Hiscox Ltd Interim Statement 2009

Contents

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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

27.5%
Return on equity

Financial highlights

Gross written premiums increased by 41.7% to £906.0m (2008: £639.4m)

Record interim pre-tax profits of £141.4m (2008: £109.2m)

Profit before tax and FX* £243.7m (2008: £114.9m)

Earnings per share up 53% to 33.2p (2008: 21.7p)

Interim dividend increased by 5.9% to 4.5p per share (2008: 4.25p)

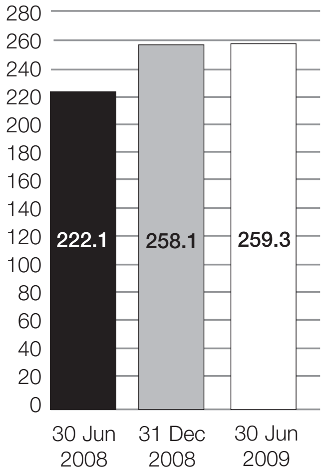
Group combined ratio 88.3% (2008: 79.7%); improved combined ratio in each division

Group combined ratio before monetary FX 79.5% (2008: 81.0%)

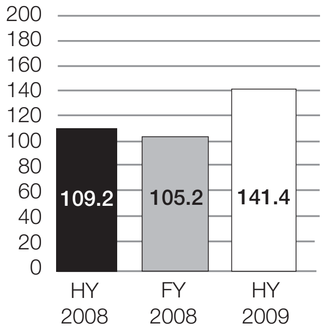
Return on equity 27.5% (2008: 21.8%)

*excludes foreign exchange losses arising on monetary items of £42.8m (2008: £9.6m profit) and includes an uplift of £59.5m to adjust for the impact of the non retranslation of non-monetary items (2008: £15.3m), as described in note 19.

Net asset value per share (p)



Profit before tax (£m)



Chairman's statement

Another record first half year result reinforces the strength of the Hiscox business and its resilience to the continuing international financial turmoil. This was achieved, despite adverse currency fluctuations, by strong underwriting results from Global Markets, Bermuda and Guernsey and by greatly improved investment returns.

Insurance rates remain very strong in the obvious catastrophe prone areas. However, they are weaker in non-catastrophe business as underwriters worldwide seek diversity, and those who have reduced their catastrophe exposures seek to replace the income. Competition is normal and disappears only occasionally for a short while following an abnormal event - but you would think that the financial crisis and credit crunch was such an event. Hiscox has a good business mix for these market conditions with around half our account in the high rate areas, and with our specialist emphasis giving us an edge in our regional businesses.

Results

Record profits before tax for the half year to 30 June 2009 of £141.4 million (2008: £109.2 million). Gross written premiums have increased to £906.0 million (2008: £639.4 million). Net earned premium increased to £565.2 million (2008: £486.8 million). The combined ratio increased to 88.3% (2008: 79.7%) and decreased before monetary FX to 79.5% (2008: 81.0%). Earnings per share increased to 33.2p (2008: 21.7p) and net assets per share rose to 259.3p (2008: 222.1p).

The rise in net asset value since the year end has been achieved despite a considerable reduction from the strengthening Pound against the US Dollar. We are in the middle of the hurricane season and the financial markets continue to be challenging, but this strong start to the year bodes well.

Dividend, balance sheet and capital management

In line with our policy of progressive dividend increases, the Board has approved an increase in the interim dividend of 5.9% to 4.5p per share (2008: 4.25p per share) which will be paid on 6 October 2009 to shareholders on the register at the close of business on 4 September 2009.

The Group is in a strong financial position with no significant changes to the balance sheet since the 2008 year end. Following our successful share buyback last year, we have not made any further purchases this year as the share price rightly moved above net asset value. We remain focussed on generating a high return on our equity and growing the net asset value per share for our shareholders. In that regard, we did not raise equity earlier in the year as we have sufficient capital to take advantage of the opportunities we are currently pursuing.

Overall comment

The general insurance industry has weathered the financial storm well (with some notable exceptions). Apart from some modest rights issues (and it is usually better to have money put into existing players than into new ones), exceptionally little capital has entered the industry so we are not assaulted by the usual fresh capacity full of optimism but empty of experience. However, despite what should be a firming market due to shortage of capital, some existing players are competing for non-catastrophe prone business to an unnecessary extent. We are in a hard market for any business exposed to catastrophes and a weaker market in standard non-catastrophe lines. The strength of our business is its balance which enables us currently to profit from the high catastrophe rates in a large part of our account, whilst keeping our tinder dry on the non-catastrophe business and focusing on our specialist areas in which we have competitive advantages.

Hiscox has a good business mix for these market conditions.

Our regional businesses have generally performed well, but Europe has suffered from some large individual losses which have distorted figures in the short term. The strategy remains firmly in place to grow those businesses to balance the internationally traded large and catastrophe-exposed business. We continued to make a big push into the USA acquiring new staff and opening new offices. The near break-even result there is extremely encouraging considering the costs of setting up and is a testament to their underwriting.

In our investment portfolio, David Astor, our chief investment officer, held his nerve and his faith that our investments would weather the credit crisis has been rewarded.

Hiscox Global Markets

This division uses the global licences, distribution network and credit rating available through Lloyd's to serve clients throughout the world. It has underwriting bases in London, Paris, New York and San Francisco.

Profit before tax	£77.3 million (2008: £80.4 million)
Gross written premiums	£485.4 million (2008: £344.3 million)
Combined ratio	88.7% (2008: 75.7%)
Combined ratio before monetary FX	70.6% (2008: 76.0%)

GWP increased by 41% in Sterling and 11% at static exchange rates. This has been driven by the strong reinsurance and energy rates, offset by caution on property and global errors and omissions where we wanted higher prices.

A strong profit, albeit less than last year at the same time due to the effect of foreign exchange, last year's lower 2008 rates earning through and some losses on political risk business, mitigated by reserve releases from the Professional Indemnity and Marine accounts on older underwriting years. The combined ratio has also been affected by the weakening of the US Dollar since the year end and the resulting foreign exchange loss. Stripping out foreign exchange, the combined ratio improved from 76.0% to 70.6%.

As usual, I am writing this in the middle of the wind season, and Mother Nature likes to be unpredictable. I read that El Nino is back which is bad for local flooding and droughts, but reduces the likelihood of Atlantic and Gulf of Mexico hurricanes.

The capacity of Syndicate 33 will be increased to £1 billion for 2010 (2009: £750 million). In addition, we manage two smaller syndicates, Cougar Syndicate 6104 (with a capacity of £43 million in 2009) supported fully by third-party capital to underwrite catastrophe business, and Syndicate 3624 (with a capacity of £80 million in 2009) supported entirely by Hiscox capital to take business from our new US expansion.

Hiscox International

This division covers Bermuda, the USA and Guernsey.

Profit before tax	£71.5 million (2008: £20.3 million)
Gross written premiums	£200.6 million (2008: £117.0 million)
Combined ratio	62.6% (2008: 84.6%)
Combined ratio before monetary FX	72.3% (2008: 86.1%)

Bermuda: Gross written premiums increased 74% including the effect of the strengthening Dollar since June last year, or 32% at static exchange rates. The underwriters took advantage of hardening rates when in the first half last year they were cutting back due to weakening rates.

Guernsey: Gross written premiums increased by 61% including currency fluctuations and 22% without, helped by the new Marine Piracy business. A partnership between the Kidnap team in Guernsey and the London Marine team pioneered a marine piracy policy in rapid response to the need in the Gulf of Aden with great success.

USA: Gross written premiums grew 75% in Sterling or 33% in original currency. The quality of Ed Donnelly and his team's underwriting has shown up already with the release of reserves cautiously made in his first years of 2006-7, in particular from the Miscellaneous Errors and Omissions, Allied Healthcare and Technology and Media accounts. Work continues apace to obtain licences to underwrite admitted business through our own insurance company, Hiscox Insurance Company Inc., in addition to the surplus lines business we can underwrite through Syndicate 33 and Syndicate 3624.

7%
Strong annualised return on investments

Chairman's statement
continued

A substantial proportion of our business has always come from the USA but been written in London. We are now building a significant on-shore business there with some excellent new people and some seasoned warriors from London.

Hiscox UK and Europe
This segment covers our regional businesses throughout the UK and mainland Europe.

Profit before tax	£4.5 million (2008: £16.3 million)
Gross written premiums	£220.1 million (2008: £178.0 million)
Combined ratio	105.7% (2008: 86.3%)
Combined ratio before monetary FX	102.4% (2008: 90.4%)

UK: GWP increased by a strong 20%, and did well to have an improved result on last year despite the January freeze losses in the household account.

We continue to build the brand, this year with extensive print, poster and online advertising (but not on TV). This continues to generate good business with growth of our direct business up around 50% at the half year. Our marketing campaign also benefits the broker market not only from the fast increasing brand awareness but also by reinforcing the message that we sell on service and not price.

The UK is leading the drive in our regional businesses to cut costs as, although the underwriting ratios are good, reducing the cost of doing business through operating efficiency and scale can add significantly to the profit.

Europe: GWP increased by 32% year on year including currency fluctuations or 11% without. Our European offices looked set fair at the last year end for future profitable growth. During the period they have had a series of large, unrelated losses which have had a bad short term effect on the figures. Whilst not significant in terms of the whole Group, they are disappointing to the European teams, but under the new leadership of Pierre-Olivier Desaulle, I am confident their disciplined underwriting will have them back on profit track in no time.

Investments
Assets under management at 30 June 2009 totalled £2,379 million (2008: £1,931 million) and the yield for the half year was 7% annualised (2008: 1.6%), giving an investment return on financial assets of £85.4 million (2008: £16.5 million).

After the extraordinary investment challenges of 2008 and the first quarter of 2009, it is satisfactory to report a healthy return for the first half of the year. We held on to solid investments which were marked down heavily at the depths of the credit crisis, and they have recovered sharply.

The safest investments of cash and government securities are now offering very poor returns, but we have to remain cautious which will reduce investment yields. In the current environment, we prefer credit risk to interest rate risk and have taken advantage of attractive spreads to increase our exposure to investment grade corporate bonds. Duration remains short as the next move in interest rates is likely to be up. Our equity portfolio is modest and has outperformed the broader indices comfortably but we are unlikely to add to it meaningfully while the outlook is still gloomy. Warren Buffett's analogy that *"we may have got past Pearl Harbour but we are still fighting a war"* is apt and we expect further volatility.

People
It is incredibly satisfying to have been able to fill four senior appointments from within. Richard Watson, previously head of Global Markets in London, has relocated to the USA to lead our expansion there, and has been replaced by the senior reinsurance underwriter, Russell Merrett. Charles Dupplin has relocated from London to be CEO of our Bermuda operation. Pierre-Olivier Desaulle, the managing director of our French operation has become head of Europe.

We have been recruiting and retaining excellent people for a number of years, and their willingness to move around the Group, both geographically and between sectors, is a real strength. The credit crunch has enhanced the attractions of the insurance industry and we strive to be an employer of choice.

Robert Childs has returned to the UK having set up the Bermuda and USA operations (we owe him a big thank you) and is concentrating fully on the vital role of Chief Underwriting Officer. With Bronek Masojada, the CEO, and Stuart Bridges, the CFO, they make a formidable top team with 50 years experience at Hiscox. (And if you add my experience, you get 94 years).

Outlook
This time last year we had a weakening in catastrophe business and strong results from our regional businesses. The tide turned at the end of last year for the catastrophe business and it has remained high, but it has ebbed elsewhere this year against logic. I am sure when insurance company CEOs analyse their underwriting figures they will crack a whip and insist on more discipline, but at present the cycle is alive and well, albeit split.

One strength of our business is its diversity and its focus. We focus on areas of business we know well, both volatile and non-volatile, and spread them into geographical areas where we have done business for decades. The other strength, the core strength, is the quality of our people. The combination is powerful and I look forward to the future with confidence.

Robert Hiscox

Robert Hiscox
Chairman
25 August 2009

Condensed consolidated interim income statement
For the six month period ended 30 June 2009

	Note	6 months to 30 June 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Income				
Gross premiums written	7	**906,029**	639,360	1,147,364
Outward reinsurance premiums		**(190,876)**	(125,413)	(216,900)
Net premiums written		**715,153**	513,947	930,464
Gross premiums earned		**668,169**	574,934	1,171,511
Premiums ceded to reinsurers		**(103,004)**	(88,111)	(218,491)
Net premiums earned		**565,165**	486,823	953,020
Investment result - financial assets	10	**85,433**	16,455	(27,632)
Investment result - derivatives	10	**2,476**	821	(52,978)
Other revenues	11	**8,228**	8,381	19,858
Revenue		**661,302**	512,480	892,268
Expenses				
Claims and claim adjustment expenses, net of reinsurance		**(231,071)**	(206,980)	(479,380)
Expenses for the acquisition of insurance contracts		**(147,619)**	(125,792)	(252,868)
Administration expenses		**(47,566)**	(38,750)	(83,198)
Other expenses	11	**(48,409)**	(37,813)	(76,499)
Foreign exchange (losses)/gains	19	**(42,820)**	9,594	109,755
Total expenses		**(517,485)**	(399,741)	(782,190)
Results of operating activities		**143,817**	112,739	110,078
Finance costs	12	**(2,429)**	(3,556)	(5,158)
Share of profit of associates after tax		**-**	38	260
Profit before tax		**141,388**	109,221	105,180
Tax expense	13	**(19,309)**	(24,869)	(34,372)
Profit for the period (all attributable to owners of the Company)		**122,079**	84,352	70,808
Earnings per share on profit attributable to owners of the Company				
Basic	15	**33.2p**	21.7p	18.8p
Diluted	15	**31.8p**	20.9p	18.1p

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 2009, after tax

	6 months to 30 June 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Profit for the period	**122,079**	84,352	70,808
Other comprehensive income			
Currency translation differences (net of tax of £nil (30 June 2008: £nil, 31 Dec 2008: £nil))	**(78,075)**	(1,093)	151,179
Net investment hedge (net of tax of £nil (30 June 2008: £325,000, 31 Dec 2008: £238,000))	**-**	(835)	(597)
Total other comprehensive (expense)/income	**(78,075)**	(1,928)	150,582
Total comprehensive income recognised (all attributable to owners of the Company)	**44,004**	82,424	221,390

Condensed consolidated interim balance sheet
At 30 June 2009

	Note	30 June 2009 £000	30 June 2008 £000	31 December 2008 £000
Assets				
Intangible assets	20	**49,775**	41,547	48,557
Property, plant and equipment		**19,120**	21,035	19,668
Investments in associates		**7,200**	4,924	7,200
Deferred acquisition costs		**172,991**	137,496	131,130
Financial assets carried at fair value	17	**1,945,448**	1,639,526	2,081,772
Reinsurance assets	14	**508,012**	315,510	487,720
Loans and receivables including insurance receivables		**592,496**	442,319	494,315
Current tax		**-**	-	26,289
Cash and cash equivalents		**434,099**	291,554	440,622
Total assets		**3,729,141**	2,893,911	3,737,273
Equity and liabilities				
Shareholders' equity				
Share capital		**20,115**	19,989	20,067
Share premium		**10,701**	7,254	9,418
Contributed surplus		**320,300**	367,693	352,078
Currency translation reserve		**29,242**	(45,193)	107,317
Retained earnings		**584,493**	467,835	462,146
Total equity (all attributable to owners of the Company)		**964,851**	817,578	951,026
Deferred tax		**20,134**	34,136	68,649
Insurance liabilities	14	**2,289,707**	1,824,711	2,277,416
Financial liabilities	17	**98,000**	19	143,350
Current tax		**34,790**	11,736	-
Trade and other payables		**321,659**	205,731	296,832
Total liabilities		**2,764,290**	2,076,333	2,786,247
Total equity and liabilities		**3,729,141**	2,893,911	3,737,273

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 2009

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

	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2008	19,898	4,955	398,834	(43,265)	443,882	824,304
Total recognised comprehensive income/(expense) for the period (all attributable to owners of the Company)	-	-	-	(1,928)	84,352	82,424
Employee share options:						
Equity settled share-based payments	-	-	-	-	2,778	2,778
Proceeds from shares issued	91	2,299	-	-	-	2,390
Purchase of own shares held in treasury	-	-	-	-	(60,428)	(60,428)
Deferred tax	-	-	-	-	(2,749)	(2,749)
Dividends paid to owners of the Company (note 16)	-	-	(31,141)	-	-	(31,141)
Balance at 30 June 2008	19,989	7,254	367,693	(45,193)	467,835	817,578

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 2009

	Note	6 months to 30 June 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Profit before tax		**141,388**	109,221	105,180
Adjustments for:				
Interest and equity dividend income		**(36,568)**	(42,169)	(92,227)
Interest expense	12	**2,429**	3,556	5,158
Net fair value (gains)/losses on financial investments, derivatives and borrowings		**(40,821)**	33,428	180,085
Depreciation		**2,797**	2,402	5,323
Charges in respect of share based payments		**2,049**	2,778	5,269
Other non-cash movements		**(1,842)**	(1,229)	(766)
Effect of exchange rate fluctuations on cash presented separately		**38,154**	(4,164)	(62,086)
Changes in operational assets and liabilities:				
Insurance and reinsurance contracts		**(88,751)**	2,745	281,633
Financial assets		**63,266**	74,873	(284,069)
Financial liabilities		**(48,430)**	-	-
Other assets and liabilities		**753**	(28,551)	(10,474)
Cash flows from operations		**34,424**	152,890	133,026
Interest received		**33,956**	40,441	89,608
Equity dividends received		**2,612**	1,727	2,619
Interest paid		**(2,240)**	(4,023)	(5,327)
Current tax paid		**(8,526)**	(16,208)	(18,982)
Net cash flows from operating activities		**60,226**	174,827	200,944
Cash outflow from the acquisition of subsidiary	20	**-**	(1,225)	(3,137)
Cash outflow from the sale of subsidiary	20	**-**	-	(42)
Cash outflow from the acquisition of associates		**-**	(3,384)	(5,438)
Cash flows from the purchase of property, plant and equipment		**(4,644)**	(4,009)	(4,521)
Cash flows from the purchase of intangible assets		**(2,949)**	-	(3,530)
Net cash flows from investing activities		**(7,593)**	(8,618)	(16,668)
Proceeds from the issue of ordinary shares		**1,331**	2,390	4,632
Cash flows from purchase of own shares including those arising on share buy-back programme		**-**	(60,428)	(65,066)
Dividends paid to owners of the Company	16	**(31,778)**	(31,141)	(46,756)
Net increase/(repayments) of borrowings and financial liabilities		**9,445**	(92,382)	(1,292)
Net cash flows from financing activities		**(21,002)**	(181,561)	(108,482)
Net increase/(decrease) in cash and cash equivalents		**31,631**	(15,352)	75,794
Cash and cash equivalents at 1 January		**440,622**	302,742	302,742
Net increase/(decrease) in cash and cash equivalents		**31,631**	(15,352)	75,794
Effect of exchange rate fluctuations on cash and cash equivalents		**(38,154)**	4,164	62,086
Cash and cash equivalents at end of period	21	**434,099**	291,554	440,622

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 2009 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 2009.

The Directors of Hiscox Ltd are listed in the Group’s 2008 Report and Accounts. A list of current Directors is maintained and available for inspection at the registered office of the Company located at 4th Floor, Wessex House, 45 Reid Street, Hamilton, Bermuda HM 12. There have been no changes in the composition of the Board of Directors during the period under review.

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 2008 which are available from the Company’s registered office or at www.hiscox.com. Except where otherwise indicated, all amounts are presented in Pounds Sterling, rounded to the nearest thousand.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the condensed consolidated interim financial statements have been prepared on a going concern basis and are prepared on the historical cost basis except that pension scheme assets included in the measurement of the employee retirement benefit obligation, and certain financial instruments including derivative instruments are measured at fair value.

The independent auditors have reported on the Group’s full consolidated financial statements as at, and for the year ended, 31 December 2008. The report of the independent auditors was not qualified. The amounts presented for the 30 June 2009 and 30 June 2008 period are unaudited.

These condensed consolidated interim financial statements were approved by the Board of Directors on 25 August 2009.

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 2008. The consolidated financial statements as at, and for the year ended, 31 December 2008 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.

There were no new accounting standards required to be adopted by the Group during the period which were not already adopted as at 31 December 2008. The accounting policies applied in these condensed consolidated interim financial statements are consistent with those that the Group expects to apply for the year ending 31 December 2009.

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 2008. The principal risks and uncertainties are unchanged and may be summarised as insurance risk, equity price risk, interest rate risk, liquidity risk, credit risk, currency risk, capital risk and operational risk.

Since the onset of global concerns regarding sub prime and credit issues during Autumn 2007, the Group has been mindful of the ongoing dislocation in specific asset classes and their resultant impact on investment markets and the solvency of counterparties more generally. The Group continues to monitor all aspects of its financial risk appetite and the resultant exposure taken with caution, and has consequently suffered insignificant defaults on investments held during the period under review. As detailed in note 17, the Group’s investment allocation is broadly comparable to that at 31 December 2008 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* which has not yet been endorsed by the European Union.

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

Profitable trading and strong treasury management has ensured that the Group’s balance sheet remains well capitalised and its operations are financed to accommodate forseen 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.

Notes to the condensed consolidated interim financial statements continued

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 2008 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 2008 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. There have been no changes in reportable segments during the period under review.

The Group's four operating segments are identified as follows:

- **Global Markets** comprises the results of Syndicate 33, excluding Syndicate 33's fine art, UK regional events coverage, non-US household business and underwriting result of Hiscox Inc. It includes the results of the larger retail TMT business written by Hiscox Insurance Company Limited.
- **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 in continental Europe. It excludes the results of the larger retail TMT business written by Hiscox Insurance Company Limited.
- **International** comprises the results of Hiscox Insurance Company (Guernsey) Limited, Hiscox Inc., Hiscox Insurance Company (Bermuda) Limited and the ALTOHA sub-group.
- **Corporate Centre** comprises the investment return and administrative costs associated with the Group management activities. Corporate Centre also includes the majority of foreign currency items on economic hedges and intragroup borrowings. Corporate Centre forms a reportable segment due to its investment activities which earn significant external revenues.

Information regarding the Group's operating segments is presented below. All amounts reported below represent transactions with external parties only, with all inter-segment amounts eliminated. Performance is measured based on each reportable segment's profit before tax.

6 months to 30 June 2009

	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	485,376	220,069	200,584	-	906,029
Net premiums written	353,518	204,153	157,482	-	715,153
Net premiums earned	266,701	174,237	124,227	-	565,165
Investment result - financial assets	46,239	11,431	25,629	2,134	85,433
Investment result - derivatives	-	2,213	-	263	2,476
Other revenues	5,763	1,303	1,162	-	8,228
Revenue	318,703	189,184	151,018	2,397	661,302
Claims and claim adjustment expenses, net of reinsurance	(86,210)	(97,413)	(47,448)	-	(231,071)
Expenses for the acquisition of insurance contracts	(77,813)	(40,763)	(29,043)	-	(147,619)
Administration expenses	(14,516)	(24,685)	(8,365)	-	(47,566)
Other expenses	(14,313)	(15,941)	(6,912)	(11,243)	(48,409)
Foreign exchange (losses)/gains	(48,350)	(5,910)	12,465	(1,025)	(42,820)
Total expenses	(241,202)	(184,712)	(79,303)	(12,268)	(517,485)
Results of operating activities	77,501	4,472	71,715	(9,871)	143,817
Finance costs	(234)	(12)	(199)	(1,984)	(2,429)
Share of profit of associates after tax	-	-	-	-	-
Profit before tax	77,267	4,460	71,516	(11,855)	141,388
100% ratio analysis					
Claims ratio (%)	32.0	55.9	37.8	-	39.5
Expense ratio (%)	38.6	46.5	34.5	-	40.0
Combined ratio excluding foreign exchange impact (%)	70.6	102.4	72.3	-	79.5
Foreign exchange impact (%)	18.1	3.3	(9.7)	-	8.8
Combined ratio (%)	88.7	105.7	62.6	-	88.3
Total assets before intragroup items and eliminations	2,308,525	730,477	1,248,299	844,322	5,131,623
Intragroup items and eliminations					(1,402,482)
Total assets					3,729,141

6 months to 30 June 2008

	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	344,341	178,038	116,981	-	639,360
Net premiums written	249,252	163,772	100,923	-	513,947
Net premiums earned	259,491	143,189	84,143	-	486,823
Investment result - financial assets	13,792	(3,414)	6,556	(479)	16,455
Investment result - derivatives	-	514	-	307	821
Other revenues	6,379	1,092	906	4	8,381
Revenue	279,662	141,381	91,605	(168)	512,480
Claims and claim adjustment expenses, net of reinsurance	(107,779)	(57,964)	(41,237)	-	(206,980)
Expenses for the acquisition of insurance contracts	(69,439)	(36,337)	(20,016)	-	(125,792)
Administration expenses	(11,143)	(21,582)	(6,025)	-	(38,750)
Other expenses	(11,687)	(15,019)	(5,278)	(5,829)	(37,813)
Foreign exchange (losses)/gains	739	5,835	1,354	1,666	9,594
Total expenses	(199,309)	(125,067)	(71,202)	(4,163)	(399,741)
Results of operating activities	80,353	16,314	20,403	(4,331)	112,739
Finance costs	-	-	(93)	(3,463)	(3,556)
Share of profit of associates after tax	-	-	-	38	38
Profit before tax	80,353	16,314	20,310	(7,756)	109,221
100% ratio analysis					
Claims ratio (%)	41.5	39.9	50.0	-	42.3
Expense ratio (%)	34.5	50.5	36.1	-	38.7
Combined ratio excluding foreign exchange impact (%)	76.0	90.4	86.1	-	81.0
Foreign exchange impact (%)	(0.3)	(4.1)	(1.5)	-	(1.3)
Combined ratio (%)	75.7	86.3	84.6	-	79.7
Total assets before intragroup items and eliminations	1,971,336	681,025	780,381	803,028	4,235,770
Intragroup items and eliminations					(1,341,859)
Total assets					2,893,911

Year to 31 December 2008

	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	586,458	354,899	206,007	-	1,147,364
Net premiums written	425,056	328,744	176,664	-	930,464
Net premiums earned	477,814	302,418	172,788	-	953,020
Investment result - financial assets	(5,785)	(11,935)	(8,114)	(1,798)	(27,632)
Investment result - derivatives	-	(10,483)	-	(42,495)	(52,978)
Other revenues	15,606	2,929	1,323	-	19,858
Revenue	487,635	282,929	165,997	(44,293)	892,268
Claims and claim adjustment expenses, net of reinsurance	(275,679)	(129,889)	(73,812)	-	(479,380)
Expenses for the acquisition of insurance contracts	(137,379)	(74,625)	(40,864)	-	(252,868)
Administration expenses	(23,157)	(46,228)	(13,813)	-	(83,198)
Other expenses	(19,149)	(33,042)	(14,112)	(10,196)	(76,499)
Foreign exchange (losses)/gains	108,536	32,507	(22,291)	(8,997)	109,755
Total expenses	(346,828)	(251,277)	(164,892)	(19,193)	(782,190)
Results of operating activities	140,807	31,652	1,105	(63,486)	110,078
Finance costs	(273)	(35)	(186)	(4,664)	(5,158)
Share of profit of associates after tax	-	-	-	260	260
Profit before tax	140,534	31,617	919	(67,890)	105,180
100% ratio analysis					
Claims ratio (%)	57.8	41.9	43.0	-	51.1
Expense ratio (%)	36.7	50.3	38.8	-	40.8
Combined ratio excluding foreign exchange impact (%)	94.5	92.2	81.8	-	91.9
Foreign exchange impact (%)	(26.0)	(10.7)	12.4	-	(15.8)
Combined ratio (%)	68.5	81.5	94.2	-	76.1
Total assets before intragroup items and eliminations	2,208,887	716,495	1,148,668	870,296	4,944,346
Intragroup items and eliminations					(1,207,073)
Total assets					3,737,273

Notes to the condensed consolidated interim financial statements continued

8 Net asset value per share

	30 June 2009 Net asset value (total equity) £000	30 June 2009 NAV per share pence	30 June 2008 Net asset value (total equity) £000	30 June 2008 NAV per share pence	31 Dec 2008 Net asset value (total equity) £000	31 Dec 2008 NAV per share pence
Net asset value	**964,851**	**259.3**	817,578	222.1	951,026	258.1
Net tangible asset value	**915,076**	**246.0**	776,031	210.8	902,469	244.9

The net asset value per share is based on 372,035,093 shares (30 June 2008: 368,139,361; 31 December 2008: 368,477,595), being the adjusted number of shares in issue at each reference date. Net tangible assets comprise total shareholders' equity excluding intangible assets.

9 Return on equity

	6 months to 30 June 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Profit for the period	**122,079**	84,352	70,808
Opening shareholders' equity	**951,026**	824,304	824,304
Adjusted for the time weighted impact of:			
- Distribution and other movements in capital	**(4,565)**	(11,222)	(55,700)
Adjusted opening shareholders' equity	**946,461**	813,082	768,604
Annualised return on equity (%)	**27.5**	21.8	9.2

10 Investment result

i) Analysis of investment result

The total result for the Group before taxation comprises:

	6 months to 30 June 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Investment income including interest receivable	**38,947**	46,497	94,678
Net realised gains on financial investments at fair value through profit or loss	**8,141**	4,207	4,743
Net fair value gains/(losses) on financial investments at fair value through profit or loss	**38,345**	(34,249)	(127,053)
Investment result - financial assets	**85,433**	16,455	(27,632)
Fair value gains/(losses) on derivative instruments	**2,476**	821	(52,978)
Total result	**87,909**	17,276	(80,610)

Investment expenses are presented within other expenses (note 11). Included within fair value gains/(losses) on derivative instruments above, are derivative gains/(losses) on foreign exchange contracts as detailed in note 19.

ii) Annualised investment yields

	6 months to 30 June 2009 Return £000	6 months to 30 June 2009 Yield %	6 months to 30 June 2008 Return £000	6 months to 30 June 2008 Yield %	Year to 31 Dec 2008 Return £000	Year to 31 Dec 2008 Yield %
Debt and fixed income securities	**77,611**	**8.3**	20,407	2.8	(4,027)	(0.3)
Equities and shares in unit trusts	**6,141**	**10.6**	(12,686)	(16.8)	(38,267)	(28.4)
Deposits with credit institutions/cash and cash equivalents	**1,681**	**0.7**	8,734	4.2	14,662	3.7
	85,433	**7.0**	16,455	1.6	(27,632)	(1.3)

11 Other revenues and expenses

	6 months to 30 June 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Agency related income	**3,166**	2,601	5,324
Profit commission	**5,049**	5,780	14,382
Other income	**13**	-	152
Other revenues	**8,228**	8,381	19,858
Managing agency expenses	**12,366**	13,316	19,513
Overseas underwriting agency expenses	**14,566**	9,965	28,787
Connect agency expenses	**5,599**	7,994	13,343
Investment expenses	**1,193**	798	1,899
Other Group expenses including central overheads	**14,685**	5,740	12,957
Other expenses	**48,409**	37,813	76,499

12 Finance costs

	6 months to 30 June 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Interest and expenses associated with bank borrowings	**1,118**	2,701	3,201
Interest and charges associated with Letters of Credit	**1,299**	837	1,922
Interest charges arising on finance leases	**12**	18	35
	2,429	3,556	5,158

As at 30 June 2009, the total amount drawn by way of Letter of Credit to support the Funds at Lloyd's requirement was £180.0 million (June and December 2008: £137.5 million).

13 Tax expense

The Group's 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 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Current tax expense/(credit)	**69,606**	3,233	(32,341)
Deferred tax (credit)/expense	**(50,297)**	21,636	66,713
Tax expense	**19,309**	24,869	34,372

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

Included in deferred tax assets, is £7,700,000 (June 2008: £5,319,000; December 2008: £5,996,000) of deferred tax losses arising in overseas companies which the Group considers will be utilised in part against future trading profits of the overseas entities.

Notes to the condensed consolidated interim financial statements continued

14 Insurance liabilities and reinsurance assets

	30 June 2009 £000	30 June 2008 £000	31 Dec 2008 £000
Gross			
Claims outstanding	**1,556,483**	1,262,454	1,767,728
Unearned premiums	**733,224**	562,257	509,688
Total insurance liabilities, gross	**2,289,707**	1,824,711	2,277,416
Recoverable from reinsurers			
Claims outstanding	**358,314**	220,095	426,303
Unearned premiums	**149,698**	95,415	61,417
Total reinsurers' share of insurance liabilities	**508,012**	315,510	487,720
Net			
Claims outstanding	**1,198,169**	1,042,359	1,341,425
Unearned premiums	**583,526**	466,842	448,271
Total insurance liabilities, net	**1,781,695**	1,509,201	1,789,696

Net claims and claim adjustment expenses include releases of £73m (30 June 2008: £66m) 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**	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange*:										
at end of accident year**	325,343	268,903	351,921	563,608	662,365	516,453	675,586	749,100	**322,185**	**4,435,464**
one period later**	365,897	293,359	370,854	615,097	759,884	508,598	613,513	715,691	**-**	**4,242,893**
two periods later**	435,706	302,940	338,517	590,924	750,555	491,846	599,047	-	**-**	**3,509,535**
three periods later**	473,480	281,061	349,427	553,755	726,367	471,831	-	-	**-**	**2,855,921**
four periods later**	462,343	274,600	340,483	554,639	726,730	-	-	-	**-**	**2,358,795**
five periods later**	448,093	260,984	335,541	542,262	-	-	-	-	**-**	**1,586,880**
six periods later**	442,656	255,025	334,677	-	-	-	-	-	**-**	**1,032,358**
seven periods later**	445,063	259,227	-	-	-	-	-	-	**-**	**704,290**
eight periods later**	440,951	-	-	-	-	-	-	-	**-**	**440,951**
Current estimate of cumulative claims	440,951	259,227	334,677	542,262	726,730	471,831	599,047	715,691	**322,185**	**4,412,601**
Cumulative payments to date	(364,743)	(200,004)	(268,121)	(444,006)	(595,565)	(362,998)	(337,165)	(313,283)	**(41,541)**	**(2,927,426)**
Liability recognised at 100% level	76,208	59,223	66,556	98,256	131,165	108,833	261,882	402,408	**280,644**	**1,485,175**
Liability recognised in respect of prior accident years at 100% level										**45,842**
Total net liability to external parties at 100% level										**1,531,017**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 30 June 2009.
** With the exception of the most recent development data for each accident year, which only relates to the six months ending 30 June 2009, the term period refers to one full calendar year.

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

Accident year	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	Total £000
Current estimate of cumulative claims	440,951	259,227	334,677	542,262	726,730	471,831	599,047	715,691	**322,185**	**4,412,601**
Less: attributable to external names	(102,419)	(50,606)	(73,078)	(124,851)	(173,494)	(98,188)	(114,446)	(138,232)	**(52,904)**	**(928,218)**
Group share of current ultimate claims estimate	338,532	208,621	261,599	417,411	553,236	373,643	484,601	577,459	**269,281**	**3,484,383**
Cumulative payments to date	(364,743)	(200,004)	(268,121)	(444,006)	(595,565)	(362,998)	(337,165)	(313,283)	**(41,541)**	**(2,927,426)**
Less: attributable to external names	81,758	35,098	55,737	102,887	142,343	74,694	59,581	48,979	**4,782**	**605,859**
Group share of cumulative payments	(282,985)	(164,906)	(212,384)	(341,119)	(453,222)	(288,304)	(277,584)	(264,304)	**(36,759)**	**(2,321,567)**
Liability for 2001 to 2009 accident years recognised on Group's balance sheet	55,547	43,715	49,215	76,292	100,014	85,339	207,017	313,155	**232,522**	**1,162,816**
Liability for accident years before 2001 recognised on Group's balance sheet										**35,353**
Total net liability to external parties included in the balance sheet†										**1,198,169**

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

15 Earnings per share

Basic

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

	6 months to 30 June 2009	6 months to 30 June 2008	Year to 31 Dec 2008
Profit attributable to the Company's equity holders (£000)	**122,079**	84,352	70,808
Weighted average number of ordinary shares (thousands)	**368,209**	389,488	377,506
Basic earnings per share (pence per share)	**33.2p**	21.7p	18.8p

Diluted

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

	6 months to 30 June 2009	6 months to 30 June 2008	Year to 31 Dec 2008
Profit attributable to the Company's equity holders (£000)	**122,079**	84,352	70,808
Weighted average number of ordinary shares (thousands)	**368,209**	389,488	377,506
Adjustment for share options (thousands)	**15,139**	13,193	13,351
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**383,348**	402,681	390,857
Diluted earnings per share (pence per share)	**31.8p**	20.9p	18.1p

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 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Final dividend for the year ended:			
31 December 2008 of 8.5p (net) per share	**31,778**	-	-
31 December 2007 of 8.0p (net) per share	**-**	31,141	31,141
Interim dividend for the year ended:			
31 December 2008 of 4.25p (net) per share	**-**	-	15,615
	31,778	31,141	46,756

An interim dividend of 4.5p (net) per ordinary share has been declared payable on 6 October 2009 to shareholders registered on 4 September 2009 in respect of the six months to 30 June 2009 (30 June 2008: 4.25p (net) per ordinary share). The dividend was approved by the Board on 25 August 2009 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 2009 £000	30 June 2008 £000	31 Dec 2008 £000
Debt and fixed income securities	**1,815,855**	1,456,712	1,928,599
Equities and shares in unit trusts	**120,748**	131,442	124,864
Deposits with credit institutions	**8,745**	50,840	28,269
Total investments	**1,945,348**	1,638,994	2,081,732
Derivative instruments	**100**	532	40
Total financial assets carried at fair value	**1,945,448**	1,639,526	2,081,772

ii) Analysis of financial liabilities carried at fair value

	30 June 2009 £000	30 June 2008 £000	31 Dec 2008 £000
Borrowings from credit institutions	**98,000**	-	90,278
Derivative instruments	**-**	19	53,072
Total financial liabilities	**98,000**	19	143,350

iii) Investment and cash allocation

	30 June 2009 £000	30 June 2009 %	30 June 2008 £000	30 June 2008 %	31 Dec 2008 £000	31 Dec 2008 %
Debt and fixed income securities	**1,815,855**	**76.3**	1,456,712	75.5	1,928,599	76.4
Equities and shares in unit trusts	**120,748**	**5.1**	131,442	6.8	124,864	5.0
Deposits with credit institutions/cash and cash equivalents	**442,844**	**18.6**	342,394	17.7	468,891	18.6
Total	**2,379,447**		1,930,548		2,522,354	

iv) Investment and cash allocation by currency

	30 June 2009 %	30 June 2008 %	31 Dec 2008 %
Sterling	**23.6**	27.0	19.7
US Dollars	**66.1**	59.7	65.8
Euro and other currencies	**10.3**	13.3	14.5

18 Fair value measurements

The tables below summarise the fair value hierarchy for the Group in accordance with the IASB issued *Improving Disclosures about Financial Instruments - Amendments to IFRS 7 Financial Instruments: Disclosures*.

The levels of the fair value hierarchy are defined 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 Group measures the fair value of its financial assets based on prices provided by investment managers who obtain market data from independent pricing services. The pricing services used by the investment manager 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 as reported by independent pricing sources or the fund manager.

As at 30 June 2009	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Debt and fixed income securities	**562,915**	**1,252,940**	**-**	**1,815,855**
Equities and shares in unit trusts	**210**	**118,516**	**2,022**	**120,748**
Deposits with credit institutions	**8,745**	**-**	**-**	**8,745**
Derivative instruments	**-**	**-**	**100**	**100**
Total	**571,870**	**1,371,456**	**2,122**	**1,945,448**

As at 30 June 2008	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt and fixed income securities	407,879	1,048,833	-	1,456,712
Equities and shares in unit trusts	2,251	129,191	-	131,442
Deposits with credit institutions	50,840	-	-	50,840
Derivative instruments	-	-	532	532
Total	460,970	1,178,024	532	1,639,526

As at 31 December 2008	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt and fixed income securities	605,222	1,323,377	-	1,928,599
Equities and shares in unit trusts	2,043	122,282	539	124,864
Deposits with credit institutions	22,392	-	5,877	28,269
Derivative instruments	-	-	40	40
Total	629,657	1,445,659	6,456	2,081,772

Included within Level 1 of the hierarchy are Government bonds and Treasury bills which are measured based on quoted market prices.

Notes to the condensed consolidated interim financial statements continued

18 Fair value measurements continued

Level 2 of the hierarchy contains US Government Agencies, Corporate Securities, Asset Backed Securities and Mortgage Backed Securities. The fair value of these assets is based on prices derived from models with observable market inputs as discussed above. Also included within Level 2 are units held in traditional long funds and long and short special funds.

Level 3 contains investments in a limited partnership and investment in a mutual fund which, at 31 December 2008, had limited observable transactions on which to measure fair value. Redemptions from the fund were suspended throughout 2008 and the fund was deemed illiquid. In 2009 the fund was redeemed in full.

Derivative instruments included within Level 3 represent event linked future contracts which are transacted on the Chicago Climate Futures Exchange. Pricing models based on unobservable inputs are used by the exchange to determine the fair value of the contracts.

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.

The following table shows the reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy for the six months to 30 June 2009:

	Equities and shares in unit trusts £000	Deposits with credit institutions £000	Derivative instruments £000	Total £000
Balance at 1 January	539	5,877	40	6,456
Net gains recognised in the income statement*	58	-	60	118
Net purchases, sales, issues and settlements	1,425	(5,877)	-	(4,452)
Transfers to other levels	-	-	-	-
Closing balance	2,022	-	100	2,122

* Net gains are included within the investment result in the income statement.

19 Impact of foreign exchange related items

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

	6 months to 30 June 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Exchange (losses)/gains recognised in the consolidated income statement	**(42,820)**	9,594	109,755
Exchange (losses)/gains classified as a separate component of equity	**(78,075)**	(1,928)	150,582
Overall impact of foreign exchange related items on net assets	**(120,895)**	7,666	260,337

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 below.

	6 months to 30 June 2009 £000	6 months to 30 June 2008 £000	Year to 31 Dec 2008 £000
Opening balance sheet impact of non monetary items	**50,525**	14,438	14,438
Closing balance sheet impact of non monetary items	**(8,943)**	(849)	50,525
Impact of non retranslation of non monetary items on the income statement	**(59,468)**	(15,287)	36,087

The following is an analysis of the foreign exchange gains and losses recognised in the consolidated income statement:

6 months to 30 June 2009	Economic hedges and intragroup borrowings £000	Other £000	Total £000
Foreign exchange losses on intragroup borrowings	(7,689)	-	(7,689)
Other foreign exchange losses	-	(35,131)	(35,131)
Foreign exchange losses arising on retranslation of monetary items	(7,689)	(35,131)	(42,820)
Derivative gains on foreign exchange contracts included within investment return	263	2,175	2,438
Total foreign exchange losses recognised in the consolidated income statement	**(7,426)**	**(32,956)**	**(40,382)**

6 months to 30 June 2008	Economic hedges and intragroup borrowings £000	Other £000	Total £000
Foreign exchange losses on intragroup borrowings	-	-	-
Other foreign exchange gains	-	9,594	9,594
Foreign exchange gains arising on retranslation of monetary items	-	9,594	9,594
Derivative gains on foreign exchange contracts included within investment return	514	-	514
Total foreign exchange gains recognised in the consolidated income statement	514	9,594	10,108

Year to 31 December 2008	Economic hedges and intragroup borrowings £000	Other £000	Total £000
Foreign exchange losses on intragroup borrowings	(8,463)	-	(8,463)
Other foreign exchange gains	-	118,218	118,218
Foreign exchange gains arising on retranslation of monetary items	(8,463)	118,218	109,755
Derivative losses on foreign exchange contracts included within investment return	(42,540)	(10,123)	(52,663)
Total foreign exchange (losses)/gains recognised in the consolidated income statement	(51,003)	108,095	57,092

Notes to the condensed consolidated interim financial statements continued

20 Business combinations
On 30 September 2008, the Group acquired 100% of the issued share capital of Amershill Limited. Cash consideration of £2,000,000 was paid and goodwill of £1,909,000 was recognised. The fair value of the identifiable net assets acquired was £91,000.

On 16 August 2007, the Group acquired 100% of the share capital of ALTOHA Inc. in the USA. The total consideration was £29,052,000 which included contingent consideration of £7,530,000. No goodwill arose on acquisition. Intangible assets of £5,083,000 were initially recognised in respect of the US State authorisation licenses held by ALTOHA Inc.'s consolidated operations. During 2008, further cash consideration of £1,225,000 was paid in finalisation of their ultimate purchase value.

21 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 £85,321,000 (30 June 2008: £69,388,000; 31 December 2008: £47,094,000) not available for use by the Group outside of the Lloyd's Syndicates within which they are held.

Directors' responsibility statement

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

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

The individuals responsible for authorising the responsibility statement on behalf of the Board are the Chairman, RRS Hiscox and the Group Finance Director, SJ Bridges. The statements were approved for issue on 25 August 2009.

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 2009 which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of changes in equity, the condensed consolidated interim cash flow statement and related explanatory notes. We have read the other information contained in the Interim Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirement of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Services Authority ('the UK FSA'). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

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

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Statement for the six months ended 30 June 2009 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
25 August 2009

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.