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Hiscox Ltd Interim Statement 2011

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.

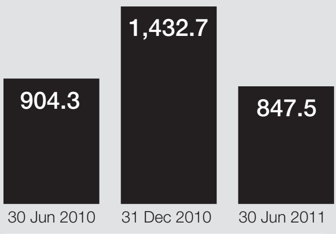
Corporate highlights

296.3p
Net asset value per share

Group key performance indicators

- Gross premiums written £847.5m (2010: 904.3m)
- Net premiums earned £554.7m (2010: £592.7m)
- (Loss)/profit before tax (£85.6)m (2010: £97.2m)
- Earnings per share (22.8)p (2010: 20.9p)
- Interim dividend increased to 5.1p per share (2010: 5.0p)
- Net asset value per share 296.3p (2010: 318.9p)
- Group combined ratio 116.9% (2010: 93.6%)
- Return on equity annualised (13.3)% (2010: 14.8%)

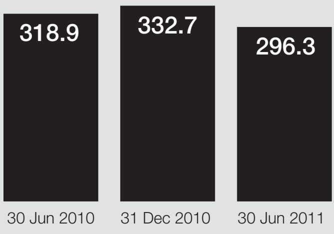
Gross premiums written £m



Operational highlights

- Interim pre-tax loss of £85.6 million (2010: profit £97.2 million), reflecting the costliest year ever for the industry.
- Record profit for UK business of £25.2 million (2010: £15.6 million) with gross written premiums up by 8.8%.
- Interim dividend increased to 5.1p (2010: 5.0p) in line with progressive dividend policy.
- Investment return of 1.0% for the half year, 2.0% annualised, (2010: 1.7%, 3.5% annualised).
- US catastrophe reinsurance rates are improving, with average rate rises of 10% and substantially higher rises in loss affected areas.
- Reinsurance cover materially unimpaired.
- High quality claims service recognised within the UK and London Market businesses.

Net asset value p per share



Chairman's statement

A pre-tax loss of £85.6 million following a tumultuous first six months when nature, accidents and human error or malevolence have thrown an unprecedented variety of losses at us is a reasonable result in the circumstances. 2011 is reported to be the most expensive catastrophe year to the insurance industry on record after just six months, worse than the full twelve months of 2005, the previous highest on record. The strategy of building retail businesses to soften the blows of such a period is vindicated by a sterling result from our UK regional business. We will continue to build the European and US regional businesses to add their contribution.

The London Market and Bermuda have obviously been hit hardest, and I am writing this as usual at the start of the US wind season, but rates are rising in the affected areas and a further loss in the second half of the year should accelerate that rise. History tells us that feast always follows famine in the insurance business.

Results

The result for the half year to 30 June 2011 was a pre-tax loss of £85.6 million (2010: £97.2 million profit). Gross written premiums reduced to £847.5 million (2010: £904.3 million). Net earned premiums were £554.7 million (2010: £592.7 million). The Group combined ratio rose to 116.9% (2010: 93.6%). Earnings per share fell to a loss of 22.8p (2010: +20.9p) and net assets per share reduced to 296.3p (2010: 318.9p).

Dividend, balance sheet and capital management

The board of Hiscox Ltd proposes to pay an interim dividend for 2011 of 5.1p per share (2010: 5.0p) in line with our policy of progressive dividend growth. The record date for the dividend will be 12 August 2011 and the dividend will be payable on 21 September 2011.

As with the final 2010 dividend, the board of Hiscox Ltd proposes to offer a scrip dividend alternative in respect of the interim dividend, on and subject to the terms and conditions of Hiscox Ltd's Scrip Dividend Alternative. The scrip reference share price will be announced on 15 August 2011. The final date for electing to join Hiscox Ltd's Scrip Dividend Alternative in order to be eligible to receive new shares in respect of the interim dividend will be 31 August 2011.

The terms and conditions of Hiscox Ltd's Scrip Dividend Alternative, including how to join the scheme, are contained in the circular dated 14 March 2011 which is available to view on Hiscox Ltd's website www.hiscox.com.

The net asset value per share was reduced by the loss, the weakness of the Dollar on our capital held in Dollars in Bermuda and Guernsey and of course by the payment of the dividend since the year end.

Overall comment

The first six months have been notable for the variety and size of losses the industry has faced. On top of earthquakes in New Zealand and Japan, the industry suffered losses from floods in Australia and the worst tornadoes on record in the US. We have reserved £210 million for catastrophe events in the first half (2010: £110 million) which we trust will stand the test of time as has been true of our reserving in recent years. We have also suffered from some large attritional losses across the Group, including moving oil platforms, repatriation from the unrest in North Africa, fine art losses and some recessionary related claims in the UK.

Excellence in the rapid and fair payment of claims is a differentiator we strive to achieve. This period has been one of the busiest the Hiscox claims team has ever experienced, so it is pleasing that their high performance has been recognised by the industry. Our UK business won the Personal and Commercial Claims Team of the Year 2011, awarded by Post Magazine. The Syndicate claims team were placed in the top three for managing claims in a recent Gracechurch survey of London Market brokers. Despite the most active first half ever for catastrophe claims, Hiscox is managing to process reinsurance claims in two days.

Hiscox London Market

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

Loss before tax	£26.6 million (2010: profit £69.8 million)
Gross written premiums	£349.0 million (2010: £383.1 million)
Combined ratio	113.9% (2010: 82.2%)
Combined ratio before monetary FX	109.6% (2010: 90.7%)

The large catastrophe reinsurance losses were mitigated by strong profits in the insurance lines

Reinsurance makes up 42% of Hiscox London Market and this is dominated by our catastrophe excess of loss account. We reduced this account by 26% in January due to rate reductions. The catastrophes reversed the decline with rate increases averaging 10% and substantially higher in affected areas, and in May and June we underwrote 20% more than last year demonstrating the underwriters' nimble reaction to market conditions. We are well prepared to benefit from changes in other markets.

Rates in our insurance lines are mixed; there is some upward pressure in property and energy lines, though rates are broadly flat elsewhere and we continue to see small reductions in a few areas such as terrorism. The offshore energy market has been seriously impacted by a number of significant losses including storm damage to a North-Sea Floating Production, Storage and Offloading unit (FPSO), the Gryphon Alpha. The insured loss is estimated at up to US$950 million (with a net impact to Hiscox estimated to be around £14 million) and this is expected to increase upward pricing pressure for energy classes. Rates in big-ticket professional indemnity lines continue to disappoint, and we have continued to reduce our writings appropriately.

The kidnap and ransom, and political risks lines have paid significant claims through their crisis management services to corporate clients repatriating employees to safety from those regions affected by Arab Spring unrest resulting in a hardening of rates and a tightening of conditions.

In 2002 Robert Childs began a legal challenge to recover money from the airlines operating the planes involved in the September 11 attacks on the World Trade Center, with a successful conclusion this year. Most of the recovery goes to our reinsurers, but we have received US$9 million net with potential for some further recovery.

We have increased our 2012 capacity for Syndicate 33 to £1 billion from £900 million in 2011, to take advantage of hardening conditions.

Hiscox UK

This division's core products are high value household insurances, including luxury motor, as well as commercial insurances for small to medium businesses which in the main use their brains to make money as opposed to infrastructure, and some specialist technology and media. All three areas made profits in the period.

Profit before tax	£25.2 million (2010: £15.6 million)
Gross written premiums	£182.9 million (2010: £168.1 million)
Combined ratio	87.9% (2010: 91.8%)

A record half year profit despite competitive conditions, with steady growth of 8.8%. Our ambition is to make money whatever the state of the market and this we have achieved by concentrating on good underwriting backed by great service and our powerful brand. Rates are being increased by some competitors in commodity areas which could lead to increases flowing through to our specialist areas in future. Even if they do not, we have winning products and service which will win orders at our price.

Direct business grew 17% and is making good profits. Now we have reached critical mass, the future looks very robust with opportunities to sell added products to a large and good client base.

As always, we walked away from weakly rated business, especially traditional liability business such as accountants, solicitors and IFAs.

We continued to invest in our brand and in the Reputation Institute UK Pulse survey for 2011, Hiscox was rated at the upper level of financial services brands in the UK. Hiscox scores particularly well in products and services, performance and governance. We will continue to leverage our knowledge and expertise in brand and marketing as we expand in Europe and the US.

Hiscox Europe

This division's core business is much the same as the UK - household and specialist commercial accounts. Also written are larger fine art risks, technology and media risks and kidnap and ransom insurance, sometimes in partnership with the London Market division.

Profit before tax	£0.1 million (2010: £4.0 million)
Gross written premiums	£80.6 million (2010: £80.1 million)
Combined ratio	100.2% (2010: 96.8%)

Europe suffered some large losses (un-correlated again) but this time managed to break even. One was a theft of paintings from a museum in Holland, and there is the usual strong likelihood that they will be recovered as they are unsaleable in the open market; another was a large kidnap claim and the third was a technology loss. The European teams are expanding in the fine art, technology and kidnap and ransom accounts in which the Group has a strong specialisation. These are specialist and profitable areas for the Group, and will benefit the European teams greatly as they grow, but will cause a measure of volatility until the accounts are larger.

Our core household and small commercial businesses did well. The household business benefited from some firm underwriting decisions which have caused the loss of some business and a reduction in income of 12%, but the account returned to profit. Growth in other product lines resulted in a modest overall 4% increase (in local currency) for Europe at the top line.

The small direct operation in France which sells commercial liability products to businesses with 0-10 employees is growing steadily. The team is leveraging our direct experience in the UK, and is about to embark on a brand building campaign later in the year.

Hiscox International

This division comprises our Bermuda, USA and Guernsey units.

Loss before tax	£82.2 million (2010: £6.4 million)
Gross written premium	£234.9 million (2010: £273.1 million)
Combined ratio	160.1% (2010: 114.0%)
Combined ratio before monetary FX	160.7% (2010: 106.8%)

Bermuda: Bermuda underwrites a reinsurance catastrophe account (Bermuda is the largest reinsurance market in the world) and healthcare business.

Gross written premiums declined by 9.3% as we walked away from weaker rates earlier in the year. The catastrophes have had an expected impact, and with rates already rising and signs of capacity constraints in some affected areas, the outlook is promising for opportunities in the second half. The small healthcare book is growing slowly and profitably.

Chairman's statement
continued

Guernsey: Guernsey underwrites kidnap and ransom, personal accident and fine art business.

Premium income grew slightly by 2.3% driven by demand for our personal accident and non-marine kidnap and ransom products. As mentioned above in the London Market report, conditions and rates in kidnap and ransom are improving following a volatile period. We suffered a large fine art loss where a painting was damaged in transit.

In June this business celebrated US$ 1 billion aggregate of premium since it was formed in 1998, a huge achievement and throughout that time it has been a significant profit contributor to the Group.

USA: Hiscox USA underwrites a book of small commercial business to wholesale brokers, and larger specialist business mainly to retail brokers. In late 2010 it launched a direct internet-based offering for small commercial businesses.

There is a good story from Hiscox USA. We narrowed our range of products in 2010 to concentrate on fewer specialist lines, given weak market conditions in those we exited, and focused our distribution channels to better effect, resulting in improved ratios this year. Premium income reduced 15.0% (which is less than budgeted), but the expense ratio improved – a very satisfactory vindication of the actions taken. Underwriting is good, but we need to grow to keep improving the expense ratio which is always true for our start-up operations.

Our new and unique direct business for small commercial businesses is growing satisfactorily and developing brand awareness among SME's. When we are fully satisfied that the IT is totally robust we will put our foot on the marketing accelerator. All indications show a substantial appetite for our offering.

Investments

Assets under management at 30 June 2011 totalled £2,859 million (2010: £2,705 million) and the annualised return was 2.0% (2010: 3.5%) leading to an investment return on financial assets of £27.6 million (2010: £46.6 million). With only meagre income continuing to be available from cash and short dated government bonds, the investment portfolio has delivered the result that we expected.

We began the year with a conservative ambition to beat cash returns by being prepared to take some credit and equity risk but little interest rate risk. This worked particularly well in the early part of the year as confidence grew that a sustainable economic recovery in developed markets was underway. However, more recent data, combined with events in Europe and Japan, suggested that this was a false dawn and prompted an unexpected decline in government bond yields, renewed volatility in riskier assets and lower profits from the portfolio in May and June. With the authorities in our main markets of the UK and the US apparently determined to keep interest rates low whilst tolerating a degree of inflation, real returns from cash and bonds are likely to remain unexciting for the balance of the year. Nevertheless, we remain wary of strategies to enhance yield and mindful of the damage that can be done to bond portfolios in a less benign environment. This caution extends to an ongoing avoidance of the sovereign debt of Greece, Ireland, Italy, Portugal and Spain.

Our allocation to equities and hedge funds during the period was largely unchanged and added value to the portfolio overall. Whilst the same cannot be said for many fixed income investments, equities in general appear reasonably valued. However, the outlook for equity markets is far from certain with further volatility to be expected and some scope for earnings disappointment in 2012 if the low growth world implied by bond markets persists. Group cash levels have drifted up recently as a result of distributions from Syndicate 33, but this should prove temporary as we still believe that our bond managers will beat cash. With the future of the Euro zone in the balance, and, as I write, the US on the verge of a technical default, capital preservation remains our priority and patience is required.

Outlook

We have suffered extraordinary losses during the period, but that which does not destroy you makes you stronger, and we are definitely stronger. We need tough times in the catastrophe reinsurance arena to keep the faint-hearted at bay and to stop foolish competition from some commodity players. We have preached discipline for years and have proved that discipline by cutting back the reinsurance account recently. Our reinsurance protection is virtually entirely intact, we are now facing much better rates and the underwriters are seizing the opportunities.

In our insurance and retail areas, some are making good money despite fierce competition, and others are making good gross underwriting profits and climbing remorselessly towards net profit when they reach critical mass. The brand is very strong in the UK. We have had over a million hits on our promotional web TV series in the US (www.leapyear-hiscox.tv), aimed at young entrepreneurs, which is a strong start to brand recognition there, and in Europe we are due to expand our marketing shortly. We are patient starters of businesses, some of which are in healthy profit and the others heading there.

Over the whole group, our product is providing intelligent solutions to clients' risks, and more importantly, paying claims and repairing insureds after loss, and this we have done well.

Robert Hiscox
Chairman
1 August 2011

Condensed consolidated interim income statement
For the six month period ended 30 June 2011

	Note	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
Income				
Gross premiums written	7	**847,451**	904,326	1,432,674
Outward reinsurance premiums		**(179,890)**	(220,627)	(301,047)
Net premiums written		**667,561**	683,699	1,131,627
Gross premiums earned		**688,207**	735,218	1,435,118
Premiums ceded to reinsurers		**(133,539)**	(142,469)	(303,960)
Net premiums earned		**554,668**	592,749	1,131,158
Investment result	10	**25,463**	50,749	100,249
Other revenues	11	**7,625**	10,595	22,079
Revenue		**587,756**	654,093	1,253,486
Expenses				
Claims and claim adjustment expenses, net of reinsurance		**(438,350)**	(324,909)	(570,997)
Expenses for the acquisition of insurance contracts		**(127,417)**	(147,217)	(269,891)
Operational expenses	11	**(100,600)**	(103,728)	(206,403)
Foreign exchange (losses)/gains	19	**(3,547)**	22,022	15,484
Total expenses		**(669,914)**	(553,832)	(1,031,807)
Results of operating activities		**(82,158)**	100,261	221,679
Finance costs	12	**(3,500)**	(3,179)	(10,090)
Share of profit/(loss) of associates after tax		**62**	70	(223)
(Loss)/profit before tax		**(85,596)**	97,152	211,366
Tax expense	13	**(1,445)**	(18,542)	(32,566)
(Loss)/profit for the period (all attributable to owners of the Company)		**(87,041)**	78,610	178,800
Earnings per share on profit attributable to owners of the Company				
Basic	15	**(22.8)p**	20.9p	47.2p
Diluted	15	**(22.8)p**	20.0p	45.4p

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 2011, after tax

	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
(Loss)/profit for the period	**(87,041)**	78,610	178,800
Other comprehensive income			
Currency translation (losses)/gains (net of tax of £nil)	**(8,550)**	34,363	11,729
Total other comprehensive (loss)/income	**(8,550)**	34,363	11,729
Total comprehensive (loss)/income recognised (all attributable to owners of Company)	**(95,591)**	112,973	190,529

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

Condensed consolidated interim balance sheet At 30 June 2011

	Note	30 June 2011 £000	30 June 2010 £000	31 December 2010 £000
Assets				
Intangible assets		**64,882**	53,283	64,108
Property, plant and equipment		**18,578**	19,230	19,742
Investments in associates		**6,188**	7,388	6,886
Deferred tax		**14,077**	19,049	14,077
Deferred acquisition costs		**172,668**	172,685	142,736
Financial assets carried at fair value	17	**2,368,069**	2,361,504	2,459,107
Reinsurance assets	14	**530,661**	586,905	462,765
Loans and receivables including insurance receivables		**636,636**	622,020	485,414
Cash and cash equivalents		**502,954**	357,544	336,017
Total assets		**4,314,713**	4,199,608	3,990,852
Equity and liabilities				
Shareholders' equity				
Share capital		**20,494**	20,267	20,297
Share premium		**29,294**	14,864	15,800
Contributed surplus		**245,005**	264,023	245,005
Currency translation reserve		**40,907**	72,091	49,457
Retained earnings		**810,765**	830,956	935,555
Total equity (all attributable to owners of the Company)		**1,146,465**	1,202,201	1,266,114
Deferred tax		**19,776**	34,186	45,421
Insurance liabilities	14	**2,672,123**	2,528,114	2,279,867
Financial liabilities	17	**75,061**	239	20,457
Current tax		**21,550**	59,516	29,995
Trade and other payables		**379,738**	375,352	348,998
Total liabilities		**3,168,248**	2,997,407	2,724,738
Total equity and liabilities		**4,314,713**	4,199,608	3,990,852

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 2011

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

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

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 2011

	Note	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
(Loss)/profit before tax		**(85,596)**	97,152	211,366
Adjustments for:				
Interest and equity dividend income		**(27,431)**	(32,351)	(61,606)
Interest expense	12	**3,500**	3,179	10,909
Net fair value losses/(gains) on financial assets		**15,876**	(14,150)	(25,672)
Depreciation and amortisation		**4,671**	3,062	7,065
Charges in respect of share based payments		**4,620**	5,991	8,047
Other non-cash movements		**(67)**	(812)	1,323
Effect of exchange rate fluctuations on cash presented separately		**(680)**	(2,890)	(508)
Changes in operational assets and liabilities:				
Insurance and reinsurance contracts		**201,640**	163,754	141,646
Financial assets carried at fair value		**60,642**	117,029	(2,527)
Financial liabilities carried at fair value		**396**	–	82
Other assets and liabilities		**(19,777)**	(68,906)	(23,704)
Cash flows from operations		**157,794**	271,058	265,602
Interest received		**26,724**	31,422	60,332
Equity dividends received		**707**	929	1,274
Interest paid		**(3,271)**	(2,532)	(4,628)
Current tax paid		**(33,793)**	(27,314)	(51,580)
Net cash flows from operating activities		**148,161**	273,563	271,000
Cash flow from acquisition of subsidiaries		**–**	–	(3,662)
Cash flow from sale and purchase of associates		**723**	–	468
Cash flows from the purchase of property, plant and equipment		**(590)**	(1,147)	(3,462)
Cash flows from the purchase of intangible assets		**(6,160)**	(2,809)	(15,591)
Net cash flows from investing activities		**(6,027)**	(3,956)	(22,247)
Proceeds from the issue of ordinary shares		**1,383**	3,142	4,108
Dividends paid to owners of the Company	16	**(31,803)**	(39,442)	(58,460)
Net increase/(repayments) of borrowings		**54,543**	(138,300)	(118,539)
Net cash flows from financing activities		**24,123**	(174,600)	(172,891)
Net increase in cash and cash equivalents		**166,257**	95,007	75,862
Cash and cash equivalents at 1 January		**336,017**	259,647	259,647
Net increase in cash and cash equivalents		**166,257**	95,007	75,862
Effect of exchange rate fluctuations on cash and cash equivalents		**680**	2,890	508
Cash and cash equivalents at end of period	20	**502,954**	357,544	336,017

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 2011 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 2011.

The Directors of Hiscox Ltd are listed in the Group's 2010 Report and Accounts. A list of current Directors is maintained and available for inspection at the registered office of the Company located at 4th Floor, Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda.

2 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with the Listing Rules issued by the Financial Services Authority. The information presented herein does not include all of the disclosures typically required for full consolidated financial statements. Consequently these financial statements should be read in conjunction with the full consolidated financial statements of the Group as at, and for the year ended, 31 December 2010 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 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 2010. The report of the independent auditors was not qualified. The amounts presented for the 30 June 2011 and 30 June 2010 periods are unaudited.

These condensed consolidated interim financial statements were approved by the Board of Directors on 1 August 2011.

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 2010. The consolidated financial statements as at, and for the year ended, 31 December 2010 were compliant with International Financial Reporting Standards as adopted by the European Union and in accordance with the provisions of the Bermuda Companies Act 1981. The Interim Report is compliant with IAS 34 Interim Financial Reporting as adopted by the European Union.

4 Financial, insurance and other risk management

The Group's financial, insurance and other risk management objectives and policies are consistent with that disclosed in note 3 of the full consolidated financial statements as at, and for the year ended, 31 December 2010. 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 2010 as outlined in the Group Report and Accounts. The Group also continues to be mindful of the processes required for establishing the reliability of fair values obtained for some classes of financial assets affected by ongoing periods of diminished liquidity. In order to assist users, the Group has disclosed the measurement attributes of its investment portfolio in a fair value hierarchy in note 18 in accordance with the Amendments to IFRS 7, Financial Instruments: Disclosures.

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

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

5 Seasonality and weather

Historically the Group's most material exposure to catastrophe losses on certain lines of business such as reinsurance inwards and marine and major property risk have been greater during the second half of the calendar year, broadly in line with the most active period of the North Atlantic hurricane season. In contrast a majority of gross premium income written in these lines of business occurs during the first half of the calendar year. The Group actively participates in many regions and if any catastrophic events do occur, it is likely that the Group will share some of the market's losses. Consequently, the potential for significantly greater volatility in expected returns remains during the second half of the year. Details of the Group's recent exposures to these classes of business are disclosed in note 3 of the Group's 2010 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 2010 Report and Accounts.

7 Operating segments

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

Notes to the condensed consolidated interim financial statements
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7 Operating segments continued

The Group's four operating segments are:

- **London Market** comprises the results of Syndicate 33, excluding the results of fine art, UK regional events coverage and non US household business which is included within the results of the UK and Europe. It also includes the fire and aviation business from Syndicate 3624 and the larger TMT business written by Hiscox Insurance Company Limited. In addition, it excludes an element of kidnap and ransom and terrorism included in UK and Europe.
- **UK and Europe** comprises the results of Hiscox Insurance Company Limited, the results of Syndicate 33's fine art, UK regional events coverage and non US household business, together with the income and expenses arising from the Group's retail agency activities in the UK and continental Europe. In addition, it includes the European errors and omissions business from Syndicate 3624. It also includes an element of kidnap and ransom and terrorism written in Syndicate 33. It excludes the results of the larger TMT business written by Hiscox Insurance Company Limited.
- **International** comprises the results of Hiscox Insurance Company (Guernsey) Limited, Hiscox Insurance Company (Bermuda) Limited, Hiscox Inc., Hiscox Insurance Company Inc. and Syndicate 3624 excluding the European errors and omissions, fire and aviation business.
- **Corporate Centre** comprises the investment return, finance costs and administrative costs associated with Group management activities. Corporate Centre also includes the majority of foreign currency items on economic hedges and intragroup borrowings. These relate to certain foreign currency items on economic hedges and intagroup borrowings, further details of these can be found in note 13 of the Group's Report and Accounts for the year ended 31 December 2010. Corporate Centre forms a reportable segment due to its investment activities which earn significant external coupon revenues.

6 months to 30 June 2011	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	348,993	263,510	234,948	–	847,451
Net premiums written	237,975	248,810	180,776	–	667,561
Net premiums earned	192,793	215,341	146,534	–	554,668
Investment result	8,174	5,806	8,067	3,416	25,463
Other revenues	4,008	1,748	1,869	–	7,625
Revenue	204,975	222,895	156,470	3,416	587,756
Claims and claim adjustment expenses, net of reinsurance	(158,544)	(102,235)	(177,571)	–	(438,350)
Expenses for the acquisition of insurance contracts	(43,173)	(50,737)	(33,507)	–	(127,417)
Operational expenses	(18,998)	(47,193)	(28,309)	(6,100)	(100,600)
Foreign exchange (losses)/gains	(10,194)	2,569	895	3,183	(3,547)
Total expenses	(230,909)	(197,596)	(238,492)	(2,917)	(669,914)
Results of operating activities	(25,934)	25,299	(82,022)	499	(82,158)
Finance costs	(680)	–	(209)	(2,611)	(3,500)
Share of profit of associates after tax	–	–	–	62	62
(Loss)/profit before tax	(26,614)	25,299	(82,231)	(2,050)	(85,596)
100% ratio analysis					
Claims ratio (%)	82.7	47.2	118.9	–	78.8
Expense ratio (%)	26.9	45.3	41.8	–	36.9
Combined ratio excluding foreign exchange impact (%)	109.6	92.5	160.7	–	115.7
Foreign exchange impact (%)	4.3	(1.2)	(0.6)	–	1.2
Combined ratio (%)	113.9	91.3	160.1	–	116.9
Combined ratio excluding non monetary foreign exchange impact (%)	115.1	91.7	160.1	–	117.6
Total assets before intragroup items and eliminations	2,432,419	936,321	1,438,769	1,066,178	5,873,687
Intragroup items and eliminations					(1,558,974)
Total assets					4,314,713

6 months to 30 June 2010	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	383,072	248,165	273,089	–	904,326
Net premiums written	246,412	234,595	202,692	–	683,699
Net premiums earned	216,787	210,105	165,857	–	592,749
Investment result	25,004	5,746	12,938	7,061	50,749
Other revenues	6,675	1,139	2,774	7	10,595
Revenue	248,466	216,990	181,569	7,068	654,093
Claims and claim adjustment expenses, net of reinsurance	(120,393)	(99,618)	(104,898)	–	(324,909)
Expenses for the acquisition of insurance contracts	(56,501)	(50,469)	(40,247)	–	(147,217)
Operational expenses	(22,257)	(42,807)	(31,194)	(7,470)	(103,728)
Foreign exchange (losses)/gains	20,893	(4,487)	(11,426)	17,042	22,022
Total expenses	(178,258)	(197,381)	(187,765)	9,572	(553,832)
Results of operating activities	70,208	19,609	(6,196)	16,640	100,261
Finance costs	(382)	(6)	(225)	(2,566)	(3,179)
Share of profit of associates after tax	–	–	–	70	70
(Loss)/profit before tax	69,826	19,603	(6,421)	14,144	97,152
100% ratio analysis					
Claims ratio (%)	55.3	46.6	64.4	–	54.8
Expense ratio (%)	35.4	44.3	42.4	–	40.0
Combined ratio excluding foreign exchange impact (%)	90.7	90.9	106.8	–	94.8
Foreign exchange impact (%)	(8.5)	2.2	7.2	–	(1.2)
Combined ratio (%)	82.2	93.1	114.0	–	93.6
Combined ratio excluding non monetary foreign exchange impact (%)	83.9	92.5	114.0	–	94.3
Total assets before intragroup items and eliminations	2,510,171	851,520	1,296,982	985,991	5,644,664
Intragroup items and eliminations					(1,445,056)
Total assets					4,199,608

Year to 31 December 2010	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	572,748	454,692	405,235	–	1,432,674
Net premiums written	389,581	428,032	314,014	–	1,131,627
Net premiums earned	396,096	422,180	312,882	–	1,131,158
Investment result	39,068	17,244	27,624	16,313	100,249
Other revenues	12,054	3,671	5,836	518	22,079
Revenue	447,218	443,095	346,342	16,831	1,253,486
Claims and claim adjustment expenses, net of reinsurance	(195,570)	(213,001)	(162,426)	–	(570,997)
Expenses for the acquisition of insurance contracts	(92,832)	(99,069)	(77,990)	–	(269,891)
Operational expenses	(44,733)	(89,440)	(59,419)	(12,811)	(206,403)
Foreign exchange (losses)/gains	11,669	(1,972)	(2,610)	8,397	15,484
Total expenses	(321,466)	(403,482)	(302,445)	(4,414)	(1,031,807)
Results of operating activities	125,752	39,613	43,897	12,417	221,679
Finance costs	(4,392)	(9)	(433)	(5,256)	(10,090)
Share of profit of associates after tax	–	–	(323)	100	(223)
(Loss)/profit before tax	121,360	39,604	43,141	7,261	211,366
100% ratio analysis					
Claims ratio (%)	48.3	50.2	53.2	–	50.1
Expense ratio (%)	33.5	44.6	43.2	–	39.7
Combined ratio excluding foreign exchange impact (%)	81.8	94.8	96.4	–	89.8
Foreign exchange impact (%)	(2.1)	0.5	0.9	–	(0.5)
Combined ratio (%)	79.7	95.3	97.3	–	89.3
Combined ratio excluding non monetary foreign exchange impact (%)	79.7	95.3	97.3	–	89.3
Total assets before intragroup items and eliminations	2,254,502	904,637	1,287,689	996,864	5,443,692
Intragroup items and eliminations					(1,452,840)
Total assets					3,990,852

Notes to the condensed consolidated interim financial statements
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8 Net asset value per share

	30 June 2011 Net asset value (total equity) £000	30 June 2011 NAV per share pence	30 June 2010 Net asset value (total equity) £000	30 June 2010 NAV per share pence	31 Dec 2010 Net asset value (total equity) £000	31 Dec 2010 NAV per share pence
Net asset value	**1,146,465**	**296.3**	1,202,201	318.9	1,266,114	322.7
Net tangible asset value	**1,081,583**	**279.6**	1,148,918	304.7	1,202,006	315.8

The net asset value per share is based on 386,863,124 shares (30 June 2010: 377,003,655; 31 December 2010: 380,613,336), being the adjusted number of shares in issue at each reference date. Net tangible assets comprise total equity excluding intangible assets.

9 Return on equity

	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
(Loss)/profit for the period	**(87,041)**	78,610	178,800
Opening shareholders' equity	**1,266,114**	1,121,286	1,121,286
Adjusted for the time weighted impact of capital distributions and issuance of shares	**(1,970)**	(19,485)	(34,820)
Adjusted opening shareholders' equity	**1,264,144**	1,101,801	1,086,466
Annualised return on equity (%)	**(13.3)**	14.8	16.5

10 Investment result

i) Analysis of investment result

The total investment result for the Group before taxation comprises:

	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
Investment income including interest receivable	**27,431**	31,001	61,606
Net realised gains on financial investments at fair value through profit or loss	**13,908**	5,598	12,971
Net fair value (losses)/gains on financial investments at fair value through profit or loss	**(13,749)**	10,001	24,272
Investment result - financial assets	**27,590**	46,600	98,849
Fair value (losses)/gains on derivative financial instruments	**(2,127)**	4,149	1,400
Total result	**25,463**	50,749	100,249

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

ii) Annualised investment yields

	6 months to 30 June 2011 Return £000	6 months to 30 June 2011 Yield %	6 months to 30 June 2010 Return £000	6 months to 30 June 2010 Yield %	Year to 31 Dec 2010 Return £000	Year to 31 Dec 2010 Yield %
Debt and fixed income securities	**23,779**	**2.1**	48,738	4.4	82,234	3.7
Equities and shares in unit trusts	**2,668**	**3.7**	(2,679)	(3.9)	15,572	11.1
Deposits with credit institutions/cash and cash equivalents	**1,143**	**0.6**	541	0.3	1,043	0.3
	27,590	**2.0**	46,600	3.5	98,849	3.6

11 Other revenues and expenses

	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
Agency related income	**3,478**	2,351	6,816
Profit commission	**3,462**	6,549	10,616
Other underwriting income, catastrophe bonds	**599**	323	1,280
Other income	**86**	1,372	3,367
Other revenues	**7,625**	10,595	22,079
Wages and salaries	**32,191**	40,026	80,359
Social security costs	**5,157**	5,459	13,689
Pension cost - defined contribution	**2,805**	2,704	5,209
Pension cost - defined benefit	**–**	–	1,700
Share based payments	**4,620**	5,038	8,047
Other expenses	**39,672**	39,417	74,668
Marketing expenses	**9,799**	6,526	11,863
Investment expenses	**1,685**	1,496	3,803
Depreciation and amortisation	**4,671**	3,062	7,065
Operational expenses	**100,600**	103,728	206,403

12 Finance costs

	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
Interest and expenses associated with bank borrowings	**1,493**	1,556	3,117
Interest and charges associated with Letters of Credit	**1,613**	1,617	3,216
Interest charges on experience account	**393**	–	3,748
Interest charges arising on finance leases	**1**	6	9
	3,500	3,179	10,090

As at 30 June 2011, the total amount drawn by way of Letter of Credit to support the Funds at Lloyd's requirement was $340 million (30 June 2010: $225 million, 31 December 2010: $165 million).

13 Tax expense

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

	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
Current tax			
Expense for the year	**25,348**	60,750	58,228
Adjustments in respect of prior years	**–**	–	(1,062)
Total current tax	**25,348**	60,750	57,166
Deferred tax			
Credit for the year	**(22,606)**	(42,208)	(22,532)
Adjustments in respect of prior years	**11**	–	(691)
Effect of rate change	**(1,308)**	–	(1,377)
Total deferred tax	**(23,903)**	(42,208)	(24,600)
Total tax charged to the income statement	**1,445**	18,542	32,566

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
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14 Insurance liabilities and reinsurance assets

	30 June 2011 £000	30 June 2010 £000	31 Dec 2010 £000
Gross			
Claims and loss adjustment expenses outstanding	**1,941,986**	1,775,154	1,706,404
Unearned premiums	**730,137**	752,960	573,463
Total insurance liabilities, gross	**2,672,123**	2,528,114	2,279,867
Recoverable from reinsurers			
Claims and loss adjustment expenses outstanding	**395,855**	415,072	374,193
Unearned premiums	**134,806**	171,833	88,572
Total reinsurers' share of insurance liabilities	**530,661**	586,905	462,765
Net			
Claims and loss adjustment expenses outstanding	**1,546,131**	1,360,082	1,332,211
Unearned premiums	**595,331**	581,127	484,891
Total insurance liabilities, net	**2,141,462**	1,941,209	1,817,102

Net claims and claim adjustment expenses include releases of £95m (30 June 2010: £93m, 31 December 2010: £133m) 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**	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year**	274,783	362,007	576,830	680,891	532,362	694,392	771,723	689,890	805,337	**634,091**	**6,022,306**
one period later**	299,889	381,891	629,808	781,680	523,322	631,919	689,481	603,600	798,549	**–**	**5,340,139**
two periods later**	310,051	347,868	604,931	771,174	506,221	612,843	680,565	572,589	–	**–**	**4,406,242**
three periods later**	286,443	358,813	567,594	746,230	462,697	569,359	653,094	–	–	**–**	**3,644,230**
four periods later*	279,884	349,458	568,429	736,043	478,769	555,315	–	–	–	**–**	**2,967,898**
five periods later**	266,400	344,505	553,521	737,124	454,774	–	–	–	–	**–**	**2,356,324**
six periods later**	260,393	340,882	556,043	743,431	–	–	–	–	–	**–**	**1,900,749**
seven periods later**	265,673	340,568	549,319	–	–	–	–	–	–	**–**	**1,155,560**
eight periods later**	254,371	337,252	–	–	–	–	–	–	–	**–**	**591,623**
nine periods later**	254,127	–	–	–	–	–	–	–	–	**–**	**254,127**
Current estimate of cumulative claims	254,127	337,252	549,319	743,431	454,774	555,315	653,094	572,589	798,549	**634,091**	**5,552,541**
Cumulative payments to date	(233,341)	(316,163)	(475,146)	(649,114)	(400,095)	(465,585)	(499,675)	(360,861)	(266,105)	**(54,031)**	**(3,720,116)**
Liability recognised at 100% level	20,786	21,089	74,173	94,317	54,679	89,730	153,419	211,728	532,444	**580,060**	**1,832,425**
Liability recognised in respect of prior accident years at 100% level											**58,259**
Total net liability to external parties at 100% level											**1,890,684**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 30 June 2011.
** With the exception of the most recent development data for each accident year, which only relates to the six months ending 30 June 2011, the term period refers to one full calendar year.

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

Accident year	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	Total £000
Current estimate of cumulative claims	254,127	337,252	549,319	743,431	454,774	555,315	653,094	572,589	798,549	**634,091**	**5,552,541**
Less: attributable to external Names	(49,335)	(74,165)	(125,596)	(180,778)	(94,715)	(110,557)	(120,400)	(92,059)	(121,102)	**(86,784)**	**(1,055,491)**
Group share of current ultimate claims estimate	204,792	263,087	423,723	562,653	360,059	444,758	532,694	480,530	677,447	**547,307**	**4,497,050**
Cumulative payments to date	(233,341)	(316,163)	(475,146)	(649,114)	(400,095)	(465,585)	(499,675)	(360,861)	(266,105)	**(54,031)**	**(3,720,116)**
Less: attributable to external Names	43,922	68,827	110,187	156,130	82,103	89,728	83,987	52,553	32,998	**5,697**	**726,132**
Group share of cumulative payments	(189,419)	(247,336)	(364,959)	(492,984)	(317,992)	(375,857)	(415,688)	(308,308)	(233,107)	**(48,334)**	**(2,993,984)**
Liability for 2002 to 2011 accident years recognised on Group's balance sheet	15,373	15,751	58,764	69,669	42,067	68,901	117,006	172,222	444,340	**498,973**	**1,503,066**
Liability for accident years before 2002 recognised on Group's balance sheet											**43,065**
Total Group liability to external parties included in the balance sheet, net†											**1,546,131**

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

15 Earnings per share

Basic

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

	6 months to 30 June 2011	6 months to 30 June 2010	Year to 31 Dec 2010
(Loss)/profit for the period attributable to owners of the Company (£000)	**(87,041)**	78,610	178,800
Weighted average number of ordinary shares in issue (thousands)	**381,999**	375,956	379,064
Basic earnings per share (pence per share)	**(22.8)p**	20.9p	47.2p

Diluted

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

	6 months to 30 June 2011	6 months to 30 June 2010	Year to 31 Dec 2010
Profit for the period attributable to owners of the Company (£000)	**(87,041)**	78,610	178,800
Weighted average number of ordinary shares in issue (thousands)	**381,999**	375,956	379,064
Adjustment for share options (thousands)	**–**	17,313	14,662
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**381,999**	393,269	393,726
Diluted earnings per share (pence per share)	**(22.8)p**	20.0p	45.4p

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
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16 Dividends paid to owners of the Company

	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
Final dividend for the year ended:			
31 December 2010 of 11.5p (net) per share	44,111	–	–
Interim dividend for the year ended:			
31 December 2010 of 5.0p (net) per share	–	–	19,018
Second interim dividend for the year ended:			
31 December 2009 of 10.5p (net) per share	–	39,442	39,442
	44,111	39,442	58,460

The final dividend for the year ended 31 December 2010 was part paid in scrip dividend. 3,227,459 shares were issued for the scrip dividend, with £31,803,000 being paid in cash.

An interim dividend of 5.1p (net) per ordinary share has been declared payable on 21 September 2011 to shareholders registered on 12 August 2011 in respect of the six months to 30 June 2011 (30 June 2010: 5.0p (net) per ordinary share). A scrip dividend alternative will be offered to the owners of the Company. The dividend was approved by the Board on 27 July 2011 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 2011 £000	30 June 2010 £000	31 Dec 2010 £000
Debt and fixed income securities	2,195,319	2,199,561	2,284,513
Equities and shares in unit trusts	155,283	139,635	154,862
Deposits with credit institutions	5,717	7,839	4,280
Total investments	2,356,319	2,347,035	2,443,655
Catastrophe bonds	11,674	14,071	15,452
Derivative instruments	76	398	–
Total financial assets carried at fair value	2,368,069	2,361,504	2,459,107

ii) Analysis of financial liabilities

	30 June 2011 £000	30 June 2010 £000	31 Dec 2010 £000
Borrowings from credit institutions carried at amortised cost	75,000	–	20,000
Derivative financial instruments	61	239	457
Total financial liabilities	75,061	239	20,457

iii) Investment and cash allocation

	30 June 2011 £000	30 June 2011 %	30 June 2010 £000	30 June 2010 %	31 Dec 2010 £000	31 Dec 2010 %
Debt and fixed income securities	2,195,319	76.8	2,199,561	81.3	2,284,513	82.2
Equities and shares in unit trusts	155,283	5.4	139,635	5.2	154,862	5.6
Deposits with credit institutions/cash and cash equivalents	508,671	17.8	365,383	13.5	340,297	12.2
Total	2,859,273		2,704,579		2,779,672	

iv) Investment and cash allocation by currency

	30 June 2011 %	30 June 2010 %	31 Dec 2010 %
Sterling	24.0	26.6	26.3
US Dollars	61.6	63.1	63.4
Euro and other currencies	14.4	10.3	10.3

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

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

As at 30 June 2010	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt and fixed income securities	483,947	1,715,614	–	2,199,561
Equities and shares in unit trusts	174	134,519	4,942	139,635
Deposits with credit institutions	7,839	–	–	7,839
Catastrophe bonds	–	14,071	–	14,071
Derivative financial instruments	–	398	–	398
Total	491,960	1,864,602	4,942	2,361,504

As at 31 December 2010	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt and fixed income securities	516,528	1,767,985	–	2,284,513
Equities and shares in unit trusts	70	147,866	6,926	154,862
Deposits with credit institutions	4,280	–	–	4,280
Catastrophe bonds	–	15,452	–	15,452
Total	520,878	1,931,303	6,926	2,459,107

As at 30 June 2011, the Group had derivative financial liabilities of £61,000 which are classified as level 2 (30 June 2010: £239,000, 31 December 2010: £457,000).

The levels of the fair value hierarchy are defined by the standard as follows:
- Level 1 – fair values measured using quoted prices (unadjusted) in active markets for identical instruments,
- Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data,
- Level 3 – fair values measured using valuation techniques for which significant inputs are not based on market observable data.

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

Notes to the condensed consolidated interim financial statements
continued

18 Fair value measurements continued

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

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

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

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

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

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

During the period, there were no significant transfers made between Level 1 and Level 2 of the fair value hierarchy. In addition, there were no significant movements in the Level 3 assets from 31 December 2010.

19 Impact of foreign exchange related items

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

	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
Exchange (losses)/gains recognised in the consolidated income statement	**(3,547)**	22,022	15,484
Exchange (losses)/gains classified as a separate component of equity	**(8,550)**	34,363	11,729
Overall impact of foreign exchange related items on net assets	**(12,097)**	56,385	27,213

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 overleaf.

	6 months to 30 June 2011 £000	6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
Opening balance sheet impact of non retranslation of non monetary items	**(1,251)**	(3,207)	(3,207)
Gain/(loss) included within profit representing the non retranslation of non monetary items	**2,759**	5,136	1,956
Closing balance sheet impact of non retranslation of non monetary items	**1,508**	1,929	(1,251)

20 Condensed consolidated interim cash flow statement

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

Included within cash and cash equivalents held by the Group are balances totalling £82,690,000 (30 June 2010: £78,428,000; 31 December 2010: £63,447,000) not available for use by the Group outside of the Lloyd's Syndicates within which they are held.

Directors' responsibility statement

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

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

The individuals responsible for authorising the responsibility statement on behalf of the Board are the Chairman, RRS Hiscox and the Group Finance Director, SJ Bridges. The statements were approved for issue on 1 August 2011.

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 2011 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 2011 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
1 August 2011

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.