**Hiscox Ltd**

4th Floor
Wessex House
45 Reid Street
Hamilton HM 12
Bermuda

T +1 441 278 8300
F +1 441 278 8301
E enquiries@hiscox.bm
www.hiscox.com

HISCOX

# 2008
# Hiscox Ltd Interim Statement

## Contents



**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

Record interim pre-tax profits of £109.2m (2007: £105.6m)

Gross written premiums down by 12.8% to £639.4m (2007: £733.0m)

Group combined ratio 79.7% (2007: 84.8%); improved combined ratio in each division

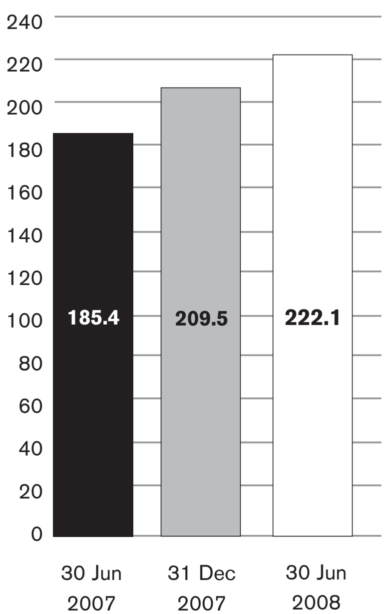
Earnings per share on profit after tax up 6.9% to 21.7p (2007: 20.3p)

Interim dividend increased by 6.25% to 4.25p per share (2007: 4.0p)

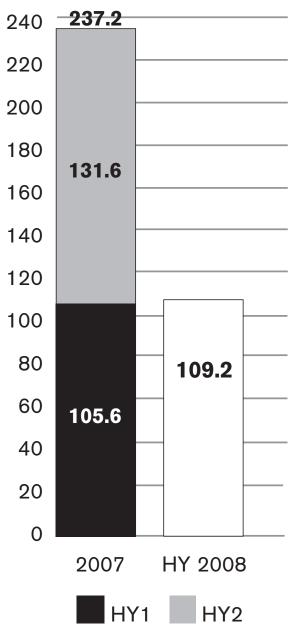
Return on equity 21.8% (2007: 24.8%)

Active capital management, including share buy-backs totalling £73.7m and debt reduction of US$182m

**Net asset value per share** (p)




**Profit before tax** (£m)



## Chairman's statement

**It is very pleasing (and slightly surreal) to be able to announce record half year results when the financial markets are in turmoil, and our rating by the stock market is so low. There was a strong performance from all divisions, and a positive investment result which is an achievement given the buffeting many investments (even the short dated and highly rated ones we favour) have had in the recent market turmoil.**

I realise that the share price reflects the future, not the past. Yes, insurance rates are reducing in some areas of our business, but we are well able to find profitable business and continue to walk away from inadequately rated business, and yes, we have investments in asset-backed bonds and the like, but we have not had a single bond default and we are getting much better returns to maturity than in recent years. I believe that we have a strong and profitable future.

### Results

Record profits before tax for the half year to 30 June 2008 of £109.2 million (2007: £105.6 million), an increase of 3.4%, despite a weaker investment return. Gross written premiums have decreased as forecast to £639.4 million (2007: £733.0 million) as the reductions in larger premium business are not fully offset by the good growth in our regional business. Net earned premium increased to £486.8 million (2007: £471.9 million) as we benefited from the premium written in the strong 2007 rating environment. The combined ratio reduced to 79.7% (2007: 84.8%). Earnings per share increased to 21.7p (2007: 20.3p) and net assets per share rose to 222.1p (2007: 185.4p), an increase of 19.8%. We are in the middle of the hurricane season and the financial markets remain challenging, but a strong start to the year bodes well for the full year.

### 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 6.25% to 4.25p per share (2007: 4p per share) which will be paid on 29 September 2008 to shareholders on the register at the close of business on 29 August 2008.

The Group is in a strong financial position with no significant changes to the balance sheet since the 2007 year end. During the first six months our strong cashflow enabled us to repay the existing loan of US $182 million in full. We also refinanced our bank facilities, increasing them to £350 million, lengthening the duration to five years on the cash facility and improving the terms. These facilities were provided by our existing syndicate of relationship banks.

We have effectively exceeded our £150 million capital repayment programme with an annual dividend payment of £47 million, the buy-back of 32.4 million shares at an average price of 226.9p for a total of £73.7 million, and the repayment of US $182 million of bank debt. We will continue to buy back shares as suitable opportunities arise within the constraints of our capital needs and taking into account the uncertainty in the financial markets.

### Overall comment

When the absurd lending practices of the banks and their games of pass the parcel of their debts to each other came to the natural conclusion of the credit crunch, I thought that the insurance industry might be the ultimate recipient of much of the pain from the dud investments as they were dressed up as high-yielding bonds, the staple diet of insurance companies. But in general the insurance industry's ability to price risk saved it, and to date there has been less damage than expected – except to sentiment as investors assume the worst.

We are in the risk business, and now that risk is being more realistically priced in fixed interest markets, we are able to invest at more attractive prices and better yields. We have suffered from falls in bond valuations, but have not had a single default. However, if the worst happened and we do suffer some minor defaults, the cost is nothing compared with a major hurricane or other loss to the underwriting side of the business.

Underwriting is seeing the usual and predictable rate reductions after two very profitable years, but it was ever thus. As forecast previously, we are reducing income and exposure to ensure we take a measured amount of risk. Our strategy of focus on specialist classes with geographical spread gives us opportunities to concentrate on and grow in areas where there is less competition and better pricing.

### 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 | £80.4 million (2007: £87.5 million) |
| Gross premiums written | £344.3 million (2007: £423.7 million) |
| Combined ratio | 75.7% (2007: 75.9%) |

After two good catastrophe-free years, reinsurance rates are under pressure. We said we would underwrite with discipline and walk away from prices which did not reflect the risk, and this we have done at the expense of the top line. Better to make money on a smaller income than to lose money on an increased turnover; or in my usual words, profit is sanity, turnover vanity.

The first half year has been full of large individual losses around the world, most notably in the large property, mining and energy sectors. Market estimates of these losses currently exceed US $6 billion in aggregate. We had reduced our exposure in this area, but if prices rise again as a result of these losses, we shall re-enter the market with full force.

Once again I am writing this in the middle of the wind season, and Mother Nature likes to be unpredictable. What we can do to make our result more predictable is to focus hard on analysing our catastrophe exposure and the price we are getting for it and tailor it to produce a profit in the expectation of realistic wind losses, remaining acutely aware of the deficiencies of theoretical models. We have reduced our exposure and income but reinsurance rates continue to be healthy and we will continue to seek good profits in this area.

With the obvious markets of internationally traded catastrophe and big risk insurance business under pressure, we are working hard to expand in our more specialist areas.

We announced recently that we were examining the possibility of starting up a new wholly owned syndicate at Lloyd's to underwrite business from our wholly owned distribution network. We are in active discussions with Lloyd's, the FSA and the external capital providers of Syndicate 33 and are hopeful that the new syndicate can be formed for the 2009 year.

### Hiscox International

This division covers Bermuda, the USA and Guernsey.

| | |
|---|---|
| Profit before tax | £20.3 million (2007: £12.1 million) |
| Gross premiums written | £117.0 million (2007: £154.0 million) |
| Combined ratio | 84.6% (2007: 95.3%) |

As planned, Bermuda has reduced its income by around 36% reducing exposure as rates reduce. Bob Forness and his team are joining Hiscox to form a new division to underwrite custom made reinsurance products. He will also be taking over as CEO of our Bermuda subsidiary from Robert Childs who will be returning to London. Robert will retain his roles as Chief Underwriting Officer of the Group and head of our International business area.

Hiscox USA is now well established and the integration of American Live Stock Inc. is nearly complete. As licenses are obtained we will be writing admitted specialist commercial business (in addition to the existing admitted animal mortality business) in the second half of the year. Income grew by 59% in the first half (but from a small base) and the combined operation is nearing break-even.

Guernsey has produced another excellent profit.

### Hiscox UK and Europe

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

| | |
|---|---|
| Profit before tax | £16.3 million (2007: £6.6 million) |
| Gross premiums written | £178.0 million (2007: £155.3 million) |
| Combined ratio | 86.3% (2007: 103.8%) |

These are strong underwriting results dampened by negative investment returns due to a large proportion of the Group's equities being held in this division. The market is as competitive as ever but we continue to offer our excellent products at the right price.

In the UK, we focus on High Net Worth personal lines (now including motor) and commercial insurance for small and medium sized professional businesses. The addition of luxury car insurance has started well, and in the household business we have decided to put all our resources behind our higher net worth offerings and to write the mid net worth direct only through internet and telephone. The narrower the blade the deeper it goes.

Our specialist commercial business is written both through brokers and direct and is forging ahead successfully generating a solid underwriting result at the half year. We focus on small risks which are less competed for and less exposed to the softening market.

We continue to build the brand with our second TV advertising campaign of the year in August. This continues to generate good business with growth of our direct household area up nearly 52% 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.

Europe continues its contribution as we experienced extremely satisfactory growth in profitability across all classes of business and we are pleased with the results generated in all countries. This performance has been delivered by both healthy increases in gross written premium and an improvement in productivity as well as favourable foreign exchange. We believe that the new concentration on commercial risks, particularly in small businesses, will generate sustained profitable growth.

### Investments

Assets under management at 30 June 2008 totalled £1,931 million (2007: £1,823 million) and the yield for the half year was 0.8% (2007: 2.6%), giving an investment return of £17.3 million (2007: £46.8 million). The assets have reduced from £2,051 million at the year end due largely to the repayment of debt and the share repurchase programme.

The modest (but positive) investment return reflects the challenging conditions that prevailed during the period. Although we further reduced our allocation to equities we suffered nonetheless from the weakness in markets but by a smaller amount than the general indices. The bond markets, where the bulk of our assets are invested, continued to be volatile with certain sectors being disrupted by illiquidity and credit concerns. We have not suffered a single default and are now taking advantage of the dislocation in pricing to make some opportunistic allocations to slightly higher risk, but also higher return, investments.

Much debate exists about mark to market valuations where turmoil exists in markets and forced selling depresses prices. As these assets mature the discounts reverse so we look more to the yield to maturity we will earn given the high quality of our asset portfolio. For us, as for any insurance company, liquidity of the portfolio is key and over the last few years we have avoided investing in complex structured products due to our concerns over liquidity of these products in uncertain markets - a concern that the current markets have borne out. Our fixed interest portfolios mature at an average rate of £100 million a quarter over the next two years, approximately 60% of the total fixed interest portfolio. Added to over £300 million of available bank facilities this gives us very strong liquidity.

## Outlook

We have spent the last few profitable years investing in businesses internationally with the intention of balancing the more volatile cycle and results of internationally traded business. Our regional network has more than doubled their aggregate profits, and that includes two major areas, the UK direct business and the new USA business, still in loss but working fast towards profit. Their time has come to prove the strategy and to provide sustainable profits.

We will continue to focus hard in areas of business in which we specialise, distributing our products electronically and through our growing international network. The first half of the year has been excellent and there is no reason why the second half should not be good barring the extraordinary. We are determined to keep growing our regional businesses in volume and profit, and to make reasonable profits in our internationally trading businesses whatever the state of the market, keeping our tinder dry and our capital intact to surge again when the rates turn up, as we did in 2002 and 2006.

Robert Hiscox

**Robert Hiscox, Chairman**
**18 August 2008**



# Condensed consolidated interim income statement
## for the six month period ended 30 June 2008

| | Note | 6 months to 30 June 2008 £000 | 6 months to 30 June 2007 £000 | Year to 31 Dec 2007 £000 |
|---|---|---|---|---|
| **Income** | | | | |
| Gross premiums written | 7 | **639,360** | 733,029 | 1,198,949 |
| Outward reinsurance premiums | | **(125,413)** | (185,887) | (224,039) |
| Net premiums written | | **513,947** | 547,142 | 974,910 |
| Gross premiums earned | | **574,934** | 579,598 | 1,179,444 |
| Premiums ceded to reinsurers | | **(88,111)** | (107,746) | (214,254) |
| Net premiums earned | | **486,823** | 471,852 | 965,190 |
| Investment result | 9 | **17,276** | 46,761 | 99,677 |
| Other revenues | 10 | **8,381** | 8,514 | 19,044 |
| Revenue | | **512,480** | 527,127 | 1,083,911 |
| **Expenses** | | | | |
| Claims and claim adjustment expenses, net of reinsurance | 12 | **(206,980)** | (216,612) | (423,365) |
| Expenses for the acquisition of insurance contracts | | **(125,792)** | (126,271) | (264,570) |
| Administration expenses | | **(38,750)** | (40,574) | (76,813) |
| Other expenses | 10 | **(28,219)** | (33,983) | (73,868) |
| Total expenses | | **(399,741)** | (417,440) | (838,616) |
| Results of operating activities | | **112,739** | 109,687 | 245,295 |
| Finance costs | 11 | **(3,556)** | (4,201) | (8,177) |
| Share of profit of associates after tax | | **38** | 76 | 81 |
| **Profit before tax** | | **109,221** | 105,562 | 237,199 |
| Tax expense | | **(24,869)** | (25,550) | (45,951) |
| **Profit for the period (all attributable to equity shareholders of the Company)** | | **84,352** | 80,012 | 191,248 |
| Earnings per share on profit attributable to shareholders of the Company | | | | |
| Basic | 13 | **21.7p** | 20.3p | 48.4p |
| Diluted | 13 | **20.9p** | 19.6p | 46.8p |

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

## Condensed consolidated interim balance sheet
at 30 June 2008

| | Note | 30 June 2008 £000 | 30 June 2007 £000 | 31 December 2007 £000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Intangible assets | 19 | **41,547** | 33,122 | 40,452 |
| Property, plant and equipment | | **21,035** | 13,962 | 19,378 |
| Investments in associates | | **4,924** | 104 | 1,502 |
| Deferred acquisition costs | | **137,496** | 146,529 | 123,081 |
| Financial assets carried at fair value | 15 | **1,639,526** | 1,501,900 | 1,747,827 |
| Loans and receivables including insurance receivables | | **442,319** | 481,534 | 385,222 |
| Reinsurance assets | 17 | **315,510** | 371,602 | 280,088 |
| Cash and cash equivalents | | **291,554** | 321,309 | 302,742 |
| **Total assets** | | **2,893,911** | 2,870,062 | 2,900,292 |
| **Equity and liabilities** | | | | |
| Shareholders' equity | | | | |
| Share capital | | **19,989** | 19,829 | 19,898 |
| Share premium | | **7,254** | 3,227 | 4,955 |
| Contributed surplus | | **367,693** | 414,698 | 398,834 |
| Currency translation reserve | | **(45,193)** | (45,611) | (43,265) |
| Retained earnings | | **467,835** | 342,807 | 443,882 |
| **Total equity (all attributable to equity shareholders of the Company)** | | **817,578** | 734,950 | 824,304 |
| Employee retirement benefit obligations | | **-** | 3,452 | - |
| Deferred tax | | **34,136** | 12,102 | 9,751 |
| Insurance liabilities | 17 | **1,824,711** | 1,803,903 | 1,713,887 |
| Financial liabilities carried at fair value | 15 | **19** | 91,000 | 91,764 |
| Current tax | | **11,736** | 23,863 | 24,711 |
| Trade and other payables | | **205,731** | 200,792 | 235,875 |
| **Total liabilities** | | **2,076,333** | 2,135,112 | 2,075,988 |
| **Total equity and liabilities** | | **2,893,911** | 2,870,062 | 2,900,292 |

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 2008

| | Share capital £000 | Share premium £000 | Contributed surplus £000 | Currency translation reserve £000 | Retained earnings £000 | 2008 Total £000 |
|---|---|---|---|---|---|---|
| Balance at 1 January | 19,898 | 4,955 | 398,834 | (43,265) | 443,882 | **824,304** |
| Currency translation differences | - | - | - | (1,093) | - | **(1,093)** |
| Net investment hedge | - | - | - | (835) | - | **(835)** |
| Net income/(expense) recognised directly in equity | - | - | - | (1,928) | - | **(1,928)** |
| Profit for period | - | - | - | - | 84,352 | **84,352** |
| Total recognised income/(expense) for the period | - | - | - | (1,928) | 84,352 | **82,424** |
| Employee share options: | | | | | | |
| Equity settled share-based payments | - | - | - | - | 2,778 | **2,778** |
| Deferred tax transfer on shared-based payments | - | - | - | - | (2,749) | **(2,749)** |
| Proceeds from shares issued | 91 | 2,299 | - | - | - | **2,390** |
| Purchase of own shares held in treasury | - | - | - | - | (60,428) | **(60,428)** |
| Dividends to external shareholders (note 14) | - | - | (31,141) | - | - | **(31,141)** |
| **Balance at 30 June 2008** | 19,989 | 7,254 | 367,693 | (45,193) | 467,835 | **817,578** |

| | Share capital £000 | Share premium £000 | Contributed surplus £000 | Currency translation reserve £000 | Retained earnings £000 | 2007 Total £000 |
|---|---|---|---|---|---|---|
| Balance at 1 January | 19,694 | - | 442,425 | (40,396) | 260,362 | 682,085 |
| Currency translation differences | - | - | - | (7,072) | - | (7,072) |
| Net investment hedge | - | - | - | 1,857 | - | 1,857 |
| Net income/(expense) recognised directly in equity | - | - | - | (5,215) | - | (5,215) |
| Profit for period | - | - | - | - | 80,012 | 80,012 |
| Total recognised income/(expense) for the period | - | - | - | (5,215) | 80,012 | 74,797 |
| Employee share options: | | | | | | |
| Equity settled share-based payments | - | - | - | - | 2,787 | 2,787 |
| Deferred tax transfer on shared-based payments | - | - | - | - | (354) | (354) |
| Proceeds from shares issued | 135 | 3,227 | - | - | - | 3,362 |
| Dividends to external shareholders (note 14) | - | - | (27,727) | - | - | (27,727) |
| Balance at 30 June 2007 | 19,829 | 3,227 | 414,698 | (45,611) | 342,807 | 734,950 |

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 2008

| | Note | 6 months to 30 June 2008 £000 | 6 months to 30 June 2007 £000 | Year to 31 Dec 2007 £000 |
|---|---|---|---|---|
| Profit before tax | | **109,221** | 105,562 | 237,199 |
| Adjustments for: | | | | |
| Interest and equity dividend income | | **(42,169)** | (40,928) | (90,205) |
| Interest expense | | **3,556** | 4,201 | 8,177 |
| Net fair value (gains)/losses on financial investments, derivatives and borrowings | | **33,428** | (4,166) | 687 |
| Non-cash movement in retirement benefit obligation | | **-** | (349) | (3,801) |
| Depreciation | | **2,402** | 2,067 | 4,917 |
| Charges in respect of share based payments | | **2,778** | 2,787 | 5,689 |
| Other non-cash movements | | **(5,393)** | 457 | (641) |
| Changes in operational assets and liabilities: | | | | |
| Insurance and reinsurance contracts | | **2,745** | 25,989 | 133,951 |
| Financial assets | | **74,873** | (256,902) | (489,745) |
| Other assets and liabilities | | **(28,551)** | (3,397) | 31,112 |
| Cash flows from operations | | **152,890** | (164,679) | (162,660) |
| Interest received | | **40,441** | 40,007 | 85,435 |
| Equity dividends received | | **1,727** | 921 | 4,770 |
| Interest paid | | **(4,023)** | (4,516) | (8,243) |
| Current tax paid | | **(16,208)** | (19,199) | (42,823) |
| **Net cash flows from operating activities** | | **174,827** | (147,466) | (123,521) |
| Cash outflow from the acquisition of subsidiary | 19 | **(1,225)** | - | (11,133) |
| Cash outflow from the sale of subsidiary | 19 | **-** | - | (936) |
| Cash outflow from the acquisition of associates | | **(3,384)** | - | (1,273) |
| Cash flows from the sale/(purchase) of property, plant and equipment | | **(4,009)** | (2,419) | (7,789) |
| Cash flows from the purchase of intangible assets | | **-** | - | (2,500) |
| **Net cash flows from investing activities** | | **(8,618)** | (2,419) | (23,631) |
| Proceeds from the issue of ordinary shares | | **2,390** | 3,362 | 5,159 |
| Net cash flows from purchase of own shares including those arising on share buy-back programme | | **(60,428)** | - | (11,343) |
| Dividends paid to Company's shareholders | 14 | **(31,141)** | (27,727) | (43,591) |
| Repayment of financial liabilities | | **(92,382)** | (59) | (272) |
| **Net cash flows from financing activities** | | **(181,561)** | (24,424) | (50,047) |
| **Net decrease in cash and cash equivalents** | | **(15,352)** | (174,309) | (197,199) |
| Cash and cash equivalents at 1 January | | **302,742** | 502,871 | 502,871 |
| Net decrease in cash and cash equivalents | | **(15,352)** | (174,309) | (197,199) |
| Effect of exchange rate fluctuations on cash and cash equivalents | | **4,164** | (7,253) | (2,930) |
| **Cash and cash equivalents at end of period** | 20 | **291,554** | 321,309 | 302,742 |

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 2008 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 2008.

The Directors of Hiscox Ltd are listed in the 2007 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 2007 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 independent auditors have reported on the Group's full consolidated financial statements as at, and for the year ended, 31 December 2007. The report of the independent auditors was not qualified. The amounts presented for the 30 June 2008 and 30 June 2007 period are unaudited.

These condensed consolidated interim financial statements were approved by the Board of Directors on 18 August 2008.

### 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 2007 which were prepared in accordance with International Financial Reporting Standards issued by the IASB. The consolidated financial statements as at, and for the year ended, 31 December 2007 were also compliant with those International Financial Reportng Standards adopted by the European Union. IAS 34 *Interim Financial Reporting* as adopted by the European Union has been adopted in this Interim Report. The accounting policies applied in these condensed consolidated interim financial statements are also consistent with those that the Group expects to apply for the year ending 31 December 2008.

### 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 2007. 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 no defaults on investments held during the period under review. As detailed in note 15, the Group's investment allocation is broadly comparable to that at 31 December 2007 as outlined in the Report and Accounts, although a slightly greater weighting in corporate bonds has occurred within portfolios to avail of attractive yield opportunities. 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. Such conditions may continue through the second half of the year.

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

### 5 Related party transactions
Transactions with related parties during the period are consistent in nature and scope with those disclosed in note 36 of the Group's 2007 Report and Accounts.

# Notes to the condensed consolidated interim financial statements continued

## 6 Seasonality and weather

Historically the Group's most material exposures to catastrophe losses on certain lines of business such as reinsurance inwards and marine and major property risks 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 has deliberately reduced its participation in these lines of business for the current year under review although still actively participates in many regions and if any catastropic 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 2007 Report and Accounts.

## 7 Operating segments

Management have identified the Group's operating segments in line with its internal organisation, which recognises the differences in products and services, customer groupings and geographical areas in addition to the discrete major legal entities of the Group. There have been no changes in reportable segments during the period under review.

The Group's four operating segments are therefore 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. and Hiscox Insurance Company (Bermuda) Limited and the ALTOHA sub-group which was acquired on 16 August 2007.
- **Corporate Centre** comprises the investment return and administrative costs associated with Group management activities. 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. The comparative amounts for the prior half year have been restated to conform to the requirements of IFRS 8. There is no change to these numbers previously reported with only segment assets being reported in addition. 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 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 | 13,792 | (2,900) | 6,556 | (172) | 17,276 |
| 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 | (10,948) | (9,184) | (3,924) | (4,163) | (28,219) |
| 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 including interest expense | - | - | (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 (%) | 41.2 | 39.7 | 50.0 | - | 42.1 |
| Expense ratio (%) | 34.5 | 46.6 | 34.6 | - | 37.6 |
| **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 |

| 6 months to 30 June 2007 | Global Markets £000 | UK and Europe £000 | International £000 | Corporate Centre £000 | Total £000 |
|---|---|---|---|---|---|
| Gross premiums written | 423,685 | 155,353 | 153,991 | - | 733,029 |
| Net premiums written | 288,163 | 134,780 | 124,199 | - | 547,142 |
| Net premiums earned | 270,367 | 118,946 | 82,539 | - | 471,852 |
| Investment result | 18,128 | 11,406 | 9,453 | 7,774 | 46,761 |
| Other revenues | 5,752 | 1,356 | 368 | 1,038 | 8,514 |
| Revenue | 294,247 | 131,708 | 92,360 | 8,812 | 527,127 |
| Claims and claim adjustment expenses, net of reinsurance | (100,485) | (58,963) | (57,164) | - | (216,612) |
| Expenses for the acquisition of insurance contracts | (76,471) | (32,324) | (17,476) | - | (126,271) |
| Administration expenses | (16,617) | (19,709) | (4,248) | - | (40,574) |
| Other expenses | (13,165) | (14,111) | (1,278) | (5,429) | (33,983) |
| Total expenses | (206,738) | (125,107) | (80,166) | (5,429) | (417,440) |
| Results of operating activities | 87,509 | 6,601 | 12,194 | 3,383 | 109,687 |
| Finance costs including interest expense | (35) | - | (83) | (4,083) | (4,201) |
| Share of profit of associates after tax | - | - | - | 76 | 76 |
| **Profit before tax** | 87,474 | 6,601 | 12,111 | (624) | 105,562 |
| **100% ratio analysis** | | | | | |
| Claims ratio (%) | 40.2 | 48.8 | 68.1 | - | 46.2 |
| Expense ratio (%) | 35.7 | 55.0 | 27.2 | - | 38.6 |
| **Combined ratio (%)** | 75.9 | 103.8 | 95.3 | - | 84.8 |
| Total assets before intragroup items and eliminations | 1,694,314 | 611,923 | 592,340 | 842,703 | 3,741,280 |
| Intragroup items and eliminations | | | | | (871,218) |
| **Total assets** | | | | | 2,870,062 |

| Year to 31 December 2007 | Global Markets £000 | UK and Europe £000 | International £000 | Corporate Centre £000 | Total £000 |
|---|---|---|---|---|---|
| Gross premiums written | 676,464 | 302,273 | 220,212 | - | 1,198,949 |
| Net premiums written | 524,683 | 265,001 | 185,226 | - | 974,910 |
| Net premiums earned | 552,205 | 248,348 | 164,637 | - | 965,190 |
| Investment result | 46,617 | 18,343 | 23,915 | 10,802 | 99,677 |
| Other revenues | 11,996 | 2,672 | 1,216 | 3,160 | 19,044 |
| Revenue | 610,818 | 269,363 | 189,768 | 13,962 | 1,083,911 |
| Claims and claim adjustment expenses, net of reinsurance | (246,876) | (115,032) | (61,457) | - | (423,365) |
| Expenses for the acquisition of insurance contracts | (157,718) | (65,423) | (41,429) | - | (264,570) |
| Administration expenses | (27,822) | (37,399) | (11,592) | - | (76,813) |
| Other expenses | (22,830) | (29,692) | (6,104) | (15,242) | (73,868) |
| Total expenses | (455,246) | (247,546) | (120,582) | (15,242) | (838,616) |
| Results of operating activities | 155,572 | 21,817 | 69,186 | (1,280) | 245,295 |
| Finance costs including interest expense | - | - | (82) | (8,095) | (8,177) |
| Share of profit of associates after tax | - | - | - | 81 | 81 |
| **Profit before tax** | 155,572 | 21,817 | 69,104 | (9,294) | 237,199 |
| **100% ratio analysis** | | | | | |
| Claims ratio (%) | 44.3 | 45.6 | 40.1 | - | 44.0 |
| Expense ratio (%) | 37.4 | 52.6 | 35.3 | - | 40.4 |
| **Combined ratio (%)** | 81.7 | 98.2 | 75.4 | - | 84.4 |
| Total assets before intragroup items and eliminations | 1,655,238 | 661,147 | 668,913 | 800,932 | 3,786,230 |
| Intragroup items and eliminations | | | | | (885,938) |
| **Total assets** | | | | | 2,900,292 |

## 8 Return on equity

| | 6 months to 30 June 2008 £000 | 6 months to 30 June 2007 £000 | Year to 31 Dec 2007 £000 |
|---|---|---|---|
| Profit for the period | **84,352** | 80,012 | 191,248 |
| Opening shareholders' equity | **824,304** | 682,085 | 682,085 |
| Adjusted for the time weighted impact of: | | | |
| - Distribution and other movements in capital | **(11,222)** | 268 | (18,029) |
| Adjusted opening shareholders' equity | **813,082** | 682,353 | 664,056 |
| Annualised return on equity (%) | **21.8%** | 24.8% | 28.8% |

## 9 Investment result

### i) Analysis of investment result

| | 6 months to 30 June 2008 £000 | 6 months to 30 June 2007 £000 | Year to 31 Dec 2007 £000 |
|---|---|---|---|
| Investment income including interest receivable | **46,497** | 42,595 | 90,259 |
| Net realised gains/(losses) on financial investments at fair value through profit or loss | **4,207** | 11 | 10,105 |
| Net fair value gains/(losses) on financial investments at fair value through profit or loss | **(34,249)** | 5,265 | 423 |
| Return on financial investments | **16,455** | 47,871 | 100,787 |
| Net fair value gains/(losses) on derivative instruments and financial liabilities | **821** | (1,110) | (1,110) |
| Total result | **17,276** | 46,761 | 99,677 |

Investment expenses are presented within other operating expenses (note 10).

Further details regarding the Group's reduced investment result during the current period under review are provided in the Chairman's statement accompanying these financial statements.

### ii) Annualised investment yields

| | 6 months to 30 June 2008 | | 6 months to 30 June 2007 | | Year to 31 Dec 2007 | |
|---|---|---|---|---|---|---|
| | Return £000 | Yield % | Return £000 | Yield % | Return £000 | Yield % |
| Debt and fixed income securities | **20,407** | **2.8** | 22,201 | 4.0 | 70,688 | 5.5 |
| Equities and shares in unit trusts | **(12,686)** | **(16.8)** | 10,516 | 13.5 | 6,959 | 4.1 |
| Deposits with credit institutions/cash and cash equivalents | **8,734** | **4.2** | 15,154 | 5.3 | 23,140 | 5.4 |
| | **16,455** | **1.6** | 47,871 | 5.3 | 100,787 | 5.4 |

## 10 Other revenues and expenses

| | 6 months to 30 June 2008 £000 | 6 months to 30 June 2007 £000 | Year to 31 Dec 2007 £000 |
|---|---|---|---|
| Profit commission | **5,780** | 5,225 | 10,468 |
| Agency related and other income | **2,601** | 3,289 | 8,576 |
| Other revenues | **8,381** | 8,514 | 19,044 |
| Managing agency expenses | **13,316** | 5,505 | 28,870 |
| Overseas underwriting agency expenses | **9,965** | 9,774 | 23,811 |
| Connect agency expenses | **7,994** | 6,717 | 14,492 |
| Net foreign exchange (gains)/losses | **(9,594)** | 7,980 | (8,401) |
| Investment expenses | **798** | 606 | 1,250 |
| Other Group expenses including central overheads | **5,740** | 3,401 | 13,846 |
| Other expenses | **28,219** | 33,983 | 73,868 |



## 11 Finance costs

| | 6 months to 30 June 2008 £000 | 6 months to 30 June 2007 £000 | Year to 31 Dec 2007 £000 |
|---|---|---|---|
| Interest and expenses associated with bank borrowings and letters of credit | **3,538** | 4,166 | 8,123 |
| Interest charges arising on finance leases | **18** | 35 | 54 |
| | **3,556** | 4,201 | 8,177 |

On 6 May 2008 the Group made an early repayment of $182,000,000 for the singular settlement of all principal amounts outstanding under its $225,000,000 term loan facility with Lloyd's TSB Bank (as agent for a syndicate of banks). On 7 May 2008 the Group entered into a new agreement with the same syndicate of banks, replacing the old facility. Under this facility the Group may draw up to the £350,000,000 in a combination of cash and Letter of Credit Facilities provided that the cash portion does not at any time exceed £200,000,000. On 9 May, £137,500,000 of this facility was drawn, and remains outstanding, in the form of an irrecoverable standby Letter of Credit Facility to support the company's consolidated underwriting activities. The balance of the facility remains undrawn. The Group has given a fixed and floating charge over certain consolidated assets as a guarantee to the syndicate of banks who are providing this facility.

## 12 Claims and claim adjustment expenses

| | 6 months to 30 June 2008 £000 | 6 months to 30 June 2007 £000 | Year to 31 Dec 2007 £000 |
|---|---|---|---|
| Gross insurance claims and claim adjustment expenses | **(250,915)** | (267,175) | (498,568) |
| Insurance claims recovered from reinsurers | **43,935** | 50,563 | 75,203 |
| Net insurance claims and claim adjustment expenses | **(206,980)** | (216,612) | (423,365) |

The net claims and claim adjustment expense reported above is net of a release of £66m of reserves established in prior reporting periods (30 June 2007: £43m; 31 December 2007: £60m).

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 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims costs as adjusted for foreign exchange*: | | | | | | | | | |
| at end of accident year** | 288,942 | 239,445 | 309,353 | 495,127 | 575,101 | 452,876 | 597,817 | **320,269** | **3,278,930** |
| one period later** | 324,826 | 261,068 | 324,270 | 538,192 | 656,320 | 450,548 | 555,031 | **-** | **3,110,255** |
| two periods later** | 382,828 | 267,811 | 299,189 | 517,861 | 652,416 | 452,485 | - | **-** | **2,572,590** |
| three periods later** | 414,911 | 253,445 | 309,865 | 484,705 | 633,923 | - | - | **-** | **2,096,849** |
| four periods later** | 405,956 | 247,758 | 300,559 | 480,673 | - | - | - | **-** | **1,434,946** |
| five periods later** | 393,752 | 237,739 | 305,669 | - | - | - | - | **-** | **937,160** |
| six periods later** | 390,099 | 235,411 | - | - | - | - | - | **-** | **625,510** |
| seven periods later** | 384,921 | - | - | - | - | - | - | **-** | **384,921** |
| Current estimate of cumulative claims | 384,921 | 235,411 | 305,669 | 480,673 | 633,923 | 452,485 | 555,031 | **320,269** | **3,368,382** |
| Cumulative payments to date | (316,389) | (192,940) | (236,446) | (364,954) | (429,506) | (271,214) | (208,096) | **(40,730)** | **(2,060,275)** |
| Liability recognised at 100% level | 68,532 | 42,471 | 69,223 | 115,719 | 204,417 | 181,271 | 346,935 | **279,539** | **1,308,107** |
| Liability recognised in respect of prior accident years at 100% level | | | | | | | | | **28,731** |
| **Total net liability to external parties at 100% level** | | | | | | | | | **1,336,838** |

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 30 June 2008.

** With the exception of the most recent development data for each accident year, which only relates to the 6 months ending 30 June 2008, the term period refers to one full calendar year.

# Notes to the condensed consolidated interim financial statements continued

## 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 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|
| Current estimate of cumulative claims | 384,921 | 235,411 | 305,669 | 480,673 | 633,923 | 452,485 | 555,031 | **320,269** | **3,368,382** |
| Attributable to external names | (87,648) | (44,695) | (65,485) | (108,282) | (147,749) | (91,740) | (106,204) | **(58,845)** | **(710,648)** |
| Group share of current ultimate claims estimate | 297,273 | 190,716 | 240,184 | 372,391 | 486,174 | 360,745 | 448,827 | **261,424** | **2,657,734** |
| Cumulative payments to date | (316,389) | (192,940) | (236,446) | (364,954) | (429,506) | (271,214) | (208,096) | **(40,730)** | **(2,060,275)** |
| Attributable to external names | 69,128 | 33,935 | 47,802 | 82,864 | 99,359 | 52,365 | 31,370 | **6,242** | **423,065** |
| Group share of cumulative payments | (247,261) | (159,005) | (188,644) | (282,090) | (330,147) | (218,849) | (176,726) | **(34,488)** | **(1,637,210)** |
| Liability for 2001 to 2008 accident years recognised on Group's balance sheet | 50,012 | 31,711 | 51,540 | 90,301 | 156,027 | 141,896 | 272,101 | **226,936** | **1,020,524** |
| Liability for accident years before 2001 recognised on Group's balance sheet | - | - | - | - | - | - | - | **-** | **21,835** |
| **Total net liability to external parties included in the balance sheet†** | | | | | | | | | **1,042,359** |

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

## 13 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 2008 | 6 months to 30 June 2007 | Year to 31 Dec 2007 |
|---|---|---|---|
| Profit attributable to the Company's equity holders (£000) | **84,352** | 80,012 | 191,248 |
| Weighted average number of ordinary shares (thousands) | **389,488** | 394,915 | 395,308 |
| Basic earnings per share (pence per share) | **21.7p** | 20.3p | 48.4p |

### Diluted

Diluted earnings per share is calculated 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 2008 | 6 months to 30 June 2007 | Year to 31 Dec 2007 |
|---|---|---|---|
| Profit attributable to the Company's equity holders (£000) | **84,352** | 80,012 | 191,248 |
| Weighted average number of ordinary shares (thousands) | **389,488** | 394,915 | 395,308 |
| Adjustment for share options (thousands) | **13,193** | 13,868 | 13,530 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **402,681** | 408,783 | 408,838 |
| Diluted earnings per share (pence per share) | **20.9p** | 19.6p | 46.8p |

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

## 14 Dividends

| | 6 months to 30 June 2008 £000 | 6 months to 30 June 2007 £000 | Year to 31 Dec 2007 £000 |
|---|---|---|---|
| Final dividend for the year ended: | | | |
| 31 December 2006 of 7.0p (net) per share | **-** | 27,727 | 27,723 |
| 31 December 2007 of 8.0p (net) per share | **31,141** | - | - |
| Interim dividend for the year ended: | | | |
| 31 December 2007 of 4.0p (net) per share | **-** | - | 15,868 |
| | **31,141** | 27,727 | 43,591 |

An interim dividend of 4.25p (net) per ordinary share has been declared payable on 29 September 2008 to shareholders registered on 29 August 2008 in respect of the six months to 30 June 2008 (30 June 2007: 4.0p (net) per ordinary share). The dividend was approved by the Board on 18 August 2008 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*.

## 15 Financial assets and liabilities

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

| | 30 June 2008 £000 | 30 June 2007 £000 | 31 Dec 2007 £000 |
|---|---|---|---|
| Debt and fixed income securities | **1,456,712** | 1,194,332 | 1,444,532 |
| Equities and shares in unit trusts | **131,442** | 183,886 | 159,421 |
| Deposits with credit institutions | **50,840** | 123,682 | 143,874 |
| Total investments | **1,638,994** | 1,501,900 | 1,747,827 |
| Derivative financial assets | **532** | - | - |
| **Total** | **1,639,526** | 1,501,900 | 1,747,827 |

### ii) Analysis of financial liabilities carried at fair value

| | 30 June 2008 £000 | 30 June 2007 £000 | 31 Dec 2007 £000 |
|---|---|---|---|
| Short-term borrowing from credit institutions | **-** | 91,000 | 91,764 |
| Derivative financial liabilities | **19** | - | - |
| **Total** | **19** | 91,000 | 91,764 |

### iii) Investment and cash allocation

| | 30 June 2008 £000 | 30 June 2008 % | 30 June 2007 £000 | 30 June 2007 % | 31 Dec 2007 £000 | 31 Dec 2007 % |
|---|---|---|---|---|---|---|
| Debt and fixed income securities | **1,456,712** | **75.5** | 1,194,332 | 65.5 | 1,444,532 | 70.4 |
| Equities and shares in unit trusts | **131,442** | **6.8** | 183,886 | 10.1 | 159,421 | 7.8 |
| Deposits with credit institutions/cash and cash equivalents | **342,394** | **17.7** | 444,991 | 24.4 | 446,616 | 21.8 |
| **Total** | **1,930,548** | | 1,823,209 | | 2,050,569 | |

### iv) Investment and cash allocation by currency

| | 30 June 2008 % | 30 June 2007 % | 31 Dec 2007 % |
|---|---|---|---|
| Sterling | **27.0** | 28.7 | 25.7 |
| US Dollars | **59.7** | 59.6 | 61.4 |
| Euro and other currencies | **13.3** | 11.7 | 12.9 |

## Notes to the condensed consolidated interim financial statements continued

### 16 Net asset value per share

| | 30 June 2008 Net asset value £000 | 30 June 2008 NAV per share pence | 30 June 2007 Net asset value £000 | 30 June 2007 NAV per share pence | 31 Dec 2007 Net asset value £000 | 31 Dec 2007 NAV per share pence |
|---|---|---|---|---|---|---|
| Net asset value | **817,578** | **222.1** | 734,950 | 185.4 | 824,304 | 209.5 |
| Net tangible asset value | **776,031** | **210.8** | 701,828 | 177.1 | 783,852 | 199.3 |

The net asset value per share is based on 368,139,361 shares (30 June 2007: 396,387,797; 31 December 2007: 393,386,041), being the adjusted number of shares in issue at each reference date. Net tangible assets comprise total shareholders equity excluding intangible assets.

### 17 Insurance liabilities and reinsurance assets

| | 30 June 2008 £000 | 30 June 2007 £000 | 31 Dec 2007 £000 |
|---|---|---|---|
| **Gross** | | | |
| Claims outstanding | **1,262,454** | 1,179,644 | 1,215,887 |
| Unearned premiums | **562,257** | 624,259 | 498,000 |
| **Total insurance liabilities, gross** | **1,824,711** | 1,803,903 | 1,713,887 |
| **Recoverable from reinsurers** | | | |
| Claims outstanding | **220,095** | 248,090 | 222,672 |
| Unearned premiums | **95,415** | 123,512 | 57,416 |
| **Total reinsurers' share of insurance liabilities** | **315,510** | 371,602 | 280,088 |
| **Net** | | | |
| Claims outstanding | **1,042,359** | 931,554 | 993,215 |
| Unearned premiums | **466,842** | 500,747 | 440,584 |
| **Total insurance liabilities, net** | **1,509,201** | 1,432,301 | 1,433,799 |

### 18 Impact of foreign exchange related items

| | 6 months to 30 June 2008 £000 | 6 months to 30 June 2007 £000 | Year to 31 Dec 2007 £000 |
|---|---|---|---|
| **Consolidated income statement** | | | |
| Derivative gains/(losses) on foreign exchange hedge contracts included within investment return | **514** | (1,110) | (1,110) |
| Unearned premium and deferred acquisition costs adjustment | **(849)** | 4,356 | 14,438 |
| Other foreign exchange gains/(losses) | **10,443** | (12,336) | (6,037) |
| **Impact of foreign exchange related items on income statement** | **10,108** | (9,090) | 7,291 |
| **Balance sheet** | | | |
| Foreign exchange differences recognised directly in equity | **(1,928)** | (5,215) | (2,869) |
| **Overall impact of foreign exchange related items on net assets** | **8,180** | (14,305) | 4,422 |

### 19 Business combinations

On 16 August 2007, the Group acquired 100% of ALTOHA Inc. in the USA. The provisional purchase price recognised at 31 December 2007 was £29,052,000 and the initial net cash outflow made up to 31 December 2007 was £11,133,000. The final purchase amount was determined during the current period under review and a further cash outflow was made of £1,225,000 with a related addition made to intangible assets.

The Group disposed of its 100% interest in Hiscox Investment Management Limited on 5 December 2007. This company did not constitute a discontinued operation due to the relatively insignificant revenues and net assets involved and no profit or loss arose on the transaction.

### 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, maturity 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 £69,388,000 (30 June 2007: £51,409,000; 31 December 2007: £53,336,000) not available for use by the Group outside of the Lloyd's Syndicate within which they are held.

## Directors' responsibility statement

The Directors confirm 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 18 August 2008.



## 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 2008 which comprises the condensed consolidated interim income statement, 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 2008 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
18 August 2008

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.