis (2013:1.5%).

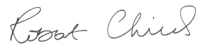
In contrast to the corresponding period last year the majority of our investment income has come from our fixed income portfolios, albeit that the returns achieved remain modest in absolute terms. Most investors have been surprised by the decline in bond yields in the early part of the year and, despite being short duration, our portfolios enjoyed some of that benefit. The majority of the return however, came from the allocation to non-government bonds where credit spreads continued to narrow. Not surprisingly our risk asset portfolio has made a smaller impact but remains a useful contributor to performance.

Our concerns about rising yields have proved unfounded as yet but the timing of the first upward move in official interest rates is clearly under discussion in the US and is more imminent in the UK. We therefore continue to be cautious about taking much duration risk. Investment grade credit remains our preferred source of seeking some extra income and corporate bonds now comprise 32% of the bond portfolios. In a world where monetary policy has boosted most asset values, equities remain relatively attractive, particularly on a longer-term view and we are maintaining our allocation.

### Outlook

The benign claims environment is masking the underlying deterioration in rates and conditions for big ticket insurance and reinsurance. We expect a more normal claims pattern will resume and there will be less money across the market to pay for the losses. Reducing prices represents a challenge for our supporting brokers as they see their margins squeezed and they look for ways to share the pain, asking for increased remuneration from us. We prefer to invest in new products and markets helping us and them to win new business, rather than squeezing the same lemon.

We will continue to navigate these waters as we always have: reducing where competition drives rates to unhealthy levels, and increasing our specialist and direct-to-consumer lines. Our diversity by geography and product allows us options. We continue to invest in the brand, good underwriting and our people. Over 40 years' experience tells me that sticking to what we know and doing it well will deliver long-term value for customers, shareholders and staff.



Robert Childs  
Chairman  
28 July 2014

## Condensed consolidated interim income statement For the six month period ended 30 June 2014

	Note	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
<b>Income</b>				
Gross premiums written	7	978,932	1,017,944	1,699,478
Outward reinsurance premiums		(246,340)	(247,709)	(328,364)
Net premiums written		732,592	770,235	1,371,114
Gross premiums earned		797,117	788,857	1,598,879
Premiums ceded to reinsurers		(153,646)	(160,143)	(315,568)
Net premiums earned		643,471	628,714	1,283,311
Investment result	10	29,218	25,118	59,809
Other revenues	11	9,093	9,927	20,905
Revenue		681,782	663,759	1,364,025
<b>Expenses</b>				
Claims and claim adjustment expenses		(280,684)	(290,545)	(572,440)
Reinsurance recoveries		33,089	54,750	53,161
Claims and claim adjustment expenses, net of reinsurance		(247,595)	(235,795)	(519,279)
Expenses for the acquisition of insurance contracts		(149,304)	(148,454)	(305,777)
Operational expenses	11	(141,461)	(130,220)	(276,965)
Foreign exchange (losses)/gains	20	(16,415)	34,870	(9,890)
Total expenses		(554,775)	(479,599)	(1,111,911)
Results of operating activities		127,007	184,160	252,114
Finance costs	12	(3,175)	(3,843)	(7,176)
Share of profit/(loss) of associates after tax		788	377	(400)
Profit before tax		124,620	180,694	244,538
Tax expense	13	(4,774)	(22,592)	(6,780)
Profit for the period (all attributable to owners of the Company)		119,846	158,102	237,758
Earnings per share on profit attributable to owners of the Company				
Basic	15	36.4p	42.4p	66.3p
Diluted	15	34.8p	40.7p	63.5p

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 2014, after tax

	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Profit for the period	119,846	158,102	237,758
<b>Other comprehensive income</b>			
Items never reclassified to profit or loss:			
Actuarial (losses)/gains on defined benefit plan	(1,558)	9,538	9,775
Income tax relating to components of other comprehensive income	374	(2,478)	(2,865)
	(1,184)	7,060	6,910
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(22,941)	47,966	(2,030)
Income tax relating to components of other comprehensive income	–	–	–
	(22,941)	47,966	(2,030)
<b>Other comprehensive (loss)/income net of tax</b>	(24,125)	55,026	4,880
<b>Total comprehensive income for the year (all attributable to owners of Company)</b>	<b>95,721</b>	<b>213,128</b>	<b>242,638</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 2014

	Note	30 June 2014 £000	30 June 2013 £000	31 Dec 2013 £000
<b>Assets</b>				
Intangible assets		91,896	69,811	72,720
Property, plant and equipment		21,395	17,335	20,219
Investments in associates		10,229	9,431	7,754
Deferred tax		30,862	25,500	32,123
Deferred acquisition costs		230,892	218,204	197,628
Financial assets carried at fair value	18	2,563,129	2,617,314	2,585,054
Reinsurance assets	14	513,957	639,145	458,822
Loans and receivables including insurance receivables		591,474	654,788	493,419
Current tax asset		–	1,513	3,530
Cash and cash equivalents		452,708	556,948	564,375
<b>Total assets</b>		<b>4,506,542</b>	<b>4,809,989</b>	<b>4,435,644</b>
<b>Equity and liabilities</b>				
Shareholders' equity				
Share capital		19,852	20,770	20,854
Share premium		6,942	942	4,953
Contributed surplus		89,864	89,864	89,864
Currency translation reserve		(260)	72,677	22,681
Non controlling interest		866	–	–
Retained earnings		1,215,189	1,205,490	1,271,109
<b>Total equity</b>		<b>1,332,453</b>	<b>1,389,743</b>	<b>1,409,461</b>
Employee retirement benefit obligation		6,512	5,918	4,366
Deferred tax		50,719	110,982	75,946
Insurance liabilities	14	2,739,838	2,918,881	2,609,121
Financial liabilities	18	–	9	229
Current tax		32,801	44,501	32,383
Trade and other payables		344,219	339,955	304,138
<b>Total liabilities</b>		<b>3,174,089</b>	<b>3,420,246</b>	<b>3,026,183</b>
<b>Total equity and liabilities</b>		<b>4,506,542</b>	<b>4,809,989</b>	<b>4,435,644</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 2014

	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Non controlling interest £000	Retained earnings £000	Total £000
Balance at 1 January 2014	20,854	4,953	89,864	22,681	–	1,271,109	1,409,461
Total recognised comprehensive income/(expense) for the period (all attributable to owners of the Company)	–	–	–	(22,941)	–	118,662	95,721
Employee share options:							
Equity settled share based payments	–	–	–	–	–	7,479	7,479
Proceeds from shares issued	30	992	–	–	–	–	1,022
Deferred and current tax	–	–	–	–	–	777	777
C/D Share scheme:							
Return of capital, special distribution (note 17)	–	(35)	–	–	–	(126,049)	(126,084)
Final dividend equivalent (note 17)	–	–	–	–	–	(49,728)	(49,728)
Share consolidation and subdivision (note 17)	(1,032)	1,032	–	–	–	–	–
Shares purchase by Trust (note 17)	–	–	–	–	–	(7,061)	(7,061)
Acquisition of DirectAsia (note 22)	–	–	–	–	866	–	866
Balance at 30 June 2014	19,852	6,942	89,864	(260)	866	1,215,189	1,332,453

	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Non controlling interest £000	Retained earnings £000	Total £000
Balance at 1 January 2013	20,703	41,313	245,005	24,711	–	1,033,634	1,365,366
Total recognised comprehensive income for the period (all attributable to owners of the Company)	–	–	–	47,966	–	165,162	213,128
Employee share options:							
Equity settled share based payments	–	–	–	–	–	5,096	5,096
Proceeds from shares issued	67	2,082	–	–	–	–	2,149
Deferred and current tax	–	–	–	–	–	1,598	1,598
B Share scheme:							
Return of capital, special distribution (note 17)	–	(42,453)	(107,718)	–	–	–	(150,171)
Final dividend equivalent (note 17)	–	–	(47,423)	–	–	–	(47,423)
Balance at 30 June 2013	20,770	942	89,864	72,677	–	1,205,490	1,389,743

	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Non controlling interest £000	Retained earnings £000	Total £000
Balance at 1 January 2013	20,703	41,313	245,005	24,711	–	1,033,634	1,365,366
Total recognised comprehensive income/(expense) for the period (all attributable to owners of the Company)	–	–	–	(2,030)	–	244,668	242,638
Employee share options:							
Equity settled share based payments	–	–	–	–	–	12,523	12,523
Proceeds from shares issued	133	3,990	–	–	–	–	4,123
Deferred and current tax	–	–	–	–	–	5,030	5,030
B Share scheme:							
Return of capital, special distribution (note 17)	–	(42,453)	(107,718)	–	–	–	(150,171)
Final dividend equivalent (note 17)	–	–	(47,423)	–	–	–	(47,423)
Shares issued in relation to Scrip Dividend	18	2,103	–	–	–	–	2,121
Dividends paid to owners of the Company (note 16)	–	–	–	–	–	(24,746)	(24,746)
Balance at 31 December 2013	20,854	4,953	89,864	22,681	–	1,271,109	1,409,461

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 2014

Note	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Profit before tax	124,620	180,694	244,538
Adjustments for:			
Interest and equity dividend income	(21,471)	(22,261)	(42,571)
Interest expense	12 3,175	3,843	7,176
Net fair value (gains)/losses on financial assets and liabilities	(6,090)	2,324	(14,847)
Depreciation and amortisation	6,158	4,399	9,650
Charges in respect of share based payments	7,479	5,096	12,523
Profit from sale of subsidiary	–	–	(1,536)
Other non-cash movements	(1,400)	2,112	925
Effect of exchange rate fluctuations on cash presented separately	12,563	(23,691)	491
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts	13,062	45,601	70,576
Financial assets and liabilities carried at fair value	(12,327)	(136,747)	(170,889)
Other assets and liabilities	(22,403)	(1,956)	4,321
Cash flows from operations	103,366	59,414	120,357
Cash paid to the defined benefit pension scheme	–	–	(1,800)
Interest received	19,420	23,124	41,494
Equity dividends received	1,097	961	789
Interest paid	(3,007)	(2,633)	(5,229)
Current tax paid	(23,021)	(3,931)	(39,712)
<b>Net cash flows from operating activities</b>	<b>97,855</b>	<b>76,935</b>	<b>115,899</b>
Cash flow from the purchase and sale of a subsidiary, net of cash balance	22 (1,277)	–	20,940
Cash flow from sale and purchase of associates	(2,103)	–	600
Cash flows from the purchase of property, plant and equipment	(2,414)	(2,154)	(4,545)
Cash flows from the purchase of intangible assets	(9,314)	(3,741)	(9,594)
<b>Net cash flows from investing activities</b>	<b>(15,108)</b>	<b>(5,895)</b>	<b>7,401</b>
Proceeds from the issue of ordinary shares	1,022	2,149	4,123
Distributions paid to owners of the Company	16, 17 (175,812)	(197,594)	(220,219)
Share purchase	17 (7,061)	–	–
<b>Net cash flows from financing activities</b>	<b>(181,851)</b>	<b>(195,445)</b>	<b>(216,096)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(99,104)</b>	<b>(124,405)</b>	<b>(92,796)</b>
Cash and cash equivalents at 1 January	564,375	657,662	657,662
Net decrease in cash and cash equivalents	(99,104)	(124,405)	(92,796)
Effect of exchange rate fluctuations on cash and cash equivalents	(12,563)	23,691	(491)
<b>Cash and cash equivalents at end of period</b>	<b>21 452,708</b>	<b>556,948</b>	<b>564,375</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 2014 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 consolidated interim financial statements forms the Interim Management Report for the half year ended 30 June 2014.

The Directors of Hiscox Ltd are listed in the Group's 2013 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, HM12, Bermuda.

## 2 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with the Listing Rules issued by the Financial Conduct 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 2013 which are available from the Company's registered office or at [www.hiscoxgroup.com](http://www.hiscoxgroup.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 2013. The report of the independent auditors was not qualified. The amounts presented for the 30 June 2014 and 30 June 2013 periods are unaudited.

These condensed consolidated interim financial statements were approved on behalf of the Board of Directors by the Chief Executive, BE Masojada and the Chief Financial Officer, SJ Bridges. Accordingly the Half Yearly Report to the London Stock Exchange was approved for issue on Monday, 28 July 2014 following receipt of confirmation from the auditors that they had reviewed the final content.

## 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 2013. The consolidated financial statements as at, and for the year ended, 31 December 2013 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.

In preparing these interim financial statements, Management make

judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

## 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 2013. 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.

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, and other third-party balances during the period under review.

As detailed in note 18, the Group's investment allocation is broadly comparable to that at 31 December 2013 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 19 in accordance with IFRS 13 Fair Value Measurement.

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 the Group's 2013 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 2013 Report and Accounts.

## 7 Operating segments

The Group's operating segment reporting follows the organisational structure and management's internal reporting systems, which form the basis for assessing the financial reporting performance of, and allocation of resource to each business segment. During 2013 the Group restructured its reinsurance business written by the

London, Bermuda and Paris teams and combined them into one operating unit, Hiscox Re. In addition we introduced a single management structure for UK and Europe and brought all retail business under one umbrella. From January 2014 the Group commenced reporting and monitoring its performance along these new reporting lines.

The changes from the 2013 structure comprised:

- separating the London Market business unit into insurance and reinsurance lines, forming the London Market Insurance division and combining the reinsurance business with Hiscox Bermuda to make Hiscox Re;
- bringing together Hiscox UK and Europe with Hiscox Guernsey, Hiscox US and the newly acquired DirectAsia business to form Hiscox Retail;
- the Corporate Centre division has remained unchanged.

As a consequence of the change in reportable segments, the corresponding operating results and combined ratios for earlier periods presented have been restated on a comparable basis. There is no impact to the overall profit before tax or the net asset value of the Group for prior periods.

The Group's four revised primary business segments are identified as follows:

**Hiscox Retail** brings together the results of the UK and Europe, and Hiscox International being the US, Guernsey and Asia retail business divisions. Hiscox UK and Europe underwrite European personal and commercial lines of business through Hiscox Insurance Company Limited, together with the fine art and non-US household insurance business written through Syndicate 33. In addition, the UK includes elements of specialty and international employees and officers' insurance written by Syndicate 3624.

Hiscox International comprises the specialty and fine art lines written through Hiscox Insurance Company (Guernsey) Limited, and the motor business written via DirectAsia, together with US commercial, property and specialty business written by Syndicate 3624 and Hiscox Insurance Company Inc. via the Hiscox USA business division.

**Hiscox London Market** comprises the internationally traded insurance business written by the Group's London based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage, auto extended warranty and aviation business.

**Hiscox Re** is the Reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda, London and Paris. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are also included. The segment also captures the performance of Kiskadee, the Hiscox Group's Insurance Linked Securities 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 2013. Corporate Centre forms a reportable segment due to its investment activities which earn significant external returns.

# Notes to the condensed consolidated interim financial statements continued

	Six months to 30 June 2014					Six months to 30 June 2013, restated					Year to 31 December 2013, restated				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000
Gross premiums written	455,775	251,700	271,457	–	978,932	423,505	248,110	346,329	–	1,017,944	819,388	468,587	411,503	–	1,699,478
Net premiums written	418,029	189,463	125,100	–	732,592	385,592	187,586	197,057	–	770,235	751,144	359,941	260,029	–	1,371,114
Net premiums earned	373,352	163,078	107,041	–	643,471	342,587	149,507	136,620	–	628,714	711,081	303,251	268,979	–	1,283,311
Investment result	8,368	6,070	11,169	3,611	29,218	12,418	66	4,318	8,316	25,118	19,134	6,262	14,381	20,032	59,809
Other revenues	3,499	1,852	3,458	284	9,093	3,369	3,670	2,620	286	9,927	7,841	6,426	5,485	1,153	20,905
Revenue	385,219	171,000	121,668	3,895	681,782	358,374	153,243	143,540	8,602	663,759	738,056	315,939	288,845	21,185	1,364,025
Claims and claim adjustment expenses, net of reinsurance	(152,678)	(81,269)	(13,648)	–	(247,595)	(129,142)	(61,029)	(45,624)	–	(235,795)	(299,781)	(136,788)	(82,710)	–	(519,279)
Expenses for the acquisition of insurance contracts	(96,555)	(41,491)	(11,258)	–	(149,304)	(87,058)	(42,476)	(18,920)	–	(148,454)	(188,414)	(86,108)	(31,255)	–	(305,777)
Operational expenses	(96,003)	(16,877)	(16,881)	(11,700)	(141,461)	(85,589)	(14,438)	(17,879)	(12,314)	(130,220)	(184,348)	(27,981)	(41,027)	(23,609)	(276,965)
Foreign exchange (losses)/gains	(2,981)	(6,556)	(3,597)	(3,281)	(16,415)	2,247	12,815	5,438	14,370	34,870	(3,911)	(1,873)	(3,308)	(798)	(9,890)
Total expenses	(348,217)	(146,193)	(45,384)	(14,981)	(554,775)	(299,542)	(105,128)	(76,985)	2,056	(479,599)	(676,454)	(252,750)	(158,300)	(24,407)	(1,111,911)
Results of operating activities	37,002	24,807	76,284	(11,086)	127,007	58,832	48,115	66,555	10,658	184,160	61,602	63,189	130,546	(3,222)	252,114
Finance costs	–	(24)	(718)	(2,433)	(3,175)	–	(25)	(966)	(2,852)	(3,843)	–	(45)	(1,563)	(5,568)	(7,176)
Share of profit/(loss) of associates after tax	373	–	–	415	788	–	–	–	377	377	(423)	–	–	23	(400)
Profit/(loss) before tax	37,375	24,783	75,566	(13,104)	124,620	58,832	48,090	65,589	8,183	180,694	61,179	63,144	128,982	(8,767)	244,538
100% ratio analysis*															
Claims ratio (%)	40.7	48.5	12.4	–	37.9	37.2	38.7	33.7	–	36.8	41.6	43.5	30.9	–	39.8
Expense ratio (%)	51.2	34.4	25.8	–	41.8	50.6	37.0	26.9	–	41.4	52.1	36.8	26.4	–	42.3
Combined ratio excluding foreign exchange impact (%)	91.9	82.9	38.2	–	79.7	87.8	75.7	60.6	–	78.2	93.7	80.3	57.3	–	82.1
Foreign exchange impact (%)	0.8	4.3	3.6	–	2.3	(0.7)	(8.7)	(4.0)	–	(3.5)	0.6	1.1	1.6	–	0.9
Combined ratio (%)	92.7	87.2	41.8	–	82.0	87.1	67.0	56.6	–	74.7	94.3	81.4	58.9	–	83.0
Total assets	1,494,074	1,008,195	1,670,010	334,263	4,506,542	1,507,354	1,008,438	1,815,204	478,993	4,809,989	1,456,419	967,951	1,591,638	419,636	4,435,644
Total liabilities	1,284,804	982,020	819,243	88,022	3,174,089	1,283,613	994,544	1,032,226	109,863	3,420,246	1,281,106	953,263	751,797	40,017	3,026,183

\*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.

†The comparative operating segment results have been restated to reflect the revised structure as discussed in note 7.



# Notes to the condensed consolidated interim financial statements continued

## 8 Net asset value per share

	30 June 2014		30 June 2013		31 Dec 2013	
	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	1,332,453	425.6	1,389,743	393.3	1,409,461	402.2
Net tangible asset value	1,240,557	396.2	1,319,932	373.5	1,336,741	381.4

The net asset value per share is based on 313,090,274 shares (30 June 2013: 353,371,246; 31 December 2013: 350,460,458), 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

	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Profit for the period	119,846	158,102	237,758
Opening shareholders' equity	1,409,461	1,365,366	1,365,366
Adjusted for the time weighted impact of capital distributions and issuance of shares	(86,855)	(63,100)	(134,580)
Adjusted opening shareholders' equity	1,322,606	1,302,266	1,230,786
Annualised return on equity (%)	18.9	25.8	19.3

## 10 Investment result

### i) Analysis of investment result

The total investment result for the Group before taxation comprises:

	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Investment income including interest receivable	21,471	22,261	42,571
Net realised gains on financial investments at fair value through profit or loss	1,657	5,181	2,391
Net fair value gains/(losses) on financial investments at fair value through profit or loss	6,987	(4,133)	13,962
Investment result – financial assets	30,115	23,309	58,924
Fair value (losses)/gains on derivative financial instruments	(897)	1,809	885
Total result	29,218	25,118	59,809

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

### ii) Annualised investment yields

	Six months to 30 June 2014		Six months to 30 June 2013		Year to 31 Dec 2013	
	Return £000	Yield %	Return £000	Yield %	Return £000	Yield %
Debt and fixed income securities	21,211	1.8	1,603	0.1	17,105	0.7
Equities and shares in unit trusts	7,914	7.2	20,304	20.4	39,289	18.3
Deposits with credit institutions/cash and cash equivalents	990	0.4	1,402	0.5	2,530	0.5
	30,115	2.0	23,309	1.5	58,924	1.9

## 11 Other revenues and operational expenses

	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Agency related income	4,277	3,018	7,100
Profit commission	4,313	5,836	9,161
Other underwriting income and insurance linked funds	(286)	265	1,832
Other income	789	808	2,812
Other revenues	9,093	9,927	20,905
Wages and salaries	49,081	49,339	101,780
Social security costs	9,052	9,470	20,498
Pension cost – defined contribution	3,713	3,399	6,593
Pension cost – defined benefit	274	468	1,000
Share based payments	7,479	5,096	12,523
Marketing expenses	15,151	15,014	30,550
Investment expenses	1,865	1,823	3,833
Depreciation and amortisation	6,158	4,399	9,650
Other expenses	48,688	41,212	90,538
Operational expenses	141,461	130,220	276,965

## 12 Finance costs

	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Interest and expenses associated with bank borrowings	905	1,253	2,457
Interest and charges associated with Letters of Credit	1,952	2,064	4,050
Interest charges on experience account	318	526	669
	3,175	3,843	7,176

As at 30 June 2014, the total amount drawn by way of Letter of Credit to support the Funds at Lloyd's requirement was \$338 million (30 June 2013: \$308 million; 31 December 2013: \$333 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:

	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Current tax			
Expense for the year	31,552	43,941	65,950
Adjustments in respect of prior years	(2,121)	3,071	6,475
Total current tax	29,431	47,012	72,425
Deferred tax			
Credit for the year	(24,328)	(24,900)	(49,865)
Adjustments in respect of prior years	(329)	480	(7,500)
Effect of rate change	–	–	(8,280)
Total deferred tax	(24,657)	(24,420)	(65,645)
Total tax charged to the income statement	4,774	22,592	6,780

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 2014 £000	30 June 2013 £000	31 Dec 2013 £000
<b>Gross</b>			
Claims and claim adjustment expenses outstanding	1,804,902	2,005,852	1,853,062
Unearned premiums	934,936	913,029	756,059
<b>Total insurance liabilities, gross</b>	<b>2,739,838</b>	<b>2,918,881</b>	<b>2,609,121</b>
<b>Recoverable from reinsurers</b>			
Claims and claim adjustment expenses outstanding	322,946	460,900	359,946
Unearned premiums	191,011	178,245	98,876
<b>Total reinsurers' share of insurance liabilities</b>	<b>513,957</b>	<b>639,145</b>	<b>458,822</b>
<b>Net</b>			
Claims and claim adjustment expenses outstanding	1,481,956	1,544,952	1,493,116
Unearned premiums	743,925	734,784	657,183
<b>Total insurance liabilities, net</b>	<b>2,225,881</b>	<b>2,279,736</b>	<b>2,150,299</b>

Net claims and claim adjustment expenses include releases of £90 million (30 June 2013: £74 million; 31 December 2013: £140 million) 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**	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year**	644,622	507,508	665,426	739,813	667,677	784,521	977,869	762,718	736,204	373,149	6,859,507
one period later**	738,573	497,050	603,114	660,576	560,180	692,659	912,873	680,832	685,781	–	6,031,638
two periods later**	728,953	480,650	583,154	656,679	534,494	653,593	868,584	663,187	–	–	5,169,294
three periods later**	705,593	440,209	556,610	619,874	535,964	638,927	860,474	–	–	–	4,357,651
four periods later**	696,028	456,519	551,958	588,408	529,588	624,374	–	–	–	–	3,446,875
five periods later**	696,575	445,253	527,060	581,887	531,493	–	–	–	–	–	2,782,268
six periods later**	676,548	438,389	522,438	577,605	–	–	–	–	–	–	2,214,980
seven periods later**	668,322	438,473	514,859	–	–	–	–	–	–	–	1,621,654
eight periods later**	660,913	436,056	–	–	–	–	–	–	–	–	1,096,969
nine periods later**	660,137	–	–	–	–	–	–	–	–	–	660,137
Current estimate of cumulative claims	660,137	436,056	514,859	577,605	531,493	624,374	860,474	663,187	685,781	373,149	5,927,115
Cumulative payments to date	(601,346)	(417,951)	(471,832)	(524,505)	(446,554)	(471,405)	(637,077)	(387,515)	(237,106)	(54,020)	(4,249,311)
Liability recognised at 100% level	58,791	18,105	43,027	53,100	84,939	152,969	223,397	275,672	448,675	319,129	1,677,804
Liability recognised in respect of prior accident years at 100% level											50,884
<b>Total net liability to external parties at 100% level</b>											<b>1,728,688</b>

\*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 30 June 2014.

\*\*With the exception of the most recent development data for each accident year, which only relates to the six months ending 30 June 2014, the term period refers to one full calendar year.

## 14 Insurance liabilities and reinsurance assets continued

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

Accident year	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
Current estimate of cumulative claims	660,137	436,056	514,859	577,605	531,493	624,374	860,474	663,187	685,781	373,149	5,927,115
Less: attributable to external Names	(157,801)	(89,850)	(99,035)	(101,148)	(80,097)	(83,406)	(110,665)	(76,129)	(73,906)	(39,680)	(911,717)
Group share of current ultimate claims estimate	502,336	346,206	415,824	476,457	451,396	540,968	749,809	587,058	611,875	333,469	5,015,398
Cumulative payments to date	(601,346)	(417,951)	(471,832)	(524,505)	(446,554)	(471,405)	(637,077)	(387,515)	(237,106)	(54,020)	(4,249,311)
Less: attributable to external Names	142,622	85,340	89,518	89,842	66,615	58,130	83,124	39,743	18,895	3,803	677,632
Group share of cumulative payments	(458,724)	(332,611)	(382,314)	(434,663)	(379,939)	(413,275)	(553,953)	(347,772)	(218,211)	(50,217)	(3,571,679)
Liability for 2005 to 2014 accident years recognised on Group's balance sheet	43,612	13,595	33,510	41,794	71,457	127,693	195,856	239,286	393,664	283,252	1,443,719
Liability for accident years before 2005 recognised on Group's balance sheet											38,237
<b>Total Group liability to external parties included in the balance sheet, net<sup>†</sup></b>											<b>1,481,956</b>

<sup>†</sup>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.

	Six months to 30 June 2014	Six months to 30 June 2013	Year to 31 Dec 2013
Profit for the period attributable to owners of the Company (£000)	119,846	158,102	237,758
Weighted average number of ordinary shares in issue (thousands)	329,341	372,914	358,652
Basic earnings per share (pence per share)	36.4p	42.4p	66.3p

### 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

# Notes to the condensed consolidated interim financial statements continued

potentially issuable shares are excluded from the diluted earnings per share calculation.

## 15 Earnings per share continued

	Six months to 30 June 2014	Six months to 30 June 2013	Year to 31 Dec 2013
Profit for the period attributable to owners of the Company (£000)	119,846	158,102	237,758
Weighted average number of ordinary shares in issue (thousands)	329,341	372,914	358,652
Adjustment for share options (thousands)	14,553	15,993	15,860
Weighted average number of ordinary shares for diluted earnings per share (thousands)	343,894	388,907	374,512
Diluted earnings per share (pence per share)	34.8p	40.7p	63.5p

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

## 16 Dividends paid to owners of the Company

	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Interim dividend for the year ended: 31 December 2013 of 7.0p (net) per share	–	–	24,746
	–	–	24,746

The final dividend equivalent for the year ended 31 December 2013 was paid as part of the C/D Share Scheme (2012: B Share Scheme), see note 17. 261,555,693 C and 93,647,894 D Shares of 50p each were issued, of which 14p per share was in lieu of a final dividend for 2013 of a cash value of £49,728,000. During 2013, the final dividend equivalent for the year ended 31 December 2012 was settled as 395,188,526 B Shares of 50p each, of which 12p per share was issued in lieu of a final cash dividend of £47,423,000.

The interim dividend for 2013 was either paid in cash or issued as a scrip dividend at the option of the shareholder. The interim dividend for the year ended 31 December 2013 was paid in cash of £22,625,000 and 324,261 shares for the scrip dividend.

An interim dividend of 7.5p (net) per ordinary share has been declared payable on 17 September 2014 to shareholders registered on 8 August 2014 in respect of the six months to 30 June 2014 (30 June 2013: 7.0p (net) per ordinary share). A scrip dividend alternative will be offered to the owners of the Company. The dividend was declared in Bermuda on 25 July 2014 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 Share capital

	30 June 2014		30 June 2013		31 Dec 2013	
	Share capital £000	Number of shares	Share capital £000	Number of shares	Share capital £000	Number of shares
Issued share capital	19,852	330,865,514	20,770	369,704,093	20,854	371,215,489

The amounts presented in the equity structure of the Group above relate to Hiscox Ltd, the legal parent Company. At 30 June 2014, there are approximately 12.6 million ordinary shares held in Treasury.

## 17 Share capital continued

### Changes in Group share capital, contributed surplus, B Shares, C Shares and D Shares

	Ordinary share capital £000	Share premium £000	Contributed surplus £000	B Shares £000	C Shares £000	D Shares £000
At 1 January 2013	20,703	41,313	245,005	–	–	–
Employee share option scheme – proceeds from shares issued	133	3,990	–	–	–	–
Issue of B Shares	–	(42,453)	(155,141)	197,594	–	–
Redemption of B Shares	–	–	–	(197,594)	–	–
Scrip dividends to owners of the Company	18	2,103	–	–	–	–
At 31 December 2013	20,854	4,953	89,864	–	–	–
Employee share option scheme – proceeds from shares issued	30	992	–	–	–	–
Issue of C/D Shares	–	(35)	–	–	128,988	46,824
Redemption of C/D Shares	–	–	–	–	(128,988)	(46,824)
Share consolidation and subdivision	(1,032)	1,032	–	–	–	–
At 30 June 2014	19,852	6,942	89,864	–	–	–

### C/D Share return of capital

On 24 February 2014, the Group announced its intention to return approximately £178 million of share capital, which included a final dividend equivalent of 14.0p per share, £49,728,000, to shareholders by way of a C/D Share issue. This was also combined with a consolidation of Hiscox's existing shares as described below. This was subsequently approved by the shareholders at an Extraordinary General Meeting held on 18 March 2014.

C/D Shares were issued on 19 March 2014 to existing shareholders on the basis of one C/D Share (at the choice of the shareholder) for each ordinary share held on 18 March 2014. Each C Share enabled the shareholder to receive a dividend of 50p per share at 9 April 2014. Alternatively the shareholder could elect to receive a D Share of 50p which were sold for 50 pence each to UBS Limited, pursuant to the purchase offer on 7 April 2014. Following the purchase of the D Shares by UBS Limited from shareholders, UBS exercised its put option and the Group was required to purchase the D Shares for 50p per share.

There were no C/D Shares outstanding at 30 June 2014 as all shares have been redeemed and cancelled.

Total capital of £175,812,000 has been returned to shareholders, of which £35,000 has been charged against share premium and the remaining £175,777,000 has been charged against retained earnings. An additional £1,789,000 of C Shares were distributed to the Employee Benefit Trust. The amount is not reported as a distribution as the trust forms part of the consolidated result.

To ensure the return of capital maintained the net tangible asset per share pre and post the return of capital, a share consolidation was also performed. Each existing ordinary share in Hiscox Ltd was subdivided into 89 ordinary shares of par value 500/7921p each and then these were further subdivided so that 100 of such shares were consolidated into one new share of 6 2474/7921p. Finally the 6 2474/7921p share was split into one new ordinary share of 6p and one deferred share of 2474/7921p. The deferred shares carried almost no economic benefit and no voting rights and had no value. The deferred shares were purchased and cancelled by the Group on 9 April 2014.

### Share repurchase

The Trustees of the Group's Employee Benefit Trust purchased Hiscox Ltd shares through the market during the period to facilitate the settlement of vesting awards under the Group's performance share plan. As the trust is consolidated into the Group financial results, these purchases have been accounted for in the same way as treasury shares and have been charged against retained earnings. The shares are held by the Trustees for the beneficiaries of the trust.



# Notes to the condensed consolidated interim financial statements continued

## 18 Financial assets and liabilities

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

	30 June 2014 £000	30 June 2013 £000	31 Dec 2013 £000
Debt and fixed income securities	2,312,367	2,372,699	2,335,829
Equities and shares in unit trusts	223,001	212,123	223,024
Deposits with credit institutions	8,216	11,464	6,240
Total investments	2,543,584	2,596,286	2,565,093
Insurance linked fund	19,377	20,007	19,917
Derivative financial instruments	168	1,021	44
<b>Total financial assets carried at fair value</b>	<b>2,563,129</b>	<b>2,617,314</b>	<b>2,585,054</b>

### ii) Analysis of financial liabilities

	30 June 2014 £000	30 June 2013 £000	31 Dec 2013 £000
Derivative financial instruments	–	9	229
<b>Total financial liabilities</b>	<b>–</b>	<b>9</b>	<b>229</b>

### iii) Investment and cash allocation

	30 June 2014 £000	%	30 June 2013 £000	%	31 Dec 2013 £000	%
Debt and fixed income securities	2,312,367	77.2	2,372,699	75.3	2,335,829	74.6
Equities and shares in unit trusts	223,001	7.4	212,123	6.7	223,024	7.1
Deposits with credit institutions/cash and cash equivalents	460,924	15.4	568,412	18.0	570,615	18.3
<b>Total</b>	<b>2,996,292</b>		<b>3,153,234</b>		<b>3,129,468</b>	

### iv) Investment and cash allocation by currency

	30 June 2014 %	30 June 2013 %	31 Dec 2013 %
Sterling	24.0	26.3	25.4
US Dollars	59.5	59.0	59.8
Euro and other currencies	16.5	14.7	14.8

## 19 Fair value measurements

In accordance with IFRS 13 Fair Value Measurement, 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 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt and fixed income securities	419,601	1,892,766	–	2,312,367
Equities and shares in unit trusts	–	208,249	14,752	223,001
Deposits with credit institutions	8,216	–	–	8,216
Insurance linked fund	–	–	19,377	19,377
Derivative financial instruments	–	168	–	168
<b>Total</b>	<b>427,817</b>	<b>2,101,183</b>	<b>34,129</b>	<b>2,563,129</b>

## 19 Fair value measurements continued

As at 30 June 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt and fixed income securities	836,982	1,535,717	–	2,372,699
Equities and shares in unit trusts	–	198,469	13,654	212,123
Deposits with credit institutions	11,464	–	–	11,464
Insurance linked fund	–	–	20,007	20,007
Derivative financial instruments	–	1,021	–	1,021
<b>Total</b>	<b>848,446</b>	<b>1,735,207</b>	<b>33,661</b>	<b>2,617,314</b>

### As at 31 December 2013

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt and fixed income securities	875,882	1,459,947	–	2,335,829
Equities and shares in unit trusts	–	208,960	14,064	223,024
Deposits with credit institutions	6,240	–	–	6,240
Insurance linked fund	–	–	19,917	19,917
Derivative financial instruments	–	44	–	44
<b>Total</b>	<b>882,122</b>	<b>1,668,951</b>	<b>33,981</b>	<b>2,585,054</b>

In addition, the contingent consideration payable of £470,000 in respect of the DirectAsia acquisition is measured at fair value based on Level 3 inputs, see note 22. There was no such balance in 2013.

As at 30 June 2014, the Group had no derivative financial liabilities (30 June 2013: £9,000; 31 December 2013: £229,000, both classified as Level 2).

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 market observable 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.

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. 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.

# Notes to the condensed consolidated interim financial statements

## continued

### 19 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 initially carried at cost in the absence of observable pricing information, 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. The Group invested into the insurance linked fund in December 2012, which is subject to a two-year initial lock-up period. The fund specialises in catastrophe reinsurance opportunities. The fair value of the fund is estimated to be the net asset value reported by the fund administrator at the balance sheet date. This net asset value is based on the fair value of the underlying insurance contracts in the fund which are sensitive to estimates of insurances losses that have occurred. A change in these estimates could have a material impact on the valuation of the fund.

In certain cases, the inputs used to measure the fair value of a financial instrument may fall into more than one level 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. The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy:

	2014			2013		
	Equities and shares in unit trusts £000	Insurance linked fund £000	Total £000	Equities and shares in unit trusts £000	Insurance linked fund £000	Total £000
Balance at 1 January	14,064	19,917	33,981	13,535	8,098	21,633
Fair value gains or losses through profit or loss	2,389	(286)	2,103	36	265	301
Foreign exchange losses	(81)	(254)	(335)	83	895	978
Purchases	–	–	–	–	10,749	10,749
Settlements	(1,620)	–	(1,620)	–	–	–
<b>Balance at 30 June</b>	<b>14,752</b>	<b>19,377</b>	<b>34,129</b>	<b>13,654</b>	<b>20,007</b>	<b>33,661</b>

### 20 Impact of foreign exchange related items

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

	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Exchange (losses)/gains recognised in the consolidated income statement	(16,415)	34,870	(9,890)
Exchange (losses)/gains classified as a separate component of equity	(22,941)	47,966	(2,030)
<b>Overall impact of foreign exchange related items on net assets</b>	<b>(39,356)</b>	<b>82,836</b>	<b>(11,920)</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 on the next page.

### 20 Impact of foreign exchange related items continued

	Six months to 30 June 2014 £000	Six months to 30 June 2013 £000	Year to 31 Dec 2013 £000
Opening balance sheet impact of non-retranslation of non-monetary items	(4,790)	(2,674)	(2,674)
Gains/(losses) included within profit representing the non-retranslation of non-monetary items	1,945	5,211	(2,116)
Closing balance sheet impact of non-retranslation of non-monetary items	(2,845)	2,537	(4,790)

### 21 Condensed consolidated interim cash flow statement

The purchase, maturity and disposal of financial assets and liabilities, including derivatives, is part of the Group's insurance activities and is therefore classified as an operating cash flow.

Included within cash and cash equivalents held by the Group are balances totalling £114,077,000 (30 June 2013: £104,648,000; 31 December 2013: £113,312,000) not available for use by the Group outside of the Lloyd's Syndicates within which they are held.

### 22 Business combinations

#### DirectAsia

On 31 March 2014, the Group acquired 100% of the share capital and voting rights of Direct Asia Insurance (Holdings) Pte Ltd (DirectAsia) for US\$24,575,000 (£14,804,000). In addition the Group purchased the outstanding debt of the company totalling US\$31,750,000 (£19,127,000) from the previous owners. DirectAsia's primary business is motor insurance, with ancillary lines in travel, personal accident, healthcare and life. This acquisition provides the Group with a distribution platform in Asia providing opportunities for future growth.

#### Purchase consideration

	£000
Initial cash consideration	14,334
Contingent consideration	470
<b>Total purchase consideration</b>	<b>14,804</b>
Fair value of net assets acquired	13,591
Less non-controlling interest	(866)
<b>Goodwill</b>	<b>2,079</b>

The contingent consideration reflected above of £470,000, represents the current fair value estimate of the expected additional consideration that may be payable to the seller. The contingent consideration is payable based on DirectAsia exceeding certain revenue targets during the first four years post the acquisition.

Whilst the Group acquired 100% of the share capital and voting rights of the parent company Direct Asia Insurance (Holdings) Pte Ltd, within the DirectAsia group there exists an equity interest by a third party. This has been accounted for as a non-controlling interest in accordance with IFRS 3. The value of the interest is calculated at fair value.

# Notes to the condensed consolidated interim financial statements continued

## 22 Business combinations continued

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount £000	Fair value and accounting policy adjustments £000	Fair value £000
Intangible assets	3,257	9,799	13,056
Property, plant and equipment	670	–	670
Reinsurance assets	4,678	–	4,678
Loans and receivables, including insurance receivables	5,113	–	5,113
Cash and cash equivalents	32,184	–	32,184
<b>Total assets</b>	<b>45,902</b>	<b>9,799</b>	<b>55,701</b>
Insurance liabilities	17,437	–	17,437
Trade and other payables	5,546	–	5,546
Long term liabilities	19,127	–	19,127
<b>Total liabilities</b>	<b>42,110</b>	<b>–</b>	<b>42,110</b>
<b>Net assets acquired</b>	<b>3,792</b>	<b>9,799</b>	<b>13,591</b>

The assets and liabilities as at the acquisition date are stated at their provisional fair values and may be amended during the year if further evidence of the appropriate fair value is received.

The goodwill shown above is primarily from acquiring the skilled workforce of DirectAsia who will provide strong insight into operating in these new territories.

DirectAsia contributed a loss of £2,144,000 to the Group's profit before tax for the period between 31 March 2014 and 30 June 2014. If the acquisition of DirectAsia had been completed on the first day of the financial year, the Group result for the period would have been a profit before tax of £122,816,000 and the gross written premium would have been £983,297,000.

### Associates

On 11 June 2014 the Group acquired a 10% stake in White Oak Underwriting Agency Limited (White Oak) for £1,700,000. White Oak specialise in auto extended warranty and auto physical damage business.

Additionally, on 28 May 2014, the Group acquired a 10% stake in Carl Rieck GmbH, a German intermediary, for €500,000. Carl Rieck underwrite high net worth private clients, professional indemnity and specialist commercial business.

# Directors' responsibilities 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 Conduct 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 Chief Executive, BE Masojada and the Chief Financial Officer, SJ Bridges. Accordingly the Half Yearly Report to the London Stock Exchange was approved for issue on Monday, 28 July 2014 following receipt of confirmation from the auditors that they had reviewed the final content.



# Independent review report 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 2014 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 Conduct Authority ('the UK FCA'). 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 FCA.

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 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

KPMG Audit Limited  
Hamilton  
Bermuda  
28 July 2014

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.