Hiscox Ltd Report and Accounts 2008

Contents

HISCOX

Our ambition remains to be a highly respected international specialist insurance and reinsurance company, built on a balance between volatile international catastrophe business and more steady local and regional business.

Robert Hiscox
Chairman

Corporate highlights

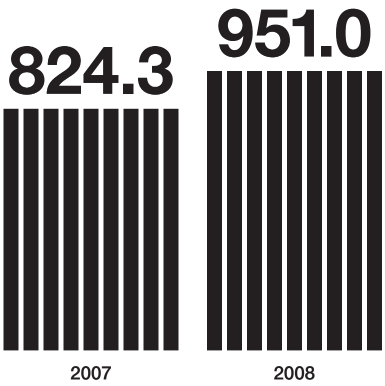
23.2%

Increase in net asset value per share

Group key performance indicators

	2008	2007
Gross premiums written (£m)	**1,147.4**	1,198.9
Net premiums earned (£m)	**953.0**	965.2
Profit before tax (£m)	**105.2**	237.2
Profit before tax and certain foreign currency items* (£m)	**156.2**	237.2
Earnings per share (p)	**18.8**	48.4
Total dividend per share for year (p)	**12.75**	12.0
Net asset value per share (p)	**258.1**	209.5
Group combined ratio (%)	**76.1**	84.4
Group combined ratio excluding foreign exchange (%)	**91.9**	85.5
Return on equity (%)	**9.2**	28.8
Return on equity excluding certain foreign currency items* (%)	**16.4**	28.8

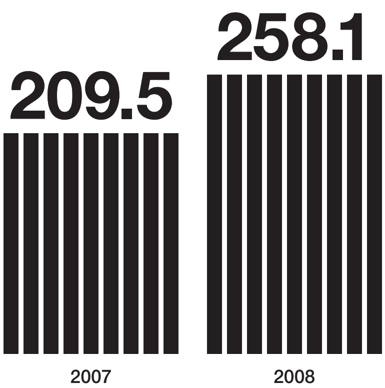
Net asset value £m



Financial highlights

- Profit before tax £105.2m (2007: £237.2m)
- Profit before tax excluding certain foreign currency items* £156.2m (2007: £237.2m)
- Total dividend for the year increased by 6.25% to 12.75p (2007: 12.0p)
- Net assets per share increased by 23.2% to 258.1p (2007: 209.5p)
- Excellent combined ratio of 76.1% (2007: 84.4%) or 91.9% (2007: 85.5%) excluding foreign exchange
- Investment return of -1.3% (2007: 5.4%)
- Return on equity of 9.2% (2007: 28.8%) or 16.4% (2007: 28.8%) excluding certain foreign currency items*
- Strong balance sheet after share repurchases of £63m at average price 221.7p

Net asset value p per share



Operational highlights

- Rates increasing in reinsurance, marine and energy, and stable elsewhere
- Expansion in the USA: five new offices opened and 43 additional staff recruited since September
- Capacity of Syndicate 33 increased to £750m (2008: £700m)
- New wholly owned Syndicate 3624 created with £80m capacity
- Good opportunities to continue to grow a balanced business internationally

*excludes foreign currency items on economic hedges and intragroup borrowings.

Business structure

Hiscox Ltd

Hiscox Global Markets

Richard Watson
Managing Director, Hiscox Global Markets, Active Underwriter, Syndicate 33

Reinsurance; property; marine and energy; specialty; technology and media; aerospace.

Hiscox International

Hiscox Bermuda

Robert Childs
Chief Underwriting Officer, Chairman of Hiscox USA, Chief Executive Officer, Hiscox Bermuda

Reinsurance; Group capital support.

Hiscox Guernsey

Steve Camm
Managing Director, Hiscox Guernsey

Art and private client; kidnap and ransom.

Hiscox USA

Ed Donnelly
President, Hiscox USA

PI and specialty commercial; regional technology and media; animal mortality.

Hiscox UK and Europe

Hiscox UK

Steve Langan
Managing Director, Hiscox UK

Art and private client; PI and specialty commercial; regional technology and media; direct.

Hiscox Europe

Michael Gould
Chairman of Hiscox European Steering Group, Chief Operating Officer

Art and private client; PI and specialty commercial; regional technology and media.

Chairman's statement

Robert Hiscox
Chairman

2008 was a year that will be written about for decades to come, and it was a good year for Hiscox to show the robustness of its business. Global Markets' underwriting was tested by the third most expensive hurricane on record but the reinsurance account still made a decent profit; the regional business continued to grow in size and profitability, and the worldwide financial collapse stress tested our investment portfolio beyond any expert forecast and a very small investment loss was a fair result, with currency movements adding substantially to our profits and assets.

In the 2008 interim report I wrote that it seemed surreal to be announcing record profits when the share price was so low. Our sector was subsequently re-rated, and the appraisal was valid. We had not followed the banks into speculating heavily on borrowed money, and we had continued to price risk and to monitor our liabilities to the best of our ability, using the best models available but aware of their frailty. We had in our corporate memory the agonies Lloyd's suffered in the early 1990s from the spiral of reinsurance liabilities and the seemingly unquantifiable liabilities from asbestosis and pollution, and we had learnt.

A great asset of the insurance industry is that feast always follows famine. After big losses there is a shortage of capital and supply so we can put rates up and recoup our losses. Conversely, the curse of the industry is the ease of entry, with an instant inflow of capital when we get the rates into profit territory. The last quarter of 2008 saw a firming in rates in some of our key areas (particularly reinsurance which is a third of our book) and a stabilisation in others, but this time there is a global shortage of capital, which means we should be able to charge the right rate for some time to come.

Results
The result for the year ended 31 December 2008 was a profit of £105.2 million (2007: £237.2 million) on a gross written premium income of £1,147.4 million (2007: £1,198.9 million). The combined ratio was 76.1% (2007: 84.4%). Earnings per share on profit after tax were 18.8p (2007: 48.4p) and net assets per share increased by 23% to 258.1p (2007: 209.5p). Return on equity was 9.2% (2007: 28.8%).

Dividend and capital management
The Board proposes a final dividend of 8.5p (2007: 8p) making a total dividend for the year of 12.75p (2007: 12p), an increase of 6.25%. This will be paid on 16 June 2009 to shareholders on the register at the close of business on 15 May 2009. We have always advocated a progressive dividend policy and being able to cover an increased dividend after such a difficult year is extremely satisfying.

During 2008 we bought in 28,300,742 shares for a total of £62,866,000 (an average price of 221.7p per share). Our balance sheet is strong and sufficient for our current plans. We like to use our capital as fully as is prudent to keep the returns to shareholders as high as possible. Interestingly, we last raised capital through a rights issue in 2005 raising £170 million net, since when we have returned £207 million to shareholders through dividends and share buy-backs.

The current state of the market
The market overall is solid and healthy. There is comment that rates are not rising fast everywhere, but much as I enjoy surging rates following a big loss, underwriters do tend to push prices too high which attracts new capital. And if rates are pushed too high, they have to come down and the momentum of the insurance cycle starts to swing down. Rates are being put up selectively, capital is tight, our current combined ratio is 91.9% stripping out currency distortions, so market conditions are profitable and improving. The better underwriters can make good money at these rates so we do not want to push them up faster which will just help the weaker ones.

The current state of our business
I leave it to Bronek, our inestimable CEO who runs the company with remarkable passion and ability, to comment on the business in detail. Conditions at Hiscox are better than good. Our time honoured strategy has been to write internationally traded big ticket and catastrophe business (through Global Markets and Bermuda principally), and balance it with regional, smaller business in the UK, Europe and the USA.

The Global Markets division has recently expanded in the US with the acquisition of some highly talented people and new offices have been opened. We have long abandoned the Lloyd's business model of sitting in the Room waiting for business to come from around the world which is no longer sustainable. Bermuda has a bigger share of the world reinsurance

Chairman's statement
continued

market than London, and our operation here in Bermuda showed us the viability and efficiency of underwriting electronically, even on a small island 600 miles from anywhere. Bermuda benefits from advantageous tax and regulatory regimes, and also from being closer to the USA. Human relationships and proximity remain a key factor in doing business, so we have opened, or are opening, offices selectively across the USA, in addition to our Global Markets presence in London and Paris.

Those offices will also be used to increase the distribution of our regional businesses which are growing strongly in the USA, having also attracted new talented people. The regional businesses in the UK and mainland Europe have built on their strong foundations, had a good year and should continue to be a growing asset with the potential of steady profits.

Our direct household and small commercial business in the UK had good growth in 2008 and will be helped this year by our new marketing campaign.

Investments

An investment return of -1.3% is a fair one, even a good one, in the circumstances of the worst year on record for most types of investment. Our staple diet consists of bonds, and trying to squeeze an extra point or two of yield could have led us into the toxic products that have done so much damage. However, we have only had one insolvency so far, a relatively small investment in Lehman Brothers bonds; otherwise we have marked to market, and as low as some of those valuations are, the instruments are all paying their coupons and heading for redemption.

The Board

Carol Franklin Engler retired from the Board during the year having served nine years. Carol brought an underwriter's eye to our deliberations with an uncanny talent for pricking balloons. She also had human resources experience, which together with her other outside activities made her an extremely effective Director. I would like to thank her for her valuable contribution through a period of great change.

We have been joined by Gunnar Stokholm and Ernst Jansen, both of whom have vital experience of building international insurance businesses. They bring considerable underwriting knowledge as well as international business experience to our strategic planning and Board discussions.

The future

All areas of the company have good possibilities of profitable growth and there is a great feeling of dynamism throughout. We have taken on some excellent new people. I would like to thank them for joining us, and also thank the existing staff in all areas of the business for making Hiscox an exciting and constantly challenging environment.

Change is the price of survival, and the change at Hiscox over the last decade from a Lloyd's agency to a group of international insurance companies has been dramatic. We have a balanced business both geographically and in our products; we have a dominant position in many of our specialisms; we are building a strong brand, and most important, we have first class people devoted to doing first class business in a first class way. We will continue to build on our strong foundations during the forthcoming very difficult economic conditions, and then should flourish enormously when the world comes out of recession.

Robert Hiscox
Chairman
9 March 2009

Our balance sheet is strong and sufficient for our current plans.

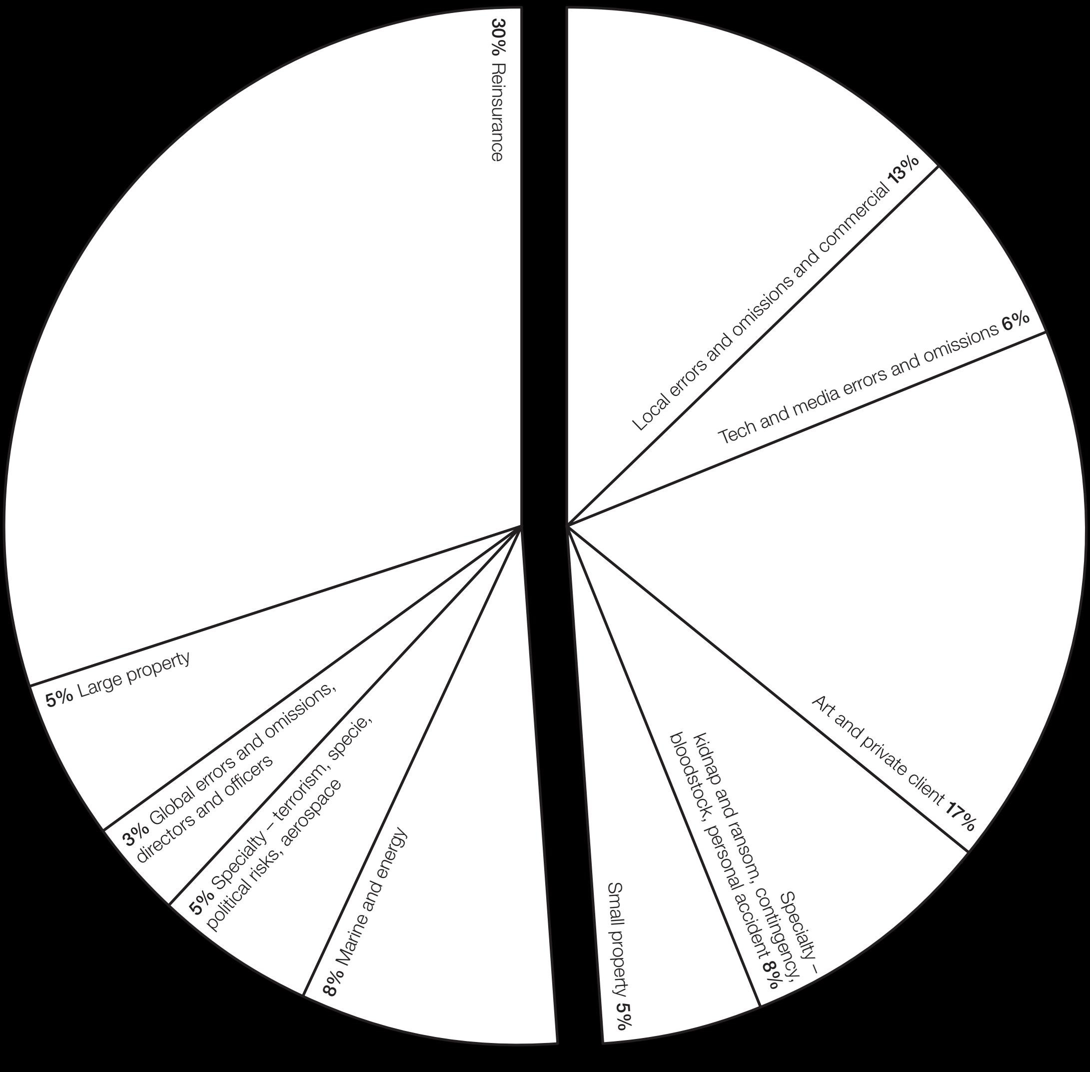
Chief Executive's report

In 2008 our strategy of building balance paid off for the business and for shareholders. A rigorous approach to underwriting saw us shrink our international big ticket and reinsurance product lines. At the same time we continued to invest in our domestic market businesses in the UK, Europe and USA. These actions allowed us to generate sufficient underwriting profit which together with our foreign exchange gains, have produced a good result, despite the ravages of the toughest investment environment in living memory.

We now see opportunity ahead of us. Recent market turbulence has severely affected some of our competitors and we have seized the opportunity to attract good staff – particularly in the US.

Bronek Masojada
Chief Executive

Strategic focus
Total Group controlled income for 2008
100% = £1,390m



Chief Executive's report
continued

Group performance

The pre-tax profit for the year was £105.2 million (2007: £237.2 million). Gross written premium shrank to £1,147.4 million (2007: £1,198.9 million). Earnings per share are 18.8p (2007: 48.4p). Return on equity was 9.2% (2007: 28.8%) and net asset value per share increased to 258.1p (2007: 209.5p). Net tangible assets increased to 244.9p (2007: 199.3p). Dividends increase to 12.75p (2007: 12p). These results were achieved despite a very challenging investment environment, which saw investment returns on financial assets falling to a loss of £27.6 million, in contrast to a positive contribution of £100.8 million in 2007.

The significant appreciation in net asset value reflects both our profit and the impact of the Dollar strengthening. At the end of the year, £603 million of shareholders' funds were held in US Dollars.

Hiscox Global Markets

Hiscox Global Markets underwrites a mix of big ticket international and reinsurance business, and specialty business where deep expertise in specific product lines draws the business to London. All of these lines take advantage of the Lloyd's brand and licence network. During the year Global Markets showed exceptional discipline in shrinking in almost all its areas, rather than writing business at the wrong price.

Hiscox Global Markets

	2008 £m	2007 £m
Gross premiums written	**586.5**	676.5
Net premiums earned	**477.8**	552.2
Underwriting profit	**41.6**	119.8
Investment result	**(5.8)**	46.6
Foreign exchange	**108.5**	4.5
Other income/expenses	**(3.8)**	(15.3)
Profit before tax	**140.5**	155.6
Combined ratio	**68.5%**	81.7%
Combined ratio excluding foreign exchange	**94.5%**	82.5%

Hiscox Global Markets rating index
Index level (%). 12 month rolling period

The rewards of this approach are shown in its ability to generate a profit despite losses from Hurricanes Ike and Gustav. At a trading level Global Markets benefited from the strength in the US Dollar. This was an advantage this year but could present a future challenge if Sterling strengthens.

- Our reinsurance area had a great year despite the run of large risk losses which affected the market in the first half and the impact of Hurricanes Ike and Gustav into the second half. The team's performance benefited from the commutation of the Panther Re sidecar, which saw Hiscox assuming the risk of all losses occurring after 31 January 2009. We replaced Panther with a Lloyd's sidecar Cougar Syndicate 6104 and other reinsurances. January renewals saw an increase in the rates in the US. We have expanded our writings slightly but expect to expand further as the year develops, as we expect rates to rise generally as the year progresses.
- The property team underwrites our catastrophe exposed primary property business, together with some international homeowner and small business insurance. The team suffered in the hurricanes but delivered a positive result overall, helped by releases on older years, including some arising out of the positive settlement of claims relating to the events of September 11, 2001. We are pursuing our subrogation actions relating to these and other claims with vigour.
- Our global errors and omissions business was created this year to bring together our expertise in the technology and media fields with that in the broader error and omission field. The team had a difficult year as they dealt with a series of large claims. Rates in this area need to rise – and until they do we will continue to take a very cautious approach.
- The specialty division, which brings together political risks, aviation war, terrorism, contingency, kidnap and ransom and bloodstock, had a good year. Hiscox's deep expertise attracts business. The key challenge for this team is to continue to draw business into London as businesses – including Hiscox – build their capability in domestic markets.
- Marine and energy, unsurprisingly, had an unprofitable year. They were in the front line for both Hurricanes Ike and Gustav. The losses sustained were within our expectations. Rates in the Gulf will have to rise significantly if the class is to be underwritten profitably there.

In addition to disciplined underwriting, the Global Markets team has recognised that business no longer flows to London as a right, and in 2007 invested in creating teams who were located mainly in Paris and New York. Since September, Global Markets has taken advantage of the disruption caused by the financial crises by recruiting people and working with our USA business to open new offices in Boston, Kansas City, Lexington and Miami. We expect to open a further office in Los Angeles this year. This expanded footprint will enable us to underwrite our specialist lines locally in the US domestic market.

The growth of the business outside London brings with it inevitable conflict with those brokers, and indeed those underwriters, who are entirely London centric. Growth and activity in the US has not diminished our commitment to the London Market and we will seek to expand in both areas. The key to success in London is a continued investment by Hiscox, and the market as a whole, in efficiency and improving infrastructure. In 2008 Global Markets worked on a project to replace its core underwriting system. The project was due to be delivered in the second half of the year but, as seems inevitable when dealing with projects of this scale and complexity, completion is now expected in the first half of 2009. Once this new system is in place, we will be investing in connecting to the newly announced Lloyd's Exchange, as we believe that over time it is in everyone's interest that underwriting moves to a more electronic environment. If the London Market as a whole is able to achieve this it is our belief that it will continue to be the vibrant centre of the international insurance industry.

When planning for Global Markets in 2009 we initially announced a reduction in the size of Syndicate 33, however in response to market changes we have reconsidered our plans. We have increased the size of Syndicate 33 to £750 million (2008: £700 million) and renewed the Cougar Syndicate 6104 which is supported entirely by third-party capital at the increased level of £43 million (2008: £34 million). In addition we created Syndicate 3624 with a capacity of £80 million which is completely capitalised by Hiscox. Syndicate 3624 will provide capacity for all the new lines of business which we are planning to underwrite in the US, most of the business already generated by Hiscox USA and 50% of the technology and media business. These structures introduce an element of complexity into our business, but give us greater flexibility in planning our business expansion.

Hiscox UK and Hiscox Europe

Our commitment to growing our domestic businesses in the UK and mainland Europe paid off in 2008. We saw strong growth in both divisions and much stronger underwriting performance. Looking at each in turn:

- Hiscox UK saw growth of 14.3% to £261.9 million (2007: £229.2 million). Growth was strong in all areas, but we are particularly

£1,147.4m

Gross premiums written

Growth and activity in the US has not diminished our commitment to the London Market and we will seek to expand in both areas.

pleased with developments in our specialty commercial area and the new motor business which was launched in 2008. The successful launch of our luxury motor product demonstrates that people value quality insurance. We have continued to invest in the UK Direct business, which has made good progress. The brand building which has supported this business has had benefits not only here, but for the Group as a whole.

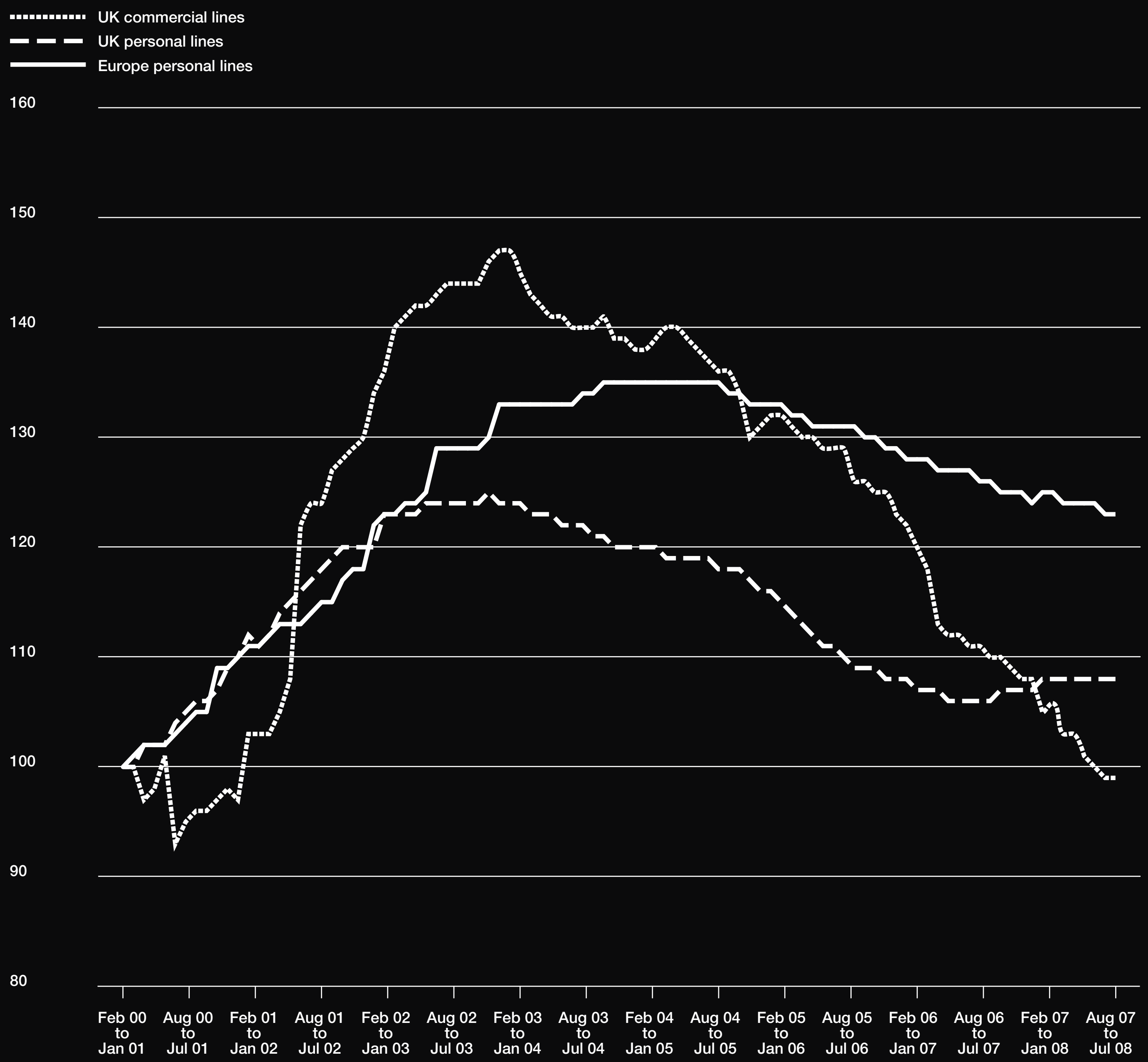
The high net worth team have done well to increase rates and consequently profitability during the year. The progress in top and bottom line by Hiscox UK was achieved despite the decision to put the broker channel mid net worth household product into run-off. Our personal lines strategy is to serve the richest 10% of the population in their personal insurance needs, with the bulk of the richest 5% being served through the broker market and the rest dealing with Hiscox direct if they wish. We believe this strategy makes good sense for customers, our broker partners and us.

Hiscox Europe saw growth of 12.0% in the year as a whole and a strong improvement in underwriting profit in local currency. France and Belgium continued to deliver good profits and Germany and the

Hiscox UK

	2008 £m	2007 £m
Gross premiums written	**261.9**	229.2
Net premiums earned	**227.3**	190.4
Underwriting profit	**36.8**	16.0
Investment result	**(2.8)**	15.9
Foreign exchange	**9.3**	0.7
Other income/expenses	**(14.4)**	(15.4)
Profit/(loss) before tax	**28.9**	17.2
Combined ratio	**85.0%**	98.8%

Hiscox UK and Hiscox Europe rating index
Index level (%). 12 month rolling period



Netherlands made substantial improvements to their performance year on year. The progress of the business reflects our decision to focus our efforts in those countries where we already have offices in order to drive economies of scale. To drive this point home we have set a target of a gap of 10% between the rate of growth of expenses and revenues. We achieved this in 2007 and came close in 2008. Of particular note in Europe is the turnaround in Germany. Some tough decisions were made to end relations with brokers who had produced poor quality business, allowing the team to focus on more productive relationships. The Netherlands has seen a real growth in scale with very little increase in expense, with consequent positive impact on the bottom line. Spain has new leadership in place.

Hiscox International

Hiscox International comprises our businesses in Bermuda, Guernsey and the domestic USA team. Each business faced quite different challenges in the year and I review them in turn below:

- Hiscox Bermuda faced difficult market conditions affecting the reinsurance market. Their response, rightly, was to shrink their top line significantly. Third-party reinsurance reduced to $211.7 million (2007: $297.3 million). The team also had to deal with the impact of Hurricanes Ike and Gustav. Despite this the business had a positive underwriting result. During the year we began a specialty reinsurance business centred in Bermuda. The financial crises and improving market meant our capital could be better employed elsewhere and regrettably the business was closed during December.

  Charles Dupplin, currently Chairman of Hiscox's Art and Private Client division and Director of Mergers and Acquisitions, will succeed Robert Childs as Chief Executive of Hiscox Bermuda. Charles will take up this new role in April 2009, subject to regulatory approval. As previously announced, Robert Childs will return to the UK towards the end of April 2009. He will continue in his roles as Group Director of Underwriting and Chairman of Hiscox USA and he will also serve as an internal Non Executive of Hiscox Bermuda. In the last three years our team in Bermuda, led by Robert, has built a vibrant business from nothing. I would like to thank Robert for his leadership. With Charles at the helm, I am confident that our Bermuda business will continue to develop.

- Hiscox Guernsey had another good year. It grew its core kidnap and ransom and fine art accounts and responded rapidly with new products to the piracy threat on the Horn of Africa. It is this fast response to market conditions which sets this team apart from its competitors. We have a great business development team based in London and have now created a Miami office as a gateway to South America. Opportunities abound.

- Hiscox USA continued on its journey to build a specialist business in the USA. Top line grew 32% to $59.2 million (2007: $44.7 million) and the result was close to break even. The team continues to gain scale and build reputation amongst brokers. It has also taken advantage of the financial market turmoil to recruit new staff. New team members joined in New York and Lexington (where we have now opened an office) and members of the current team will relocate to Miami and the West Coast this year to build our local presence. The key constraint in the USA is the time taken to get rate and forms approved by the state regulators. We currently have 15 products going through this process.

Claims

Effective claims management is essential to provide good customer service. As we expand we have been careful to make sure that our claims standards are preserved.

We have continued to invest in claims operations, including the strengthening of complex claims management capability for big ticket businesses in Global Markets and Bermuda and in developing our service culture to our policyholders in our retail operations. In the UK we settle 10% of our UK property claims in one day and 45% in 30 days.

In 2008, our claims teams settled our two largest historic outstanding claims. This required long and sensitive discussions with the assureds and it is to the team's credit that this was achieved while still retaining positive relationships with those clients.

Operations and IT

With the relentless advance of technology, operations and IT are now central to the business. Ten years ago if our IT collapsed we could continue to trade, but this is no longer the case. Our core infrastructure is based in the UK and France, removing the Group's dependence for communications on our London office. The resilience of these new arrangements was tested during 2008 and our systems worked well.

We have also significantly improved our online response times and service in the UK which is critical to the direct customer experience.

We appointed Michael Gould as Chief Operating Officer during the year and he has already improved operating disciplines. This includes more rigour in prioritising and managing projects, as well as developing consistent operational measures to track the Group's performance.

Hiscox Europe

	2008 €m	2007 €m
Gross premiums written	**120.3**	107.4
Net premiums earned	**110.8**	91.5
Underwriting profit	**25.1**	21.8
Investment result	**(11.6)**	3.6
Foreign exchange	**0.1**	(0.2)
Other income/expenses	**(19.8)**	(22.6)
Profit/(loss) before tax	**(6.2)**	2.6
Combined ratio	**95.6%**	100.9%

Hiscox International

	2008 £m	2007 £m
Gross premiums written	**206.0**	220.2
Net premiums earned	**172.8**	164.6
Profit before tax	**0.9**	69.1
Combined ratio	**94.2%**	75.4%

Chief Executive's report
continued

Investments
2008 was the year of investment challenges. We achieved a return across the portfolio of -1.3%. There is no need to comment on the global crisis as many more informed commentators are busy doing so at length elsewhere. Suffice to say, I am delighted that even though we have a small negative return, we still enter 2009 with 98.7% of our funds intact and, thanks to good relative investment performance and a great underwriting performance, our balance sheet is unimpaired. Many of our competitors can only dream of being in this position. This provides a stable foundation on which we can build the underwriting business in 2009.

In addition to the upheaval and volatility in the financial market, 2008 saw equivalent volatility in the currency exchange market and in the course of the year the US Dollar fluctuated from 1.99 opening to 1.44 closing.

Hiscox holds assets to match its insurance liabilities in original currencies, thereby reducing the impact of volatile exchange rates and making active use of shareholders funds. The majority of the net assets are in US Dollars and as the Dollar strengthened during the year, the decision was made to lock in some of the resulting gains by entering into economic hedge contracts to protect against further fluctuations. As the year progressed the Dollar strengthened further and the additional underlying gain was offset by the cost of the hedge. As a result of accountancy rules, this cost of £42.5 million was taken through the profit and loss account, while the underlying gain of £151.2 million was taken directly to the balance sheet.

Further FX gains arose in the trading accounts during the course of 2008. Together these contributed £57 million to our reported profits (2007: £7 million) net of foreign exchange on economic hedges and intragroup borrowings.

Balance sheet and ratings
Total shareholders' funds grew to £951.0 million (2007: £824.3 million). On a per share basis this is equal to net assets per share of 258.1p (2007: 209.5p) and net tangible assets per share of 244.9p (2007: 199.3p). We continue to see building per share asset value as a key performance metric as we think that over time it is the most important factor driving our share price.

In 2008 loss reserves grew to £1.8 billion (2007: £1.2 billion). This includes our loss estimates of net $175 million for Hurricanes Ike and Gustav. Total reserve releases during the course of the year amounted to £123 million (2007: £60 million). This release is larger than previous years as two of our biggest outstanding historic claims were settled during the period.

During the course of the year Hiscox has benefited from a series of positive rating agency decisions. On 18 September 2008 A.M. Best announced an upgrade to the financial strength rating of Hiscox Insurance Company (Bermuda) Limited, Hiscox Insurance Company (UK) Limited and Hiscox Insurance Company (Guernsey) Limited to A (Excellent) from A- (Excellent). It has also affirmed a financial strength rating of A for Hiscox Syndicate 33 and Hiscox Insurance Company Inc. The outlook for the rating is stable. In December Standard & Poor's also upgraded their rating for the Hiscox Insurance Company Ltd to A (Strong).

These rating actions reflect the strength of Hiscox's diversified global portfolio and give us a competitive benefit in the new, more cautious world in which we operate. A key to retaining this balance is the need to balance the rewards from underwriting with the risks. We plan to continue to run our business so that it can survive a 1 in 250 catastrophic year. Of course we measure this by drawing on our extensive modelling capability, but as recent events show, models are inevitably flawed and we will continue to supplement the model output with instinct and pragmatic business judgement.

Capturing opportunities
In the middle of the year we thought the market would continue to soften and that Hiscox would continue to invest in its regional business to offset the planned reduction of the big ticket insurance and reinsurance businesses. The financial crises which broke in mid September changed our view.

Overnight we went from defence to offence. We expanded our US domestic presence through the recruitment of 43 staff and the opening of five new offices. Our ambition is to build Hiscox into a top ten surplus lines market and a respected specialist player in the US admitted market.

In addition to the domestic US opportunities, we believe that there will be material benefits to our London operations as insureds re-discover the benefits of the subscription market where risks are shared between many participants. Our levels of expertise mean that Hiscox is a 'must visit' business in London – and we aim to keep it that way.

We see these opportunities continuing for some time as the global capital shortage means that there is unlikely to be a flood of new capital into the industry. In addition many capital raisings will be focused on repairing damage to balance sheets with little net additional capital entering the industry.

People
Insurance continues to be a business where the

key ingredient to success is the people within the business. Our staff have had a great year. There is inevitable nervousness when so much turmoil abounds, but they stuck to their knitting and delivered great business development, underwriting, investment and operations performance.

What is also pleasing is the way individuals have chosen to move and travel in order to build the business. Many members of staff spend huge proportions of their time on the road travelling to see brokers and producers both within their home countries and around the world. Others are learning new languages in order to be more effective and others are volunteering to move temporarily – and in some cases permanently – to help Hiscox take advantage of new opportunities.

It is these attitudes, sacrifices and day to day performance which gives Hiscox the strength and agility to respond to challenging markets. I am deeply grateful to all of our staff for this.

Conclusion

2008 will be remembered as one of the most challenging in history for the world economy, and 2009 is shaping up in the same vein. I hope I am not tempting fate by saying that whilst we are acutely aware of the dangers in this crisis, we believe that there are good opportunities ahead for Hiscox and that success in capturing them will bring considerable benefits to policyholders, staff and shareholders.

Bronek Masojada
Chief Executive
9 March 2009

Hiscox locations

Bermuda
Hamilton

Europe
Amsterdam
Bordeaux
Brussels
Cologne
Dublin
Guernsey
Hamburg
Lisbon
Lyon
Madrid
Munich
Paris
Stockholm

UK
Birmingham
Colchester
Glasgow
Leeds
London
Maidenhead
Manchester

USA
Armonk (New York)
Boston
Chicago
Geneva (Illinois)
Kansas City (Missouri)
Lexington (Kentucky)
Los Angeles*
New York City
Miami
San Francisco

*new office

Insurance carriers

Syndicate 3624

Syndicate 3624 is a new wholly owned syndicate with an initial underwriting capacity of £80 million. The Syndicate was approved by Lloyd's during the last quarter of 2008 and began underwriting for the 2009 year of account. No business was written in the Syndicate in 2008.

Panther Re

The reinsurance contract with Panther Re was not renewed for the 2008 year of account and the 2007 year of account was successfully commuted during 2008.

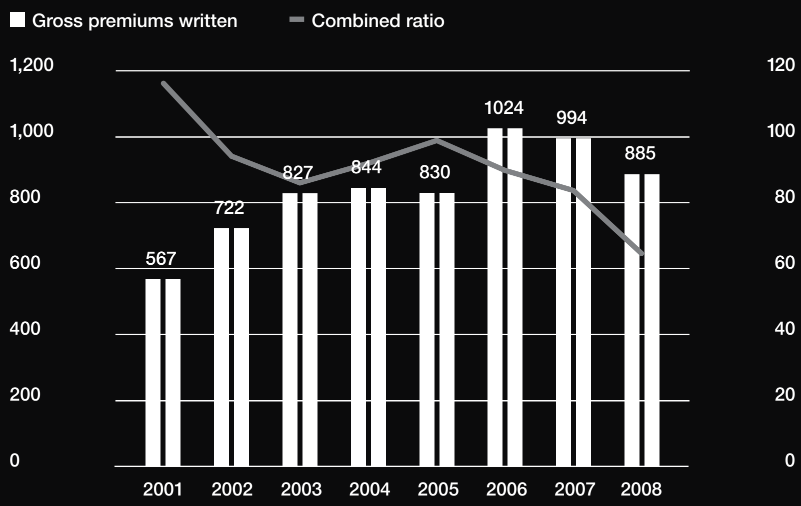
Syndicate 33

Hiscox can trace its origins in the Lloyd's Market to 1901. Today, Hiscox Syndicate 33 is one of the largest composite syndicates at Lloyd's, and has an A.M. Best syndicate rating of A (Excellent). Syndicate 33 underwrites a mixture of reinsurance, major property and energy business, as well as a range of specialty lines including contingency, technology and media risks among others. The business is mainly property-related short-tail business; there is little exposure to aviation or motor business. Syndicate 33 trades through the Lloyd's worldwide licences and ratings. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, an A+ (Strong) from Standard & Poor's, and an A+ (Strong) rating from Fitch.

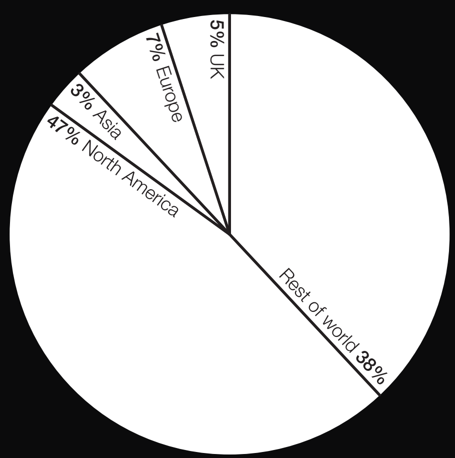
The geographical and currency splits are shown to the right. One of the main advantages of trading through Lloyd's is the considerably lower capital ratios that are available due to the diversification of business written in Syndicate 33 and in Lloyd's as a whole. Syndicate 33 has a capital requirement ratio of approximately 45.6% of Syndicate capacity. The size of the Syndicate is increased or reduced according to the strength of the insurance environment in its main classes. At present, Hiscox owns approximately 72.5% of the Syndicate, with 27.5% being owned by third party Lloyd's Names. Hiscox receives a fee and a profit commission of approximately 17.5% of profit on the element it does not own.

The chart to the right shows the performance of Syndicate 33 for the last eight years.

Syndicate 33
Gross premiums written (£m) and combined ratio (%)



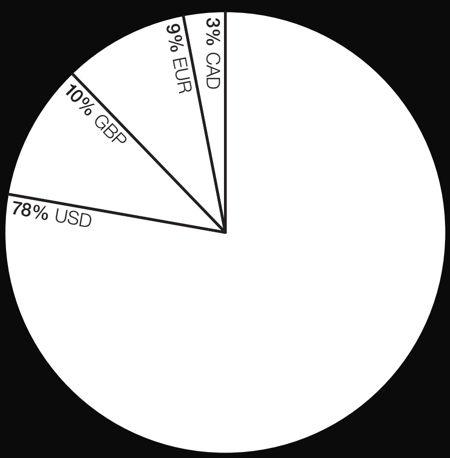
Syndicate 33
2008 Gross premiums written geographical split (%)



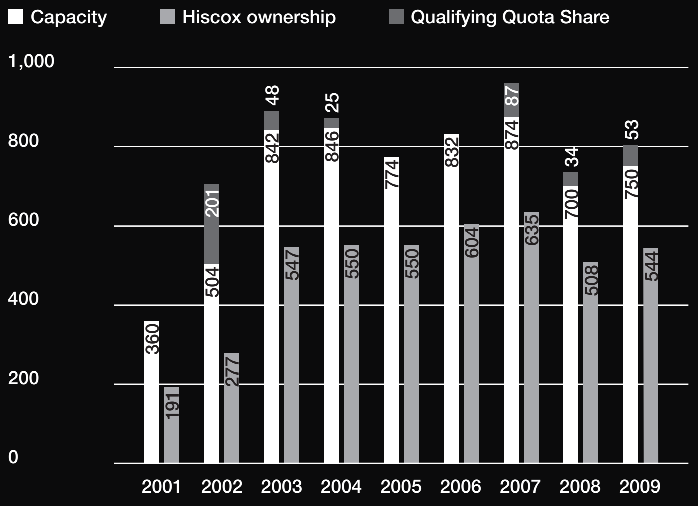
Cougar Syndicate

Cougar Syndicate was set up for the 2008 year of account with a capacity of £34 million and is wholly backed by external Names. The Syndicate takes a pure year account quota share of Syndicate 33's international property catastrophe reinsurance account under a limited tenancy agreement. This was initially for a one-year period only. Cougar Syndicate 6104 is managed by Hiscox Syndicates Limited. The arrangement was extended for the 2009 year of account and Cougar Syndicate 6104's capacity was increased to £43 million. In addition Hiscox has put in place reinsurance with a number of conventional reinsurers on a similar basis to the Cougar and Panther arrangements.

Syndicate 33
2008 Gross premiums written currency split (%)



Syndicate 33
Capacity and Hiscox ownership (£m)



Insurance carriers
continued

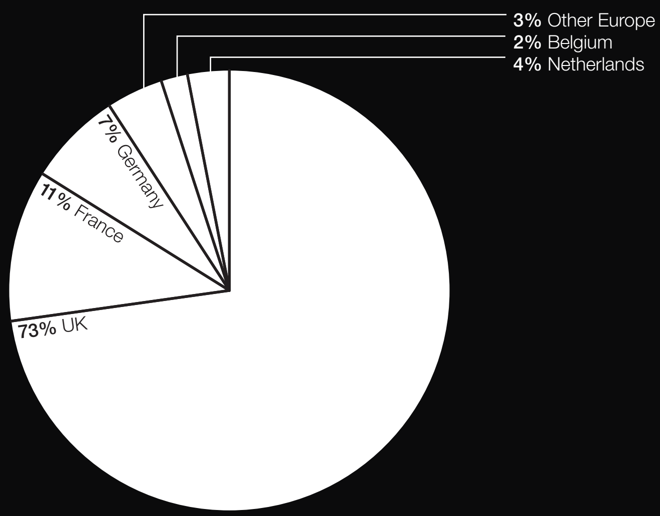
Hiscox Insurance Company
Hiscox purchased Hiscox Insurance Company Limited in 1996, in keeping with its aim of diversifying its activities outside of Lloyd's and writing a focused book of regional specialist risks. The Group has reshaped the Company's original portfolio to concentrate on high value household and smaller premium professional indemnity business. Hiscox Insurance Company has licences throughout Europe. It is the primary insurance vehicle used by the UK and mainland Europe offices for their business. The success of the reshaped portfolio can be seen in the chart below.

Hiscox Insurance Company Limited has achieved average compound growth in gross premiums written of 14% from 1997 to 2008, despite discontinuing almost all of its original business. It has also significantly improved its combined ratio.

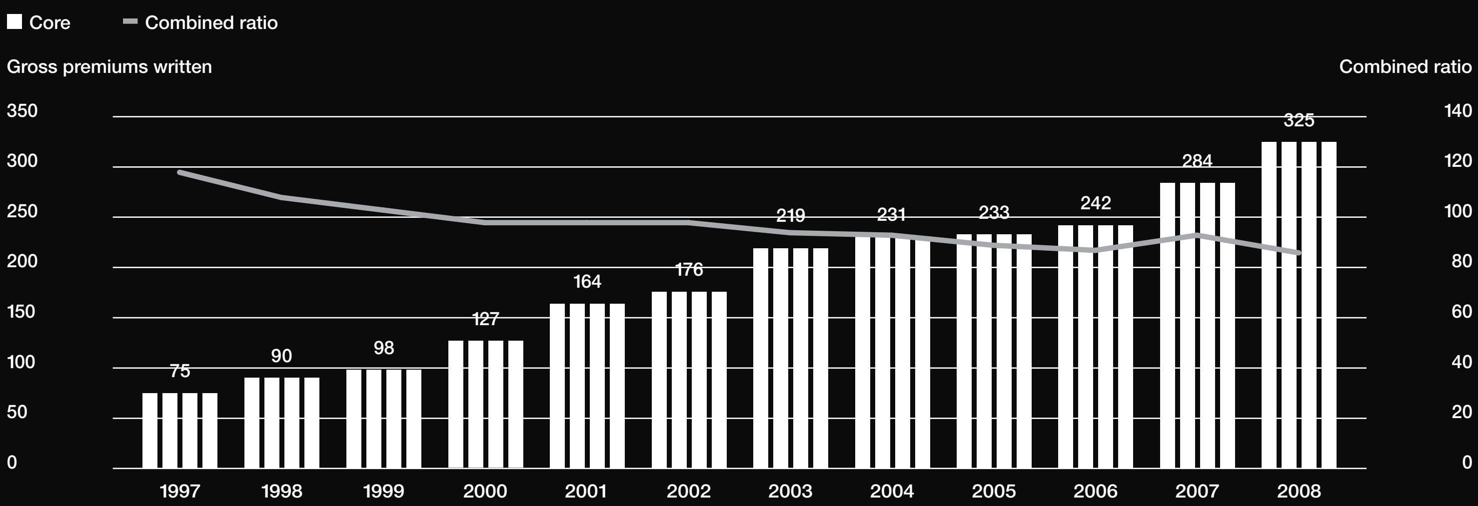
In September A.M. Best upgraded the rating of Hiscox Insurance Company Limited to A (Excellent). In December Standard & Poor's upgraded its rating to A (Strong). At the end of 2008, net assets exceeded £151 million (2007: £126 million).

Hiscox Insurance Company (Guernsey)
Formed by Hiscox in 1998, Hiscox Insurance Company (Guernsey) Limited writes mainly kidnap and ransom and fine art insurance. Its gross premiums written since inception are shown in the chart opposite. During the year, A.M. Best upgraded the rating of Hiscox Guernsey to A (Excellent). At the end of 2008, net assets exceeded $23.1 million (2007: $20.6 million).

Hiscox Insurance Company Limited
Gross premiums written geographical split by origin (%)



Hiscox Insurance Company Limited
Gross premiums written (£m) and combined ratio (%)



Hiscox Insurance Company (Bermuda)

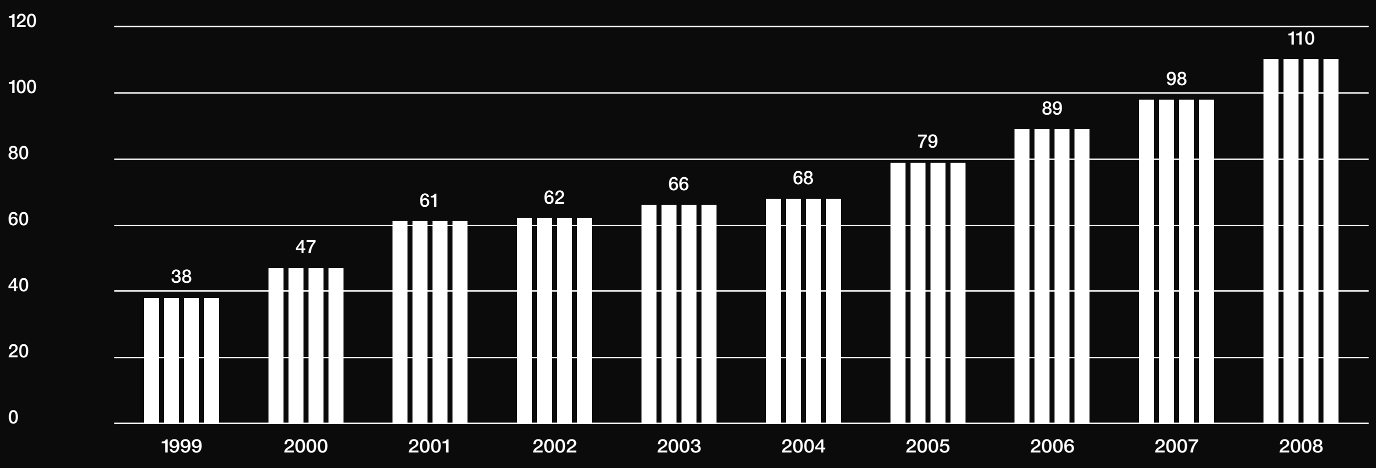
Formed by Hiscox in late 2005, Hiscox Insurance Company (Bermuda) Limited completed its first full year of business in 2006. Initially capitalised at $502 million, it has access to reinsurance business shown to the growing Bermuda market and has also become a vehicle for intragroup reinsurance. During the year A.M. Best upgraded the rating of Hiscox Bermuda to A (Excellent). At the end of 2008, net assets were $803.8 million (2007: $760.7 million).

Hiscox Insurance Company Inc.

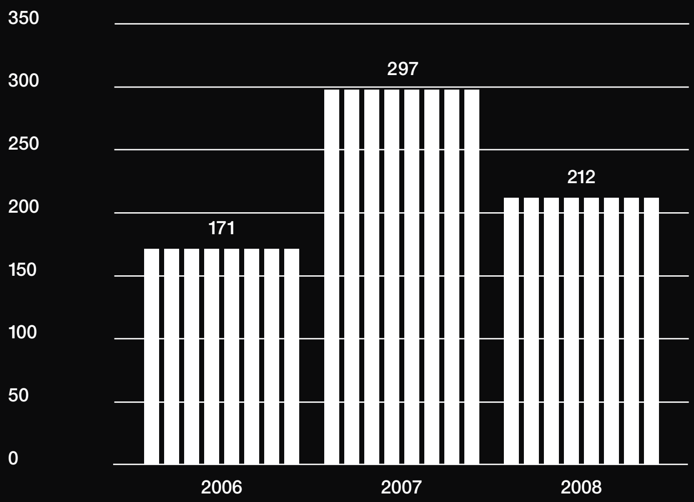
Hiscox Insurance Company Inc. was acquired by the Group in July 2007 through the purchase of the then parent holding company ALTOHA, Inc. It is rated A (Excellent) by A.M. Best.

Hiscox Insurance Company Inc. is based in Geneva, Illinois and is an admitted insurance company with licences in all 50 US states. Its insurance is also available internationally in Australia and South Africa. Its main business is animal mortality insurance for cattle and horses.

Hiscox Insurance Company (Guernsey) Limited
Gross premiums written ($m)



Hiscox Insurance Company (Bermuda) Limited
Gross premiums written ($m) External business



Group financial performance

Earnings per share fell to 18.8p (2007: 48.4p). The revival of the US Dollar during the second half of the year generated material exchange gains, which combined with good underwriting profits, assisted in growing overall net asset value per share by 23% to 258.1p (2007: 209.5p). Gross premiums written reduced by 4.3% as the Global Markets and Bermuda businesses contracted on rates. This was offset by growth in all other business units. The Group achieved a profit before tax of £105.2 million in 2008 (2007: £237.2 million). The post-tax return on shareholders' equity was 9.2% (2007: 28.8%). Total dividend for the year increased by 6.25% to 12.75p (2007: 12.0p).

The reduction in profit before tax reflects the twin challenges of the unprecedented volatile investment markets and increased catastrophe losses prevalent during 2008. The Group's investment portfolio negotiated difficult market conditions reasonably well however the protracted influence on valuations from widening credit spreads and the greater worldwide intolerance of equity risk assets outweighed the coupon returns from fixed

9.2%
Post-tax return on equity

Group financial performance

	Global Markets 2008	UK and Europe 2008	International 2008	Corporate Centre 2008	Total 2008	Global Markets 2007	UK and Europe 2007	International 2007	Corporate Centre 2007	Total 2007
Gross premiums written (£m)	**586.5**	**354.9**	**206.0**	**–**	**1,147.4**	676.4	302.3	220.2	–	1,198.9
Net premiums written (£m)	**425.1**	**328.7**	**176.7**	**–**	**930.5**	524.7	265.0	185.2	–	974.9
Net premiums earned (£m)	**477.8**	**302.4**	**172.8**	**–**	**953.0**	552.2	248.3	164.6	–	965.2
Investment result – financial assets (£m)	**(5.8)**	**(11.9)**	**(8.1)**	**(1.8)**	**(27.6)**	46.6	18.4	23.9	11.9	100.8
Investment result – derivatives (£m)	**–**	**(10.5)**	**–**	**(42.5)**	**(53.0)**	–	–	–	(1.1)	(1.1)
Profit/(loss) before tax and certain foreign currency items (£m)	**134.5**	**31.6**	**0.9**	**(10.9)**	**156.2**	155.6	21.8	69.1	(9.3)	237.2
Foreign currency items on economic hedges and intragroup borrowings (£m)	**6.0**	**–**	**–**	**(57.0)**	**(51.0)**	–	–	–	–	–
Profit/(loss) before tax (£m)	**140.5**	**31.6**	**0.9**	**(67.9)**	**105.2**	155.6	21.8	69.1	(9.3)	237.2
Claims ratio (%)	**57.8**	**41.9**	**43.0**	**–**	**51.1**	45.1	45.6	40.1	–	44.5
Expense ratio (%)	**36.7**	**50.3**	**38.8**	**–**	**40.8**	37.4	54.3	36.8	–	41.0
Foreign exchange impact (%)	**(26.0)**	**(10.7)**	**12.4**	**–**	**(15.8)**	(0.8)	(1.7)	(1.5)	–	(1.1)
Combined ratio (%)	**68.5**	**81.5**	**94.2**	**–**	**76.1**	81.7	98.2	75.4	–	84.4

	2008	2007
Financial assets and cash excluding derivative assets (£m)	**2,522.4**	2,050.6
Other assets (£m)	**1,214.9**	849.7
Total assets (£m)	**3,737.3**	2,900.3
Net assets (£m)	**951.0**	824.3
Net asset value per share (p)	**258.1**	209.5
Net tangible asset value per share (p)	**244.9**	199.3
Adjusted number of shares in issue (m)	**368.5**	393.4

income securities. Consequently, the underlying investment performance before the impact of derivative items was £27.6 million negative (2007: £100.8 million positive). Although disappointing, this remains a creditable result in an exceptional year and a significant portion represents unrealised fair value adjustments which may be expected to reverse over the medium term as the affected assets mature.

The Group's reported profit before tax includes foreign currency items of £51 million in relation to foreign currency hedging contracts and foreign currency losses on intragroup borrowings. The hedging contracts were used to hedge part of the Group's net investment in its Bermuda and Guernsey insurance operations and the £42.5 million of charges incurred are therefore economically linked to the underlying currency translation gains of £151.2 million recognised directly in equity. Not withstanding the fact that a formal hedge accounting treatment for this net investment relationship could not be achieved with these hedging contracts, the Group believes they are the most economically sound means of shielding foreign exchange movements in the investments' value to an acceptable range. £8.5 million of foreign exchange losses on intercompany positions again are inseparable from similar and opposite gains recognised in the balance sheet.

The underwriting performance of each reporting segment is detailed below.

Hiscox Global Markets performance
Hiscox Global Markets comprises the results of Syndicate 33, excluding Syndicate 33's fine art, UK regional events coverage, non-US household business and the underwriting result of Hiscox Inc.

It includes the results of the larger retail technology and media (TMT) business written by Hiscox Insurance Company Limited.

- Gross premiums written decreased by 13.3% on the prior year as the business continued to strategically retreat from inadequately priced risks in certain lines of business which were increasingly contested during the year. This shrinkage was partially offset by the impact of reinstatement premiums on reinsurance business following Hurricane Ike and favourable exchange rate movements during the second half of the year.
- The percentage of reinsurance purchased by the Global Markets segment was 27.5% (2007: 22.4%). The reinsurance partnership with Panther Re was successfully commuted in January 2008 and the business utilised the quota share arrangement with the Cougar Syndicate and reinsurance contracts with commercial reinsurers on similar terms throughout 2008 in return for ceding and profit commissions.
- Net premiums written and earned fell representing in part the reduction in business volume.
- Investment income reduced to £5.8 million negative (2007: £46.6 million positive) as widening spreads in fixed income markets compounded the effects of lower prevailing cash interest rates.
- The business incurred significant net catastrophe losses, mainly in respect of Hurricanes Ike and Gustav, in contrast to the relatively benign loss experience in 2007.
- The expense ratio declined to 36.7% (2007: 37.4%) as lower employee compensation costs offset the increased investment made in a number of operational areas.
- Profit before tax was consequently lower at £140.5 million (2007: £155.6 million). The combined ratio was 68.5% (2007: 81.7%), having been impacted by positive foreign exchange movements.

Hiscox UK performance
Hiscox UK comprises business written by Hiscox Insurance Company Limited in the UK and Ireland. It also includes the results of Syndicate 33's fine art, UK regional events coverage and non-US household business, together with income and expenses arising from the Group's retail agency activities in the UK. It excludes the results of the larger retail TMT business written by Hiscox Insurance Company Limited and the Irish surety business.

- Gross premiums written increased by over 10% for the second year running. Management successfully expanded underwriting activity across all core lines of retail business, especially in the direct product offerings and for the professional and specialty commercial risks.
- Reinsurance outwards costs reduced by £7.7 million to £18.7 million (2007: £26.4 million) as the UK business retained additional aggregate exposure as comparable cover to the prior year became prohibitively expensive. The business also avoided any need for reinstatement premiums on its reinsurance programme unlike 2007 when £2.2 million was incurred subsequent to the summer flood events.
- The widespread de-leveraging in equity markets during 2008 resulted in all dividend income returns being more than erased by significant unrealised fair value losses in valuations.
- The claims ratio reduced to 39.8% (2007: 45.6%), reflecting the absence of significant catastrophe losses in contrast to the prior year which was characterised by multiple unusual large loss events including Windstorm Kyrill and the UK summer flooding incidents.

12.75p
Dividend for 2008 increased by 6.25%

Group financial performance continued

- Improved expense management and economies of scale accompanied the favourable prior year claims experience such that the combined ratio improved to 85.0% (2007: 98.8%).

Hiscox Europe performance
Hiscox Europe comprises business written in mainland Europe by Hiscox Insurance Company Limited and the Irish surety business. It also includes the results of Syndicate 33's European fine art, European regional events coverage and European household business, together with the income and expenses arising from the Group's retail agency activities in Continental Europe.

- Europe's gross premiums written grew by 27% to £93.0 million (2007: £73.1 million) as a result of strong underlying growth in all countries except for Ireland, where demand for surety bond insurance was constrained by the slowdown in the construction market. The strengthening Euro offered support to the reported top line.
- In common with the UK business, reinsurance outwards costs fell to £7.5 million (2007: £10.9 million) mainly as a result of less low level reinsurance cover being purchased.
- Investment income declined due to the effects of unrealised losses on fixed income assets and equities.
- A relatively benign current loss environment resulted in a claims ratio of 48.6% (2007: 45.2%).
- The expense ratio decreased for the second year running to 52.4% (2007: 56.2%) as the business continued to unlock scale benefits of premium growth outstripping expenses which grew more sparingly.
- There was an exchange gain of £23.2 million, partially offset through derivative losses, to manage the exposure to Euros.
- The combined ratio therefore improved overall to 70.6% (2007: 96.2%), primarily driven by exchange gains and favourable loss ratios across most European regions and product lines.
- Profit before tax was therefore reduced to £2.7 million (2007: £4.6 million).

Hiscox International performance
International comprises the results of Hiscox Insurance Company (Guernsey) Limited, Hiscox Insurance Company (Bermuda) Limited, Hiscox Inc. and Hiscox Insurance Company Inc.

- The reduction in gross premiums written of £14 million is wholly attributable to the strategic contraction of the Bermudian external reinsurance business in response to softer market conditions. A reduction of 23% of the Bermuda premium was offset by organic growth of 21% achieved in Guernsey where we experienced increased demand for our specialised products, and 43% growth in the USA which benefited from organic growth and the inclusion of one full year of business from the ALTOHA Inc. Group which was acquired in August 2007. Exchange rate movements also had a beneficial impact.
- The reinsurance outwards spend was slightly lower in 2008 reflecting the lower underwriting activity in Bermuda which more than offset the impact of the reinstatement premiums incurred after Hurricanes Ike and Gustav.

£75.8m
Net positive cash flow

Hiscox UK and Hiscox Europe

	UK 2008	Europe 2008	Total 2008	UK 2007	Europe 2007	Total 2007
Gross premiums written (£m)	**261.9**	**93.0**	**354.9**	229.2	73.1	302.3
Net premiums written (£m)	**243.2**	**85.5**	**328.7**	202.8	62.2	265.0
Net premiums earned (£m)	**227.3**	**75.1**	**302.4**	190.3	58.0	248.3
Investment result – financial assets (£m)	**(2.8)**	**(9.1)**	**(11.9)**	15.9	2.5	18.4
Investment result – derivatives (£m)	**–**	**(10.5)**	**(10.5)**	–	–	–
Profit before tax (£m)	**28.9**	**2.7**	**31.6**	17.2	4.6	21.8
Claims ratio (%)	**39.8**	**48.6**	**41.9**	45.6	45.2	45.6
Expense ratio (%)	**49.7**	**52.4**	**50.3**	53.7	56.2	54.2
Foreign exchange impact	**(4.5)**	**(30.4)**	**(10.7)**	(0.5)	(5.2)	(1.6)
Combined ratio (%)	**85.0**	**70.6**	**81.5**	98.8	96.2	98.2

- Investment income reduced to £8.1 million negative (2007: £23.9 million positive) mainly attributed to adverse interest rate movements in addition to the unusually challenging market conditions outlined above.
- The claims ratio was 43.0% (2007: 40.1%) as catastrophe losses in Bermuda accrued from the more active 2008 hurricane season, and other large risk losses in the first half of the year. This dampened good loss conditions in Guernsey and the USA.
- The expense ratio was up at 38.8% (2007: 36.8%). This is as a result of a full year of ALTOHA Inc. Group and expansion costs to take advantage of opportunities in the US.
- Profit before tax therefore reduced to £0.9 million (2007: £69.1 million).

Hiscox Corporate Centre performance
Corporate Centre comprises the investment return and administration costs associated with the Company and other Group management activities. These non-underwriting entities capture the majority of the Group's funding costs.

- Underlying investment income decreased to £1.8 million negative (2007: £11.9 million positive).
- Derivative charges of £42.5 million were incurred in protecting £47.6 million of the currency translation gains recognised directly in equity (2007: £nil), made prior to the execution of these contracts. This was far outweighed by the £151.2 million translation gains recognised in equity.
- Finance costs decreased markedly to £4.7 million (2007: £8.1 million) as the Group repaid its $182 million term loan facility early in May 2008.
- Expenses decreased by 20.7%.
- Loss before tax was £67.9 million (2007: £9.3 million).

Cash and liquidity
The Group's primary source of liquidity is generated from premium income and interest income received on investments. Funds received are used predominantly to pay claims, increase investments and pay dividends and taxes.

The Group maintains relationships with a limited selection of banks who are monitored for their credit status and ability to meet the day-to-day banking requirements of the Group. There were no impairments recorded against cash or cash equivalents and no recoverability issues have been identified on such assets.

Net cash inflows from operating activities during the year were £200.9 million (2007: outflow of £123.5 million). The cash inflow was mainly as a result of the strong underwriting result together with continued favourable collection and settlement of outstanding amounts from reinsurance partners. In addition, the Group's investment in the current year in financial assets which do not qualify for presentation as cash equivalents reduced to £284.1 million compared with £489.7 million during 2007. The Group includes the purchase, maturity and disposal of financial assets as part of its insurance activities and as such they are classified as operating cash flows.

During the latter half of the year, the Group experienced defaults of £6 million on debt securities held with one financial institution. Net cash outflows from investing activities for the year were £16.7 million (2007: outflow £23.6 million). During the year the Group acquired Amershill Limited for a consideration of £2 million. Amershill is a wholly owned subsidiary and acts as an underwriting agent for the Group. The Group also purchased a holding in two new associate companies for total consideration of £5.4 million.

£2.5bn
Invested assets

Group investment performance

		31 December 2008			31 December 2007		
		Asset allocation %	Return %	Return £000	Asset allocation %	Return %	Return £000
Bonds	£	**11.6**	**5.3**		10.1	5.5	
	US$	**54.7**	**(2.5)**		50.6	5.8	
	Other	**10.2**	**3.1**		9.7	3.7	
Bonds total		**76.5**	**(0.3)**	**(4,027)**	70.4	5.5	70,688
Equities		**5.0**	**(28.4)**	**(38,267)**	7.8	4.1	6,959
Deposits and cash equivalents		**18.5**	**3.7**	**14,662**	21.8	5.4	23,140
Total return			**(1.3)**	**(27,632)**		5.4	100,787
Group invested assets				**£2,522.4m**			£2,050.6m

Group financial performance continued

The increased outflow was driven primarily by cashflows on the purchase of own shares as part of the share buy-back programme of £62.9 million (2007: £11.3 million) and £2.2 million for purchases held in trust.

Net cash outflows from financing activities for the year were £108.5 million (2007: outflow £50.0 million).

The Group repaid $182 million being the full amount of its loan facility during the year.

In May the Group refinanced its bank facilities with a £350 million secured syndicated loan facility at a 1% margin. The £200 million cash element of this is a five year revolving facility.

As at the year end £137.5 million of the Letter of Credit and £90.3 million of debt was drawn.

Group assets
The Group's invested assets grew to £2.52 billion (2007: £2.05 billion) with steady cash flow and the effect of a strong Dollar.

The investment return, excluding derivative positions, declined to £27.6 million negative (2007: £100.8 million positive) in the last year. Hiscox has a policy of focussing on high quality short duration bonds and this has held us in good stead during what has been a traumatic time for most investors. Despite our conservative stance the portfolio suffered from the extreme weakness in equity markets and the widening of spreads on non Government bonds.

The complete lack of liquidity in most areas of the bond markets has led to many discounted mark to market valuations. This has been most pronounced in the US Dollar bond portfolio where the valuations of some of the mortgage backed securities have suffered. The underlying securities, however, continue to pay down interest and principal in line with expectations and remain highly rated. Indeed cashflow from our bond portfolios is being generated at the rate of approximately £100 million a quarter which, together with undrawn bank facilities, provides us with ample liquidity. By the end of the year, 18.5% of the total portfolio was represented by cash. Government and Government supported assets accounted for 52% of the debt securities, with 94.6% of the debt securities being rated A or higher.

Our ability to hold the discounted securities to maturity will benefit the Group's investment return in the coming years at a time when interest rates in general are likely to be low.

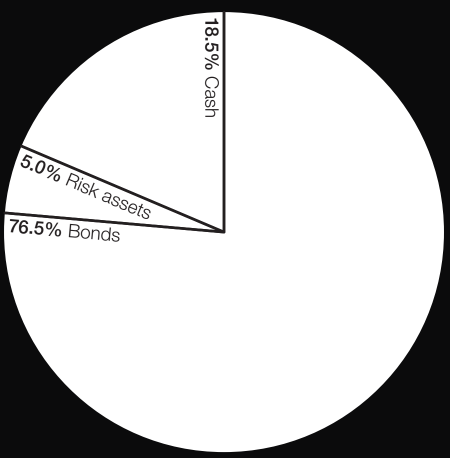
Away from cash and treasuries, which will be maintained at an appropriate level to provide liquidity, we see good opportunities in investment grade corporate bonds and would expect to increase our allocation there.

During the year we reduced our exposure to equities which further mitigated the overall impact of the weak markets. In turn our risk assets outperformed the broader indices helped by our modest allocation to hedge funds which, as intended, provided a helpful buffer to our long only managers.

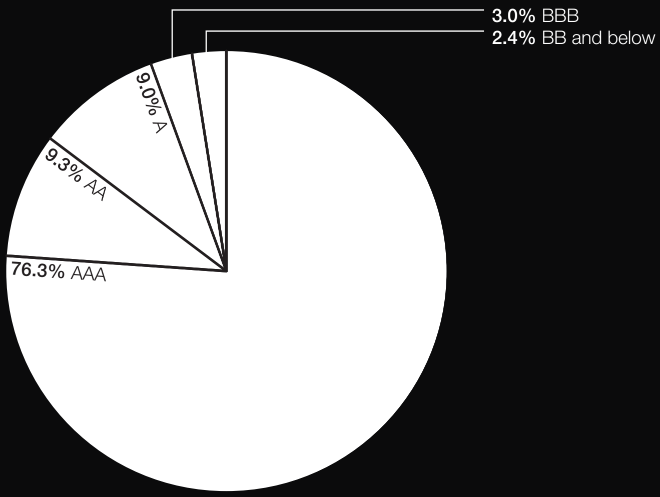
We have investments with four hedge fund managers totalling £40 million (2007: £30 million) all of whom are essentially stock pickers and none of whom employ any leverage. In light of recent scandals and events, the maxim of keeping it simple has found new relevance and still lies at the heart of our philosophy.

High quality and well diversified portfolio
Investment portfolio: £2,522m

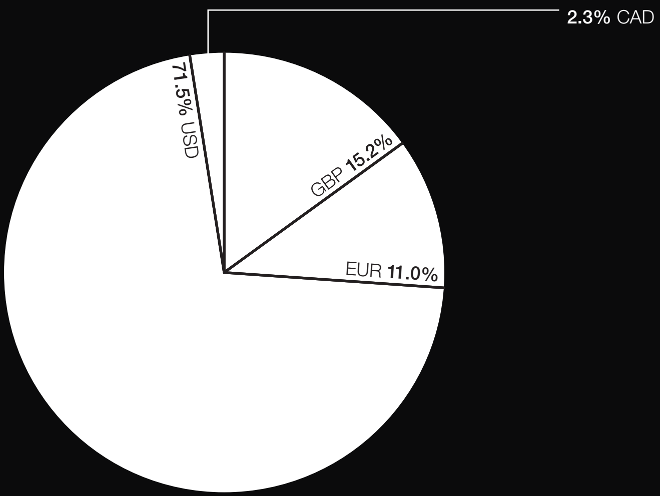
Asset allocation



Bond credit quality



Bond currency split



Risk management

Risk management framework

The risk management framework extends to all aspects of risk including insurance, market, credit, operational, liquidity, environmental, ethical and strategic risks. The core business of Hiscox is dealing with risk. The understanding of risk is intrinsic to every level of decision-making in the Group.

The risks associated with the core business represent some of the greater exposures, however the Group is exposed to a number of other risks and has systems and procedures to identify and manage them. These procedures are regularly reviewed and improved in the light of the changing risk environment and best practices. Risk appetite is set by the main Board and cascaded down into the Group's global operations as part of the business planning cycle and through various risk and operational committees. These committees have terms of reference that assign specific areas of focus, such as underwriting, loss modelling, reinsurance purchase and security, liquidity, broker credit risk, investments, claims reserving and business continuity. Senior management responsibilities are clearly defined together with their reporting lines and the execution of delegated responsibility is closely monitored by reporting to the Board and its committees. This monitoring, supported by financial and non-financial management information, covers performance against agreed targets and objectives, as well as the risks to achieving these objectives and the effectiveness of the measures in place to manage these risks. In parallel with these direct risk management processes, there is a dedicated risk management function which, in conjunction with Internal Audit and Group risk committees, monitors and reviews the effectiveness of risk management activities throughout the organisation and reports to the Board. These functions are organised centrally to assist in the integration of best practice throughout the Group. A range of risk management tools are used to assess and manage risk both at business unit level and on a Group-wide basis.

Major risks

The major risks that the Group faces are presented below. Detailed information on the major risks and uncertainties impacting the Group's financial statements, is set out in note 3 to the financial statements.

Insurance

Catastrophe and systemic insurance losses

The Group continues to underwrite significant risks in geographical regions that are prone to natural peril. This business remains a compelling proposition for the Group since it is capable of returning good margins over the medium- to long-term as the occurrence of catastrophes averages out. As with similar insurers, the Group's earnings are affected by unpredictable external events such as natural and other catastrophes, legal developments, social and economic change and the emergence of latent risks. Such events can create significant levels of underwriting losses. The Group manages its exposure to these risks through having a clearly defined risk appetite which dictates the business plan and is realised through disciplined underwriting, close and continuous monitoring of exposures and aggregations and a prudent and disciplined reinsurance purchase programme to cap losses from risk concentrations.

Of critical importance is the quality of our underwriting models and risk aggregation capability. Incentives ensure that underwriting staff make sound and objective judgements that are aligned with the Group's overall strategic objectives. Clear authority limits are also in place that are regularly reviewed and monitored. Policy wordings are reviewed regularly by specialists and legal experts in the light of legal developments to ensure that the Group's exposure is restricted, as far as possible, to those risks identified at the time of policy issuance. The modelling and monitoring tools are used both in the underwriting process and by independent risk specialists. They are used to design the insurance and reinsurance programmes and control the business underwritten to ensure that the risk profiles of contracts match the exposures for which the programmes were devised.

Aggregation and modelling resources are shared across the Group. Subsidiaries and locations worldwide therefore employ the same sophisticated standard of modelling tools tailored to the characteristics of each specific market. We also run realistic disaster scenario projections on a subsidiary and consolidated basis in order to estimate the potential loss across all books of business following a range of specific events. We adjust our business plan, target products and reinsurance programme

Incentives ensure that underwriting staff make sound and objective judgements that are aligned with the Group's overall strategic objectives.

to deliver a well-diversified book of uncorrelated business. This enables us to maximise expected risk/return on the portfolio as a whole and offset potential losses on the more volatile accounts.

Competition and the insurance cycle
We have continued to increase our presence in the USA and in Europe. In these markets, Hiscox competes against major international groups with similar offerings. At times, a minority of these groups may choose to underwrite for cash flow or market share purposes at prices that sometimes fall short of the break-even technical price. The Group is firm in its resolve to reject business that is unlikely to generate underwriting profits. Accepting insurance risk below the technical price is detrimental to the industry's prospects, since it drives the prevailing rates in the market lower to the point where business failures occur, insurers' capital is destroyed, customers receive sub-optimal service and the industry suffers from negative publicity. As capacity levels in the market fall, prices inevitably rise until the point where the cycle of irrational pricing may begin again. In common with all insurers, the Group is exposed to this price volatility. Prolonged periods of low premium rating levels or high levels of competition in the insurance markets are likely to have a negative impact on the Group's financial performance.

To manage this risk, Hiscox alters its appetite for the lines of business and the layers it writes in response to market conditions and the risk appetite of the Group. Pricing levels are monitored on a continuous basis with detailed monthly reports showing current prices relative to exposure, trends over the past 12 months, and projections to the year end. The Group's cycle management strategy and related modelling and monitoring are essential to ensure that it quickly identifies and controls any accumulating adverse effects of changes. As the Group frequently acts as the lead insurer in the complex co-insurance programmes required to cover significant high value assets, it has some ability to set market rates rather than follow them.

Mutualisation is a related risk arising from the phenomenon of pricing cycles in the industry. The Group is required to contribute towards the obligations of other financial institutions who fail. Syndicates 33 and 3624 contribute to the New Central Fund operated by the Council of Lloyd's, and in the UK certain Hiscox entities contribute to the Financial Services Compensation Scheme (FSCS). Insurance companies have not yet been asked to fund the recent claims on the FSCS from the banking industry, currently funded by the Treasury. Any such requests will depend on the final level of claims from deposit-holders (net of asset recoveries), the period of repayment demanded by the Treasury and the ability of the banks to make such repayments. The Treasury has indicated that it will not demand any principal repayments in the next three years. The Group participates in many industry bodies, associations and task-force initiatives in order to monitor developments and influence their strategic direction. In particular, the continued involvement of the Group's executives in the reshaping of the Lloyd's market underscores that commitment.

Reserving
The Group establishes provisions for unpaid claims, defence costs and related expenses to cover its ultimate liability in respect of both reported claims and incurred but not reported (IBNR) claims. These provisions take into account both the Group's and the industry's experience of similar business, historical trends in reserving patterns, loss payments and pending levels of unpaid claims and awards, as well as any potential changes in historic rates arising from market or economic conditions. Details of the actuarial and statistical methods and assumptions used to calculate reserves are set out in note 26 to the financial statements. The provision estimates are subject to rigorous review and challenge by senior management from all areas of the business and the final provision is approved by the reserving committees. The provision is set above the expected or mean reserve requirement to minimise the risk that actual claims exceed the amount provided.

Binding authorities
Hiscox writes a considerable amount of premium income through agents to whom binding authority is given to accept risks on behalf of Hiscox Group carriers. All binding authorities are strictly controlled through tight underwriting guidelines and limits and extensive vetting, monitoring, and auditing of compliance. Agents to whom binding authorities are granted are regularly examined to ensure they meet the Group's minimum standards. These checks are performed by staff independent of the underwriting function and the process is overseen by a committee comprising both underwriters and non-underwriters from the senior management team and the Group Head of Internal Audit.

We adjust our business plan, target products and reinsurance programme to deliver a well-diversified book with a large focus of uncorrelated business.

Risk management
continued

Credit

Reinsurance counterparties

The Group purchases reinsurance protection to limit its exposure to single claims and the aggregation of claims from catastrophic events. The Group places reinsurance with companies that it believes are strong financially and operationally. Credit exposures to these companies are closely managed by the Reinsurance Security Committee (RSC), which is chaired by the Group Finance Director. All reinsurers used must be approved by the RSC following an internal assessment of the companies' financial strength, trading record, payment history, outlook and organisational structure, in addition to credit ratings granted by external agents. Approved reinsurers are monitored continuously to identify potential deteriorations as early as possible. Monitoring procedures include consideration of public information produced by reinsurers; the Group's experience of the reinsurers and their behaviour in the marketplace; analysis from external consultants and from rating agencies. Credit limits are set for approved reinsurers both at a Hiscox Group level and for each underwriting subsidiary based on a defined risk appetite. The Group's experience of bad debts arising from its reinsurance arrangements has been minimal.

Operational and other key risks

Business continuity

The Group has taken significant steps to minimise the impact of business interruption that could result from a major external event. A formal disaster recovery plan is in place for both workspace recovery and retrieval of communications, IT systems and data. In the event of a major event, these procedures will enable the Group to move the affected operations to alternative facilities within very short periods of time. The disaster recovery plan is tested regularly and includes disaster simulation tests. Staff are widely distributed throughout the UK, Europe, USA, Bermuda and Guernsey. This geographical dispersion reduces the Group's exposure to natural or terrorist events that could prevent access to premises or loss of staff. In the event of a loss of staff, for example as a result of a pandemic, a plan is in place to re-assign key responsibilities and transfer resources to ensure key business functions can continue to operate.

Hiscox credit rating

The external ratings granted to the Group and its subsidiaries are essential to maintaining profitability, particularly in relation to our reinsurance business and managing the costs of financing and access to capital. We have identified the key aspects of our business which are critical to maintaining our ratings and closely manage these to minimise the risk of an event which might jeopardise any rating and to ensure that we respond appropriately to unforeseen external events. We maintain regular and open communication with our rating agencies to ensure that we continue to meet their expectations and that careful consideration is given to the potential impact on a rating of any significant decision.

Emerging risks

Being able to identify and plan for unexpected events has become an increasingly important component of our business cycle management. Emerging risk identification and control is therefore a core part of risk management activities in relation to all aspects of our business, including underwriting, operational and strategic. Significant efforts are made, including obtaining external expertise, to try to identify any threats to the business either actual of potential. For example, a change in US legislation may result in unintended risks being underwritten, or may require us to cease business in certain US States. We take all reasonable steps to minimise the likelihood and impact of such events and to be prepared for their occurrence.

Capital

The Group manages capital rigorously in order to maximise its return on capital whilst maintaining sufficient levels of financial resources to absorb unexpected losses and meet the requirements of regulators and rating agencies. Accurate measurement of potential losses under various scenarios is a critical aspect of our business planning and capital management cycle. Potential losses are calculated regularly using the most sophisticated modelling techniques available supported by stress and scenario assessments. We invest heavily in the most up to date risk management techniques and expert staff to ensure our procedures and analyses remain second to none.

Emerging risk identification and control is a core part of risk management activities in relation to all aspects of our business, including underwriting, operational and strategic.

Investments and foreign exchange

Investment policy

The investment policy is designed to maximise returns within the overall risk appetite of the Group which stipulates a one in 100 year loss tolerance. The overriding philosophy with the Group's assets is not to lose money or to put at risk the Group's capacity to underwrite. In this regard 2008 by most measures, will be viewed as a one in 100 year event. These turbulent times have not diminished the Group's capacity to underwrite due to our conservative investment policy.

Technical funds, the investments held for the payment of future claims, are primarily invested in high quality bonds and cash. The high quality and short duration of these funds allows the Group to meet its aim of paying valid claims quickly. These funds are maintained in the currency of the insurance policy to reduce foreign exchange risk.

Due to the short tail nature of the Group's insurance liabilities, the aim is not to match the duration of the assets and liabilities precisely. Benchmarks are instead set for the fixed income fund managers which approximate the payment profile of the claims as well as providing the managers with some flexibility to enhance returns.

A proportion of the Group's assets are allocated to riskier assets, principally equities. Here, it is the Group's philosophy to take a long-term view in search of acceptable risk adjusted returns. The proportion of the Group's funds invested in risk assets will depend on the outlook for investment and underwriting markets. An allocation within the risk assets is made to less volatile, absolute return strategies. This balances the desire to enhance returns against the need to ensure capital is available to support underwriting throughout any downturn in financial markets.

Foreign exchange

The US Dollar is the Group's largest underwriting currency. The Group's policy is to match US Dollar insurance liabilities with investments held in the same currency in order to minimise the effect of currency fluctuations. Whilst the Group's functional and reporting currency is Sterling, a significant proportion of the Group's operational cost base is located in the USA and Europe, and movements in foreign exchange rates may have a material adverse effect on its financial performance and position. In addition the capital base of the Bermuda, Guernsey and US insurance companies are in US Dollars. Net currency positions are closely monitored and currency hedging transactions are entered into where this is considered advantageous in the light of anticipated movements in exchange rates. Further details of the Group's investment profile and its management of currency risks are provided in notes 3, 20 and 22 to the financial statements.

Liquidity

Liquidity risk is the risk of being unable to meet liabilities to customers or other creditors as they fall due, or the risk of incurring excessive costs in selling assets or having to raise finance in a very short period.

The majority of the Group's cash inflows and outflows are routine and can be forecast well in advance. The primary source of inflows is insurance premiums whilst outflows are to policyholders for claims made. Cash flow is forecast on rolling daily, weekly, monthly and quarterly basis depending on the source, and, in the event of a major catastrophe, such forecasting may be up to three years in advance. Free cash is invested according to the Group's investment policy and cash requirements can normally be met through regular income streams (i.e. premiums or investment income), existing cash balances or realising investments that have reached maturity.

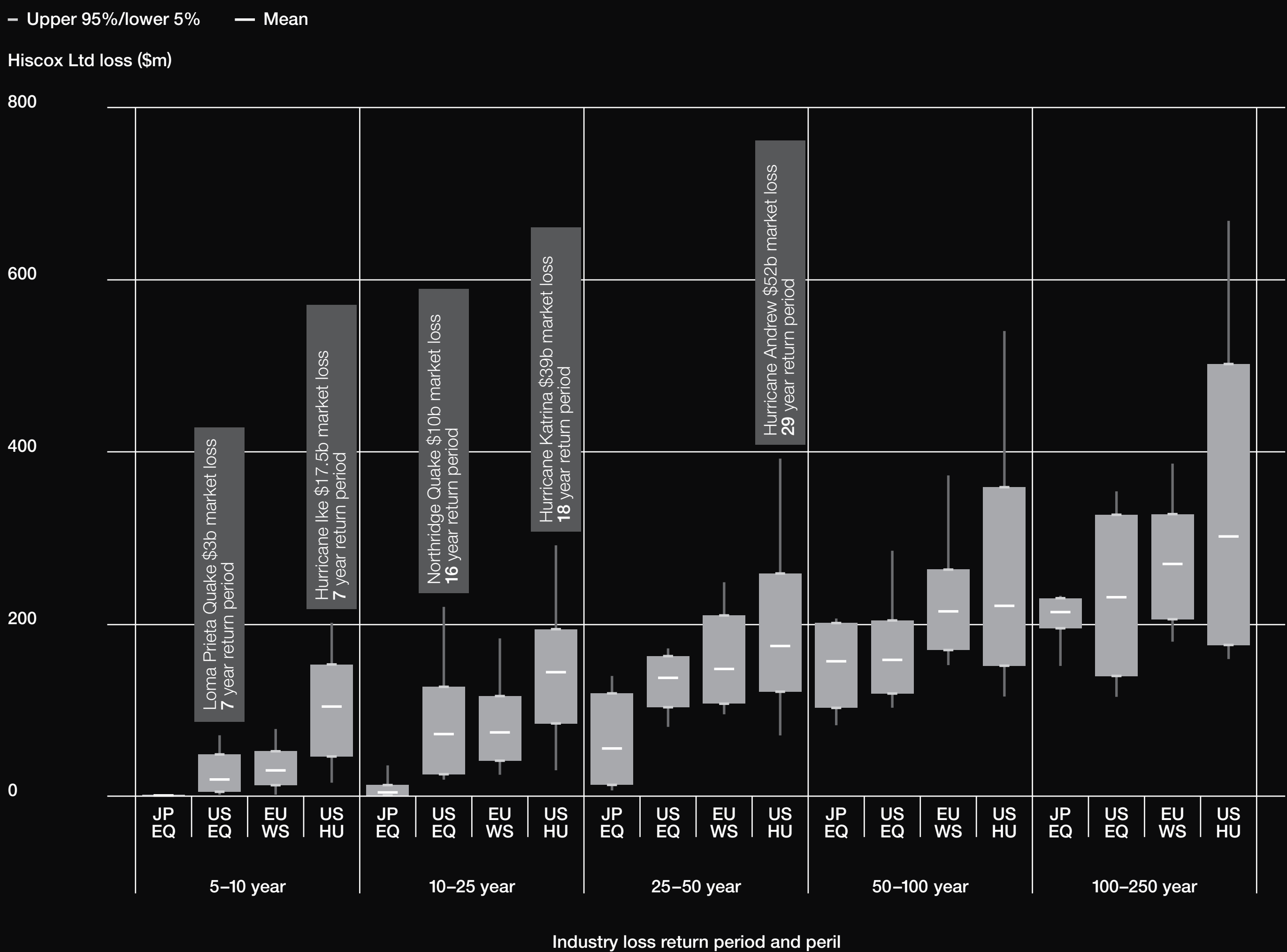
The Group's liquidity risk arises from large, unplanned cash demands and the principal source of risk is a major catastrophe resulting in a high value of claims. This could be exacerbated if we had to fund claims pending recovery from a reinsurance partner. We plan for this risk through a number of measures. First, we run stress tests to estimate the size and timing of claims that might have to be paid in the event of a number of major catastrophes all occurring within a short period of time. We also run scenario analyses that consider the impact on liquidity of a range of adverse events happening simultaneously; for example, an economic downturn and declining investment returns combined with unusual levels of insurance losses.

Second, taking into account the stress and scenario analyses, we maintain extensive borrowing facilities. These are held with a diverse range of major international banks in order to minimise the risk of one or more being unable to honour their commitments.

Third, our investment policy recognises that some investments may need to be realised before maturity or at short notice and hence a high proportion of investments must be held in liquid assets. This minimises the risk of loss in the event of having to sell assets quickly.

Using these measures we believe the likelihood of being unable to meet our liabilities, or of incurring excessive costs in doing so, to be extremely remote.

Boxplot and whisker diagram of Hiscox Ltd net loss (USD)



The chart above shows the variability in net loss the Group expects from individual losses of a given industry loss size.

Corporate responsibility

Fundamental to corporate and social responsibility is honest and fair dealing in all activities of the Group. Hiscox has always been extremely conscious of its reputation. Management has always believed that a reputation for integrity and decent behaviour in all dealings, be they within the Group or with those from outside who come in contact with the Group, will be good for morale and for the results of the business.

Robert Hiscox

Hiscox's commitment to responsible business practices is reflected:

In the marketplace

Dealing with customers
Hiscox is dedicated to advising customers on risk management to prevent burglary and fire in the home and other distressing losses. Should a loss occur, the Hiscox UK philosophy is that insurance is a promise to pay, and the claims service aims to support customers and make them whole as soon as possible.

Dealing with business partners
Insurance brokers are an important Hiscox stakeholder, and Hiscox endeavours to have good relationships with them to create a competitive advantage in the marketplace. Clear communication is key to good relations and a quarterly Hiscox broker magazine keeps brokers informed of developments at Hiscox and in the insurance industry.

Dealing with investors
In keeping with its policy of open and transparent communication, Hiscox reports both its half and full year results to its investors via a series of presentations as well as ensuring all relevant Group financial information is available from its website. In addition, senior management and key performers meet investors and analysts to explain and take questions on the Group financial performance and business strategy.

In the workplace

Hiscox wants to employ the best people and provide them with the means and the motivation to excel. This is achieved with fair rewards and by providing staff with an environment in which they can enjoy their work and reach their full potential. Hiscox recognises how important it is for employees to maintain a healthy work/life balance and gives staff the option of flexible and home working wherever possible.

Equal opportunities
Hiscox is committed to providing equal opportunities to all employees and potential employees in all aspects of employment regardless of disability, sex, race, religion, sexual inclination or background.

Rewards and benefits
Hiscox encourages employees to identify with the success of the Group through performance-related pay and bonus schemes, savings related share option schemes and executive share option schemes. Competitive benefits packages contain health, fitness, flexible working and career break opportunities. Salary packages are benchmarked by Watson Wyatt against the financial services industry as a whole and against the Lloyd's market specifically, where applicable. Packages are also considered on a country-by-country basis.

Training and development
Hiscox is committed to training and developing its employees to help them maximise their potential. Each permanent member of staff is provided with a tailored personal development programme. Training and development needs are reviewed twice a year, along with performance, against clearly set objectives.

Communication and participation
Employees are kept informed of business developments through formal briefings, team meetings, intranet bulletins, video conferences and informal routes. Management takes these opportunities to listen to staff and involve them in taking the business forward. A monthly staff e-zine provides updates on issues and social events.

Culture
The Hiscox culture is underpinned by a set of core values that determine the standard of behaviour expected of employees. These core values – challenge convention, integrity, respect, courage, quality and excellence in execution – guide everything that Hiscox does in its business. With this conduct, the Group recognises that it is more likely to achieve business success and create value for its shareholders. Hiscox strives for the highest standards of corporate governance while being in essence a non-bureaucratic organisation. An effective and firm system of internal controls ensures that risks are managed within acceptable limits, but not at the expense

Hiscox strives for the highest standards of corporate governance while being in essence a non-bureaucratic organisation.

of innovation or speed of response.

The Group believes that it has got this balance right and that it is one of its greatest strengths. The Group's policies ensure that it continues to follow a best practice approach to managing its people and remains a fair and professional employer. In the unlikely event of an employee having a material concern relating to the operations of the business, a whistleblowing policy explains to staff how they can confidentially raise their misgivings. Hiscox also subscribes to Public Concern at Work, which provides free legal advice to any employee with a concern about possible danger or malpractice in the workplace.

In the community

Hiscox donated £717,000 to charities in 2008. As the Group expands internationally, it aims to recruit local staff wherever possible to help develop a rapport with the local community and make a direct contribution to the local economy. The Group has maintained its involvement in its local communities with the strong support of its employees. In Bermuda, Hiscox supports the Bermuda Sunshine League which is a transitional living facility for children removed from unstable living environments and gives employees the opportunity to contribute their time and effort to children who require adult role models and a semblance of stability. Hiscox is a member of the Lloyd's Community programme, which supports local initiatives concerning education, training, enterprise and regeneration. In London, the Reading Partners scheme has continued, through which staff assist pupils at the Elizabeth Selby Infants School in Tower Hamlets. Employees also mentor students at Morpeth School in Tower Hamlets.

Supporting the arts

The Group continues to support the Bermuda Masterworks Foundation, which aims to repatriate artworks by Bermudian artists or featuring Bermuda landscapes/seascapes.

Hiscox Art Projects, a contemporary exhibition space situated in the London office with free entry to the public, continues to provide artists with an opportunity to exhibit their talents.

Hiscox has started a two year programme of support for the Whitechapel Art Gallery in London.

The Hiscox Foundation

The Hiscox Foundation, a charity funded by an annual donation from Hiscox, has been set up to give donations to deserving causes. It gives priority to any charity in which a member of staff is involved with the aim of encouraging and developing such activity. Hiscox staff continued their seven year long support of the Richard House Hospice, raising over £25,000 during 2008. The foundation has committed to support HART (Humanitarian Aid Relief Trust) over a three year period. The charity helps some of the poorest and most abused people in the world. As part of the purchase of American Live Stock, Hiscox has taken over a small charitable foundation based in Illinois, USA. Four Hiscox employees have been appointed to the Board of the Foundation. The Foundation, which formerly supported animal charities, will now broaden its scope to support relevant causes in the US.

In the environment

The way customers conduct their business is of paramount importance to the Group. Hiscox's approach to underwriting their risks will take into account customers' attitudes to all aspects of their business, including care of the environment.

The Group's direct environmental impact is mainly from the energy it uses and the emissions and waste it generates from its premises. In accordance with the Group's environmental policy, consumables are recycled and reused wherever possible. The Group continues to take steps to reduce the amount of raw materials used in business processes and by staff, particularly through the extensive use of computerisation and communications technology. Programmes for recycling batteries, mobile phones, lamps and CDs continued during the year.

The Group's efforts were rewarded by a Clean City Award from the City of London Corporation, which aims to promote good waste management practices and encourage waste minimisation, reuse and recycling.

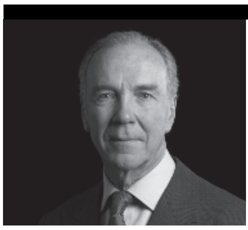
Hiscox is a member of Climatewise, an insurance industry initiative which aims to reduce the economy's and society's long-term risk from climate change. Hiscox supports the principles of Climatewise and is encouraged by the actions taken by Lloyd's to assist the market to meet the majority of the principles.

During 2008 Hiscox UK conducted an audit of its impact on the environment and with Corporate Citizenship, calculated the carbon footprint of the UK business. Hiscox UK aims to be Carbon Neutral by the end of 2009 by reducing greenhouse gas emissions, engaging employees to modify their behaviours and seeking to offset unavoidable carbon emissions.

More detailed information relating to the actions Hiscox is taking to meet each of the Climatewise Principles will be published on Hiscox.com in June 2009.

Board of Directors

Executive Directors



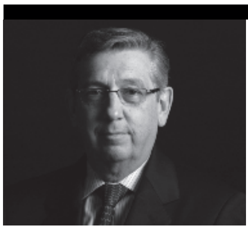
Robert Ralph Scrymgeour Hiscox
Chairman (Aged 66)
Robert Hiscox joined Hiscox in 1965 and has been Chairman of the main holding company of Hiscox since its incorporation in 1973. He was Deputy Chairman of Lloyd's between 1993 and 1995. He is a Non Executive Director of Grainger Trust plc and AGICM Ltd.

Bronislaw Edmund Masojada
Chief Executive (Aged 47)
Bronek Masojada joined Hiscox in 1993. From 1989 to 1993 he was employed by McKinsey and Co. Bronek served as a Deputy Chairman of Lloyd's from 2001 to 2007. He was a Non Executive Director of Ins-sure Holdings Limited from 2002 to 2006 and is a past president of The Insurance Institute of London. He is Chairman of the Lloyd's Tercentenary Foundation, a charity which supports research in areas of interest to the insurance industry.

Stuart John Bridges
Group Finance Director (Aged 48)
Stuart Bridges joined Hiscox in 1999. He is a chartered accountant and has held posts in various financial service companies in the UK and US, including Henderson Global Investors. He is Chairman of the Business Advisory Board of the Institute of Chartered Accountants in England and Wales, a member of the Financial Regulation and Taxation Committee of the Association of British Insurers and Vice-chairman of the Lloyd's Market Association Finance Committee.

Robert Simon Childs
Chief Underwriting Officer and Chief Executive Officer of Hiscox Bermuda and Chairman of Hiscox USA (Aged 57)
Robert Childs joined Hiscox in 1986, served as the Active Underwriter of the Hiscox Lloyd's Syndicate 33 between 1993 and 2005, and is the Group's Chief Underwriting Officer. Robert was Chairman of the Lloyd's Market Association from January 2003 to May 2005.

Independent Non Executive Directors



Daniel Maurice Healy ▲○□
Non Executive Director and Chairman of the Audit Committee (Aged 66)
Daniel Healy joined Hiscox in 2006. He was appointed Executive Vice President and Chief Financial Officer of North Fork Bancorporation in 1992 and a member of its Board of Directors in 2000. He was a partner with KPMG LLP before joining North Fork. He was the Managing Partner of the San José, California and Long Island, New York offices and held other positions in that firm during his tenure. He is Chairman of Herald National Bank and he holds Board positions with KBW, Inc. and Harlem RBI, a not for profit organisation. He is also a senior adviser to Permira Advisers LLC an international private equity firm.

Ernst Robert Jansen △○□
Non Executive Director (Aged 60)
Ernst Jansen joined Hiscox on 20 November 2008. He held several Managing Director positions in the European chemical industry between 1980 and 1990. He was an Executive Director then Vice Chairman of Eureko B.V. between 1992 and 2007. Following retirement he became an adviser to the Executive Board and is a member of the Supervisory Board of a number of Eureko operating companies.

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Robin Mehta

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Bankers
Bank of Bermuda – HSBC
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Hamilton HM 11
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Stockbrokers
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Registrars
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PO Box 532
St Helier
Jersey JE4 5UW

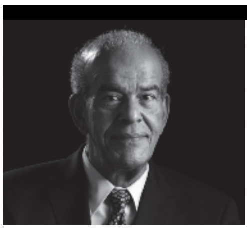
△
Member of the Audit Committee

○
Member of the Conflict Committee

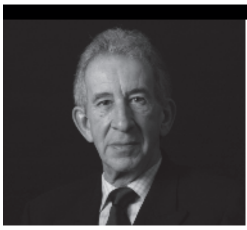
□
Member of the Remuneration and Nomination Committee

Chairman of Committee is highlighted in solid

Independent Non Executive Directors
continued



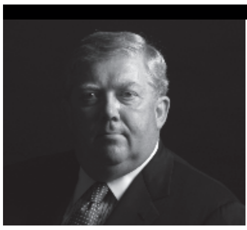
Dr James Austin Charles King △●□
Non Executive Director and Chairman of the Conflict Committee (Aged 70)
Dr James King joined Hiscox in 2006. He chairs Keytech Limited, The Bermuda Telephone Company Ltd, the Argus Group of Companies, Grotto Bay Properties Ltd and the Establishment Investment Trust, a UK listed company. He was chairman of the Bank of N.T. Butterfield & Son Limited until 19 April 2007. He is a Trustee of the Bermuda Institute of Ocean Sciences and a Director of Castle Harbour Limited. Dr King is a fellow of the Royal College of Surgeons, Canada and the American College of Surgeons.



Sir Mervyn Pedelty ○■
Senior Independent Director and Chairman of the Remuneration and Nomination Committee (Aged 60)
Sir Mervyn Pedelty joined Hiscox in 2005. He was previously the Chief Executive and an Executive Director of The Co-operative Bank plc (from 1997 until his retirement in 2004) and also of Co-operative Financial Services Limited and the Co-operative Insurance Society Limited (from 2002 to 2004). He was a Director of the Association of British Insurers (from 2002 to 2004) and is a former Council Member of the British Bankers' Association. Sir Mervyn is a Chartered Accountant and a Chartered Banker. His other current appointments include: Independent Director of Friends Provident plc, Chairman of the FTSE4 Good Policy Committee, a Director of Performances Birmingham Limited and a Senior Adviser to Permira Advisers LLP.

Andrea Sarah Rosen △○■
Acting Senior Independent Director and Acting Chairman of the Remuneration and Nomination Committee (Aged 54)
Andrea Rosen joined Hiscox in 2006. She was appointed as a Director of Alberta Investment Management Corporation in October 2007 and is a Director of Emera Inc. She was previously Vice Chair of TD Financial Group and President of TD Canada Trust from 2002 to 2005. Prior to this she held various positions within the TD Financial Group from 1994 to 2002, including Executive Vice President of TD Commercial Banking and Vice Chair of TD Securities. She was Vice President of Varity Corporation from 1991 to 1994 and held various positions with Wood Gundy Inc. from 1981 to 1990.

Gunnar Stokholm △○□
Non Executive Director (Aged 59)
Gunnar Stokholm joined Hiscox on 20 November 2008. He worked for Zurich Financial Services between 1995 and 2004, in a number of roles including CEO for Australia and Asian markets. He spent the majority of his career at Topdanmark Insurance and held the position of Managing Director of Topdanmark Holding from 1986 to 1995.



Dirk Arie Stuurop △○□
Non Executive Director (Aged 60)
Dirk Stuurop joined Hiscox in 2006. He is managing partner of Lighthouse Holdings LLC. From 2004 to 2009 he was Vice Chairman of the Board of RAM Holdings Limited, a Bermudian domiciled financial guaranty reinsurance operation. From 1999 to 2006, Dirk was President of Stuurop & Company, a privately owned firm providing strategic advice to executive managements and boards of directors. In 1999 he retired as Chairman of Global Financial Institutions at Merrill Lynch where he worked from 1982. He served as Chairman of Worldinsure Ltd, from 2000 to 2002 and as Senior Executive Director to Banc of America Securities in 2003.

Corporate governance

Overview and basis of reporting
Hiscox Ltd ('the Company') is a Bermudian domiciled holding company for the Group. The Company is listed on the London Stock Exchange's main market for listed securities. The corporate governance framework for companies registered in Bermuda is established by the Company's constitution together with Companies Act legislation.

During 2008, and up to the date of this report and accounts, the Group has complied with the provisions of the Combined Code in all material respects.

The Board of Directors
The Board comprises four Executive Directors and seven independent Non Executive Directors, including a Senior Independent Director. Biographical details for each member of the Board are provided on pages 30 to 31.

The Board continues to believe in the need for an Executive Chairman. The roles and activities of the Chairman and Chief Executive are distinct and separate. The Chairman is responsible for running an effective Board including oversight of corporate governance and overall strategy. The Chief Executive has responsibility for running the Group's business.

In accordance with the Company's Bye-Laws all Directors are required to submit themselves for re-election at least every three years. The appointment and removal of the Company Secretary is a matter for the Board as a whole. All Directors are entitled to seek independent professional advice at the Company's expense. A copy of the advice is provided to the Company Secretary who will circulate it to all Directors. No such advice was sought during the year.

The Board meets at least four times a year and operates within established Terms of Reference. It is supplied with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities. The Board of Hiscox Ltd met four times during the year. The Board considers all the Non Executive Directors to be independent within the meaning of the Combined Code as there are no relationships or circumstances which would interfere with the exercise of their independent judgement.

The Board's Terms of Reference include a Schedule of Matters Reserved for Board Decision, a copy of which can be found on the Group's website: www.hiscox.com.

The Board retains ultimate authority for high level strategic and management decisions including: setting Group strategy, approving significant mergers or acquisitions, approving the financial statements, declaration of the interim dividend and recommendation of the final dividend, approving Group business plans and budgets, approving major new areas of business, approving capital raising, approving any bonus or rights issues of share capital, setting Group investment guidelines, approving the Directors' remuneration, approving significant expenditure or projects, and approving the issue of share options. The Board has, however, authorised the boards of the trading entities and business divisions to manage their respective operational affairs, to the extent that Company Board level approval is not required.

The Board's committees
The Board has appointed and authorised a number of committees to manage aspects of the Group's affairs. Each committee operates within established written terms of reference and each committee Chairman reports directly to the Board.

The Group Executive Committee
The Group Executive Committee, comprised of the Executive Directors, meets monthly to raise and discuss topics such as Group strategy (subject always to Board approval), approval of senior appointments and remuneration (other than Board appointments), management of the Group's trading performance, mergers and acquisitions (which are not significant to the Group), significant issues raised by the London and international executive committees and approval of exceptional spend within the limits established by the Board. The London Executive Committee considers day-to-day issues arising from the Group's UK and mainland Europe businesses. The International Executive Committee considers issues arising from the Group's Bermuda, Guernsey and US businesses.

The Audit Committee
The Audit Committee of Hiscox Ltd is chaired by Daniel Healy and comprises Ernst Jansen, Dr James King, Andrea Rosen, Gunnar Stokholm and Dirk Stuurop. Daniel Healy and Dr James King are considered by the Board to have

recent and relevant financial experience.
The Audit Committee meets at least three times a year to assist the Board on matters of financial reporting, risk management and internal control. The Audit Committee monitors the scope, results and cost effectiveness of the internal and external audit functions, the independence and objectivity of the external auditors, and the nature and extent of non-audit work undertaken by the external auditors together with the level of related fees. The internal and external auditors have unrestricted access to the Audit Committee. All non-audit work undertaken by the Group's external auditors with fees greater than £50,000 must be pre-approved by the Audit Committee. KPMG has confirmed to the Audit Committee that in its opinion it remains independent. The Committee is satisfied that this is the case.

The Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises Andrea Rosen as acting chair in Sir Mervyn Pedelty's absence together with Daniel Healy, Ernst Jansen, Dr James King, Gunnar Stokholm and Dirk Stuurop. It meets a minimum of two times a year to deal with appointments to the Board and to recommend a framework of executive remuneration.

A succession planning review identified the requirement for additional Non Executive Directors. An evaluation of the skills, knowledge and experience of the Board was undertaken in order to achieve the desired level of diversity across the Board. Spencer Stuart were appointed to conduct an executive search. Following consultation with the members of the Remuneration and Nomination Committee, the Chairman and Chief Executive interviewed prospective candidates. The Remuneration and Nomination Committee recommended to the Board the appointment of Ernst Jansen and Gunnar Stokholm.

The Directors' remuneration report is presented on pages 35 to 42.

The Conflicts Committee

The Group has a Conflicts Committee which is comprised of independent Non Executive Directors from within the Group, and chaired by Dr James King. It meets as and when required. Conflicts of interest may arise from time to time because Syndicate 33, Syndicate 3624 and Syndicate 6104 are managed by a Hiscox-owned Lloyd's Managing Agency. 27.4% of the Names on Syndicate 33 are third parties and 72.6% of Syndicate 33 is owned by a Hiscox Group company. 100% of Syndicate 3624 is owned by a Hiscox Group company. 100% of Syndicate 6104 is owned by third parties. The Conflicts Committee serves to protect the interests of the third-party Syndicate Names. Should such a potential conflict of interest arise, there is a formal procedure to refer the matter to this Committee.

Risk Committees

There are a number of committees within the Group which have been established to oversee specific risk areas, including underwriting, reserving, reinsurance credit, liquidity, broker credit, business continuity and investments. A Group risk committee ensures risk management activities are effective and integrated. These committees are comprised of Directors of the Company and its subsidaries and relevant senior employees.

Meetings and attendance table

	Ltd Board	Audit Committee	Remuneration and Nomination Committee
Director	Attended	Attended	Attended
RRS Hiscox	4/4	n/a	n/a
BE Masojada	4/4	n/a	n/a
SJ Bridges	4/4	n/a	n/a
RS Childs	3/4	n/a	n/a
C Franklin Engler[1]	3/3	3/3	2/2
DM Healy	4/4	3/3	2/2
ER Jansen[2]	1/1	1/1	1/1
Dr J King	3/4	2/3	1/2
Sir Mervyn Pedelty	0/4	n/a	0/2
AS Rosen	4/4	3/3	2/2
G Stokholm[2]	1/1	1/1	1/1
DA Stuurop	3/4	2/3	2/2

[1] Resigned 20 November 2008.
[2] Appointed 20 November 2008.

Corporate governance
continued

Performance evaluation
During the year, the Chairman led a review of the performance of the Board as a whole. The Non Executive Directors met with the Chairman to discuss a wide range of issues, including the performance of the Executive Directors. In addition the Non Executives met without the Chairman and the Executive Directors during the year. The performance of the Executive Directors and the Chairman was discussed. No major issues regarding the performance of the Board were raised in these discussions.

The Chief Executive held one-to-one meetings with each of the Executive Directors to discuss their performance over the year and to set targets for the year ahead.

Shareholder communications
The Executive Directors communicate and meet directly with shareholders and analysts throughout each year, and do not limit this to the period following the release of financial results or other significant announcements.

With the exception of the unavoidable absence of Sir Mervyn Pedelty, all Directors attended the Annual General Meeting.

The Company commissions independent research on feedback from shareholders and analysts on a regular basis following the Company's results announcements. This research together with the analysts' research notes are copied to the Non Executive Directors in full. The Chairman attends a number of meetings with shareholders as well as speaking at the analysts' presentations. In addition, any specific items covered in letters received from major shareholders are reported to the Board. Major shareholders are invited to request meetings with the Senior Independent Director and/or the other Non Executive Directors, and they have been given the contact details of the Senior Independent Director.

An alert service is available on www.hiscox.com to notify any stakeholder of new stock exchange announcements.

Accountability and internal control
The Directors are responsible for maintaining a sound system of internal control to safeguard the investment made by shareholders and the Company's assets, and for reviewing its effectiveness.

The risk management systems are set out in detail in the risk management report on pages 22 to 27.

The Board has reviewed the effectiveness of internal controls during 2008, including financial, operational and compliance controls. The Board confirms there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which has been in place throughout the year and up to the date of approval of the Annual Report and Accounts and accords with the guidance in the document 'Internal Control: Guidance for Directors on the Combined Code'. The head of each business area is responsible for implementing the risk management programme in their area of operations. The Risk function collates risk management information and works with the risk committees to monitor significant risks and movements, and review the relevant internal controls.

The Group also has an internal audit function which has direct access to the Audit Committee and reports to each meeting.

The Board acknowledges that it is neither possible, nor desirable, to eliminate risk completely. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The constant aim is to be fully aware of the risks to which the business is exposed and to manage these risks to acceptable levels.

Directors' remuneration report

This report sets out the remuneration policy for the Group's senior executives. This policy is consistent with the overall reward approach across the Group. The sections in this report entitled 'Annual cash incentives', 'Share incentive schemes', 'Remuneration of Executive Directors' and 'Pensions' have been audited by KPMG. The remainder of the report is unaudited.

Remuneration and Nomination Committee
The Remuneration and Nomination Committee meets at least twice a year. The members of the Committee for 2008 were Sir Mervyn Pedelty (Chairman), Andrea Rosen (Acting Chairman), Carol Franklin Engler, Daniel Healy, Dr James King and Dirk Stuurop. Ernst Jansen and Gunnar Stokholm joined the Committee on 20 November 2008.

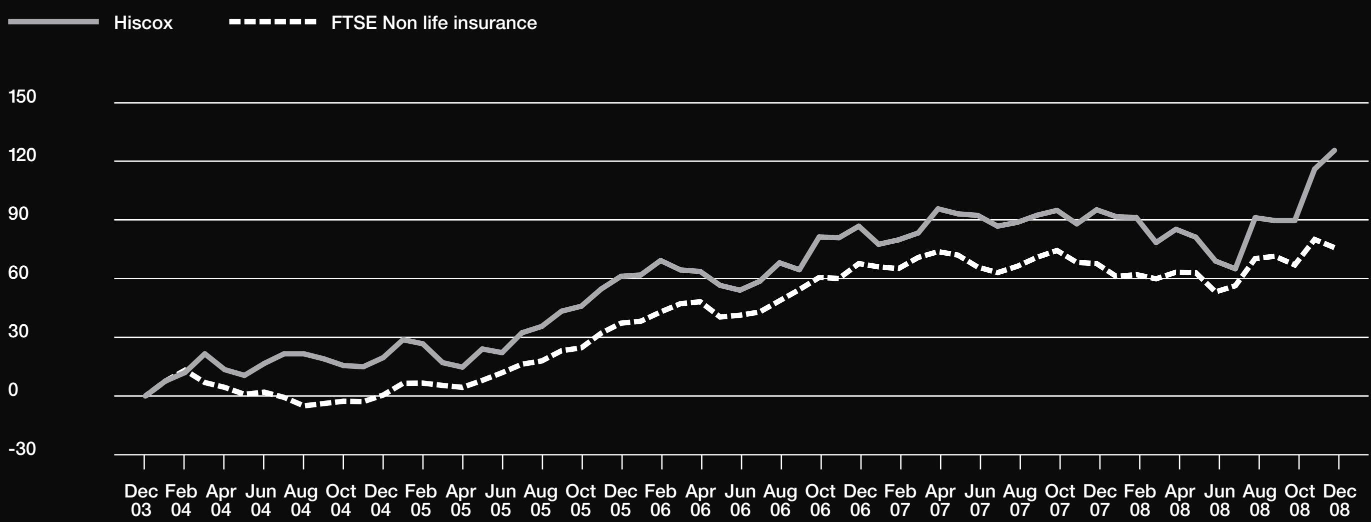
The Committee focuses on:
- the overall remuneration strategy, policy and cost for the Group;
- the determination of levels and make up of remuneration for the four Executive Directors; and
- the award of sizable bonuses to individuals.

None of the committee has any personal financial interest (other than as shareholders) or conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. No Director plays any part in any discussion about his or her own remuneration.

The Committee is provided with data and has access to advice from Towers Perrin, independent remuneration consultants, who provide no other services to the Company.

Remuneration policy
The remuneration philosophy is to provide rewards that are competitive in every country in which Hiscox operates and that are consistent with our overall reward principles:
- competitive base pay;
- benefits which encourage health and security for the individual and their family but are not excessive and are consistent at all levels of the organisation;
- an annual bonus scheme which enables employees to earn attractive bonuses for generating good levels of return on equity;
- to encourage share ownership at all levels of the organisation and require it at senior levels; and
- contracts and notice periods that are in line with acceptable market practice but limit severance payments made on termination.

Total shareholder return (%)



Directors' remuneration report continued

As a business Hiscox is focused on generating strong pre-tax return on equity and long-term shareholder returns, therefore our reward structure is aligned with this.

Remuneration elements
The elements of remuneration at Hiscox are; fixed reward (base salary, benefits and retirement benefits) and variable reward (annual cash incentives (bonuses) and share incentive schemes).

Fixed reward
Fixed reward is made up of base salary, benefits and retirement benefits.

Base salary
Base salaries are reviewed annually. The Remuneration and Nomination Committee takes into account inflation rate movements by country, market data provided by it's own consultants, Towers Perrin and the competitive position of Hiscox salaries (using Watson Wyatt salary reports) in order to set the overall salary budget.

Individual salaries are set by taking into account all of the above as well as individual performance and skills.

When approving Executive Directors salaries, the Remuneration and Nomination Committee takes into account rates of inflation, performance and competitive positioning of salaries as informed by Watson Wyatt data and other publicly available reports.

The 2009 salary increases for Executive Directors will be a cost of living increase of 2%.

Benefits
Benefits are set within agreed principles but reflect normal practice for each country. Hiscox benefits include health insurance, life insurance and long-term disability schemes.

Retirement benefits
These also vary by local country practice. With the exception of Holland, all Hiscox retirement schemes are based on defined contributions. In Holland, we closed the defined benefit scheme to new members from July 2008. We will introduce a defined contribution scheme in 2009 and transition all current employees into this scheme from 2010.

Variable reward
Annual cash incentives (bonuses)
Hiscox's remuneration policy is underpinned by the belief that a significant portion of total remuneration should be attained through incentive awards, thereby linking rewards directly with performance. The expectation is that successful performance (company and individual) should enable employees to achieve upper quartile total remuneration.

Two bonus pools are operated: the Personal Performance Bonus (PPB) and the Profit Related Bonus (PRB). The PPB is only available to junior and mid-level staff and is based entirely on individual performance ratings. It is designed to ensure that employees in these roles continue to be motivated to perform and the benefit is up to 10% of relevant salaries.

All employees, including Executive Directors, are eligible for the Profit Related Bonus. The PRB scheme is triggered when the business profits of the Group, based on the year's pre-tax operating result, exceed a return on equity (ROE) linked to the longer term rate of return ('Hurdle Rate'). The minimum Hurdle Rate is currently set at a 10% pre-tax return on allocated equity with the bonus pool comprising 15% of profits in excess of that. Bonus pools are then calculated for each major business division based on the performance of that division against the Hurdle Rate of return for the division's allocated equity.

The Hurdle Rate for the 2008 bonus was reviewed. On balance the conclusion was for the Hurdle Rate to remain unchanged for 2008 but will continue to be reviewed for subsequent years depending on changes in the longer-term rate of return.

Once the overall bonus pool has been established, individual bonuses, including those for Executive Directors, are calculated based on the results of each business area and individual performance. The Remuneration and Nomination Committee determines the bonuses to be paid to the Executive Directors based on the performance of the Group and an assessment of individual performance. In this way, the bonus scheme aligns the interests of Executive Directors and employees with shareholders.

It has historically been Hiscox's practice to base bonuses on operating profits, increasing the Group's focus on generating underwriting profit. Operating profit is determined using a normalised investment return which has been set at 4% on bonds and 6% equities for the last few years. In 2007 actual investment return exceeded the normalised return. In view of the unprecedented market volatility the Remuneration Committee has decided that in future bonuses should be based on pre-tax profit which is determined using actual investment return. In 2008 the actual investment return was substantially below the normalised investment return. In order to provide a fair transition to this retrospective change in bonus approach in favour of the interests of shareholders it was decided that 2008 bonuses for junior employees should be determined using profits based on the normalised investment return, mid-level employees assuming a 0% investment return and for senior employees based on the pre-tax profits which reflects the actual investment return of -1.3%. In 2009 bonuses for all staff will be based on the actual investment return. Additionally for the calculation of bonuses, foreign exchange gains or losses arising on intercompany loans and on balance sheet hedging contracts that are accounted through the profit and loss account with the equal gain or loss in the balance sheet are excluded from the calculation.

Executive Directors' cash incentives and ROE

	Pre-tax return on equity %	Average bonus as a percentage of salary %
1998	16	73
1999	0	0
2000	3	0
2001	(24)	0
2002	13	90
2003	30	202
2004	28	173
2005	19	54
2006	35	274
2007	36	372
2008	14	53

The payment of larger bonuses is deferred over a three-year period as follows.

Bonus of £50,000, €75,000, $100,000 and below	Entire bonus taken in cash in year one
Bonus above £50,000 and below £100,000 Bonus above €75,000 and below €150,000 Bonus above $100,000 and below $200,000	£50,000, €75,000, $100,000 taken in year one Balance of bonus split 50% in year two, and 50% in year three
Bonus above £100,000 Bonus above €150,000 Bonus above $200,000	50% of bonus taken in year one Balance of bonus split 50% in year two, and 50% in year three

Share ownership is encouraged amongst senior personnel by allowing the deferred element of the annual bonus to be used, without deferral for:
- payment of the exercise price on the exercise of share options;
- payment of tax on the exercise of share options;
- purchase of shares; and
- payment of debt due on share purchases.

Early payment of deferred bonuses for reasons other than the above can only be made with the agreement of the Chief Executive (and the Remuneration and Nomination Committee in the case of Executive Directors).

Share Incentive Schemes

The Remuneration and Nomination Committee believes that employees should be encouraged to own Hiscox shares so that they are aligned to the long-term success of the company. Hiscox operates a Performance Share Plan for senior managers, a UK Save as You Earn scheme and an International Save as You Earn Scheme.

Performance Share Plan

Restricted share awards or nil cost option awards (depending on the appropriate practice by country) are made to Executive Directors and other senior managers at the discretion of the Remuneration and Nomination Committee. Awards under this plan were made in 2008 and the Remuneration and Nomination Committee has also agreed to make awards under this plan in 2009. The maximum annual award to an individual under the Performance Share Plan is a value of 200% of basic salary. The highest actual grant awarded in 2008 was 115% of basic salary.

Dividend payments

In order to better align senior managers with Total Shareholder Return, the concept which is applied to the Performance Share Plan awards is that the recipient is provided with the equivalent of the dividend either in shares or cash. This specifically works as follows:
- dividends (or amounts equal to dividends) on shares granted under the Performance Share Plan (including in respect of the 2006 and 2007 grants) roll up in the form of shares between the grant and vesting;
- at the end of the performance period the employee would have options over the proportion of the share grant which vests by reference to the satisfaction of the applicable performance target as well as over the number of shares representing the 'rolled up' dividends on those shares; and
- for UK based employees only, after vesting but before exercise, the employee would then receive 'shadow dividends' (i.e. amounts equal to dividends paid) on the total number of shares remaining under option. Up to a maximum of 200,000 shares under option per individual, these amounts would be paid in cash, twice yearly, at the same time as dividends are paid to shareholders, until the option is exercised (which could be for up to a further seven years, when the option expires). Above 200,000 shares under option, the 'shadow dividends' would be re-invested into shares within the trust. Executive Directors, however, would have the entire 'shadow dividend' re-invested in shares within an employee benefit trust.

Directors' remuneration report continued

Performance conditions

Performance conditions for the Performance Share Plan are as follows:
- 25% of the award vests if the Company achieves an average ROE of 10% post-tax for each of the three years;
- 100% vests if the average three-year return exceeds 17.5% post-tax; and
- vesting will occur on a straight-line basis between these points.

The Remuneration and Nomination Committee believes that using ROE as the long-term performance condition better aligns the interests of employees with shareholders because:
- ROE captures the efficiency with which the Company is using shareholder funds to generate earnings, whereas EPS growth gives no indication of the level of return on the investment required to generate those additional earnings; and
- the Company operates in a highly cyclical business where earnings can fluctuate considerably, which can have a distorting effect on EPS growth. Where EPS is used as a performance condition this can introduce an element of luck as to when in the cycle share grants are made which can operate to the disadvantage of both employees and shareholders. The Remuneration and Nomination Committee believes that an average ROE performance requirement over the three-year period smoothes out the cyclical fluctuations in earnings and ensures that over any given period shareholders will receive a minimum return on equity before awards granted to employees will vest.

ROE has been calculated as profit after tax and goodwill amortisation divided by shareholders funds at the beginning of each year, excluding foreign currency items on economic hedges and intragroup borrowings.

Save as You Earn

The sharesave scheme and international sharesave scheme are offered to all employees and currently have a 60% participation.

Shareholding guidelines

We strongly believe that senior managers within Hiscox should be aligned with Hiscox shareholders by owning a reasonable number of Hiscox shares.

Formal shareholding guidelines have been introduced this year which mean that within five years of becoming an Executive Director, Hiscox Partner (the top 5% of employees in the company) or a member of a subsidiary board, the employee will be expected to own Hiscox shares valued at 100% of salary for Hiscox Partners and members of subsidiary boards and 150% of salary for Executive Directors.

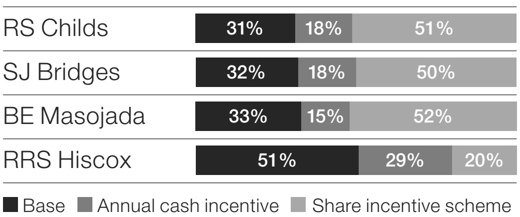
The Special Award

In 2005, following the Rights Issue, we received shareholder approval to grant special awards to individuals within the Company of up to five million shares, of which a maximum of 20% are available for Executive Directors ('Special Award'). These awards have the same performance conditions as described above for the Performance Share Plan. The post tax ROE over the three-year performance period was 22.7%. The performance conditions for this grant have therefore been met and the shares have vested in full.

The table at the end of the remuneration report details Directors' interests in the long-term incentive plans.

Executive Director Reward

Executive Directors' reward packages are consistent with the rest of the business. The actual compensation paid to the four Executive Directors in 2008 is outlined in the table below. Details of their contractual notice periods, is contained in the table opposite.



'Base' refers to base salary for the year.
'Annual cash incentive' is the annual amount allocated from the profit bonus pool.
'Share incentive scheme' is the estimated value at award of the Performance Share Plan awards made during the year.

Remuneration of Executive Directors

	2008 Basic salary £000	2008 Benefits £000	2008 Bonus £000	2008 Total £000	2007 Basic salary £000	2007 Benefits £000	2007 Bonus £000	2007 Total £000
RRS Hiscox	**308**	**2**	**175**	**485**	297	2	750	1,049
BE Masojada	**428**	**2**	**200**	**630**	405	2	1,750	2,157
RS Childs	**348**	**221**	**200**	**769**	336	90	1,750	2,176
SJ Bridges	**318**	**2**	**175**	**495**	307	2	750	1,059

As from 1 January 2007, certain benefits were rolled into basic salary.
At the request of the Group, RS Childs will be returning from assignment in Bermuda in April, 2009. In that circumstance, the Committee has agreed that bonus payments from financial years 2007 and 2008, which have been disclosed as bonuses in the relevant years and parts of which remain outstanding, will be paid early in 2009. The amounts involved are £437,500 in respect of 2007 and £100,000 in respect of 2008. As a condition of early payment RS Childs has signed an agreement requiring him to repay these amounts in full, should he leave/resign from the Group before the dates in 2010 and 2011 when these payments would normally have been made.

External Non Executive Directorships

No external appointments may be accepted by an Executive Director where such appointment may give rise to a conflict of interest. The consent of the Chairman is required in any event. During the year RRS Hiscox has been a Non Executive Director of Grainger Trust plc and was paid £35,000 for his services and AGICM Ltd and was paid £10,000. SJ Bridges, BE Masojada and RS Childs did not hold any Non Executive Director positions during the year.

Service contract table

Director	Effective date of Hiscox Ltd contract	Unexpired term and notice period
RRS Hiscox	12 Dec 2006	12 months
BE Masojada	12 Dec 2006	6 months
RS Childs	12 Dec 2006	6 months
SJ Bridges	12 Dec 2006	6 months
C Franklin Engler	11 Oct 2006	3 months
DM Healy	11 Oct 2006	3 months
ER Jansen	20 Nov 2008	3 months
Dr J King	11 Oct 2006	3 months
Sir Mervyn Pedelty	11 Oct 2006	3 months
AS Rosen	11 Oct 2006	3 months
G Stockholm	20 Nov 2008	3 months
DA Stuurop	11 Oct 2006	3 months

Remuneration of Non Executive Directors

Non Executive Directors receive an annual fee in respect of their Board appointments together with additional compensation for their further duties in relation to Board committees. All amounts are denominated in US Dollars. The structure of the fees paid are detailed below.

The fees in relation to Hiscox Ltd for the year were:

	Hiscox Ltd Board $000	Committees $000	**Total 2008 $000**	Total 2007 $000
C Franklin Engler	78	27	**105**	100
DM Healy	78	37	**115**	110
ER Jansen	9	3	**12**	–
Dr J King	78	32	**110**	105
Sir Mervyn Pedelty	78	52*	**130**	125
AS Rosen	78	35	**113**	100
G Stokholm	9	3	**12**	–
DA Stuurop	78	27	**105**	100

The Pound Sterling equivalent of the total was £391,000 (2007: £321,000).

*Sir Mervyn Pedelty receives £10,000 for serving on a UK subsidiary board.

Pensions

	Increase in accrued pension during the year £000	Total accrued annual pension at 31 Dec 08 £000	Transfer value of increase in accrued pension £000	Transfer value of accrued pension at 1 Jan 08 £000	Transfer value of accrued pension at 31 Dec 08 £000	Increase/ (decrease) in transfer value of accrued benefit during the year £000
RRS Hiscox	10	205	(2)	4,301	4,772	471
BE Masojada	1	37	–	533	681	148
RS Childs	11	220	–	4,258	5,127	869
SJ Bridges	1	29	–	378	459	81

Share options

The conditions of exercise of the approved and unapproved share options are described on pages 37 and 38.

	Number of options at 1 January 2008	Number of options granted	Number of options lapsed	Number of options exercised	**Number of options at 31 December 2008**	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
SJ Bridges	62,038	–	–	–	**62,038**	1.281	–	13 Oct 02	12 Oct 09
	111,724	–	–	(111,724)	**–**	1.020	2.5825	15 Jun 03	14 Jun 10
	56,398	–	–	–	**56,398**	1.755	–	03 May 04	02 May 11
	40,997	–	–	(40,997)	**–**	0.806	2.5825	27 Sep 04	26 Sep 11
	180,341	–	–	–	**180,341**	1.252	–	19 Nov 05	18 Nov 12
	154,578	–	–	–	**154,578**	1.465	–	02 Apr 06	01 Apr 13
	154,578	–	–	–	**154,578**	1.514	–	13 Jul 07	12 Jul 14
	154,578	–	–	–	**154,578**	1.499	–	06 Apr 08	05 Apr 15
	915,232	–	–	(152,721)	**762,511**				
RS Childs	90,238	–	–	(90,238)	**–**	1.574	2.4225	20 Oct 01	19 Oct 08
	112,797	–	–	–	**112,797**	1.281	–	13 Oct 02	12 Oct 09
	78,958	–	–	–	**78,958**	1.755	–	03 May 04	02 May 11
	206,104	–	–	–	**206,104**	1.252	–	19 Nov 05	18 Nov 12
	206,104	–	–	–	**206,104**	1.465	–	02 Apr 06	01 Apr 13
	206,103	–	–	–	**206,103**	1.514	–	13 Jul 07	12 Jul 14
	206,104	–	–	–	**206,104**	1.499	–	06 Apr 08	05 Apr 15
	1,106,408	–	–	(90,238)	**1,016,170**				
RRS Hiscox	90,237	–	–	(90,237)	**–**	1.574	2.4025	20 Oct 01	19 Oct 08
	56,396	–	–	(56,396)	**–**	1.020	2.3625	15 Jun 03	14 Jun 10
	56,398	–	–	–	**56,398**	1.755	–	03 May 04	02 May 11
	51,526	–	–	–	**51,526**	1.465	–	02 Apr 06	01 Apr 13
	51,526	–	–	–	**51,526**	1.514	–	13 Jul 07	12 Jul 14
	51,526	–	–	–	**51,526**	1.499	–	06 Apr 08	05 Apr 15
	357,609	–	–	(146,633)	**210,976**				
BE Masojada	90,237	–	–	(90,237)	**–**	1.574	2.365	20 Oct 01	19 Oct 08
	112,797	–	–	–	**112,797**	1.281	–	13 Oct 02	12 Oct 09
	169,195	–	–	–	**169,195**	1.020	–	15 Jun 03	14 Jun 10
	78,958	–	–	–	**78,958**	1.755	–	03 May 04	02 May 11
	140,997	–	–	(140,997)	**–**	0.806	2.365	27 Sep 04	26 Sep 11
	206,104	–	–	–	**206,104**	1.252	–	19 Nov 05	18 Nov 12
	206,104	–	–	–	**206,104**	1.465	–	02 Apr 06	01 Apr 13
	206,104	–	–	–	**206,104**	1.514	–	13 Jul 07	12 Jul 14
	206,104	–	–	–	**206,104**	1.499	–	06 Apr 08	05 Apr 15
	1,416,600	–	–	(231,234)	**1,185,366**				
Other employees	245,891	–	–	(245,891)	**–**	1.574	2.148-2.585	20 Oct 01	19 Oct 08
	170,315	–	–	(69,930)	**100,385**	1.281	2.387-3.457	13 Oct 02	12 Oct 09
	453,719	–	–	(127,422)	**326,297**	1.020	2.193-3.457	15 Jun 03	14 Jun 10
	95,039	–	–	(95,039)	**–**	1.685	3.508	14 Feb 04	13 Feb 11
	350,778	–	–	(58,650)	**292,128**	1.755	2.405-3.408	03 May 04	02 May 11
	627,297	–	–	(191,975)	**435,322**	0.806	2.370-3.508	27 Sep 04	26 Sep 11
	1,007,099	–	–	(252,476)	**754,623**	1.252	2.415-3.457	19 Nov 05	18 Nov 12
	1,052,698	–	–	(209,373)	**843,325**	1.465	2.408-3.500	02 Apr 06	01 Apr 13
	1,777,628	–	–	(474,032)	**1,303,596**	1.514	2.387-3.517	13 Jul 07	12 Jul 14
	2,233,618	–	–	(656,944)	**1,576,674**	1.499	2.145-3.457	06 Apr 08	05 Apr 15
	8,014,082	–	–	(2,381,732)	**5,632,350**				
Total	11,809,931	–	–	(3,002,558)	**8,807,373**				

Share options

The interests of the Directors and employees under the UK and International Sharesave Schemes of the Group are set out below:

	Number of options at 1 January 2008	Number of options granted	Number of options lapsed	Number of options exercised	**Number of options at 31 December 2008**	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
UK Sharesave Scheme									
SJ Bridges	4,256	–	–	–	**4,256**	2.220	–	01 May 10	31 Oct 10
RRS Hiscox	5,932	–	–	(5,932)	**–**	1.576	3.012	01 Dec 08	31 May 09
	–	4,907	–	–	**4,907**	1.956		01 Dec 11	31 May 11
BE Masojada	4,343	–	–	–	**4,343**	2.210	–	01 Dec 10	31 May 11
Other employees	47,590	–	(2,866)	(44,724)	**–**	1.322	2.378-2.445	01 Dec 07	31 May 08
	267,135	–	(16,772)	(250,363)	**–**	1.576	2.378-3.108	01 Dec 08	31 May 09
	385,140	–	(162,541)	(4,406)	**218,193**	2.220	2.378-3.410	01 May 10	31 Oct 10
	403,521	–	(259,964)	–	**143,557**	2.210	–	01 Dec 10	31 May 11
	–	604,468	(63,828)	–	**540,640**	1.982	–	01 May 11	31 Oct 10
	–	388,607	(1,373)	–	**387,234**	1.956	–	01 Dec 11	31 May 12
Total	1,117,917	997,982	(507,344)	(305,425)	**1,303,130**				
International Sharesave Scheme									
RS Childs	4,147	–	–	–	**4,147**	2.220	–	01 May 10	31 Oct 10
Other employees	14,583	–	–	(14,583)	**–**	1.322	2.460	01 Dec 07	31 May 08
	34,625	–	(3,283)	(29,729)	**1,613**	1.576	3.013-3.108	01 Dec 08	31 May 09
	176,269	–	(80,653)	–	**95,616**	2.220	–	01 May 10	31 Oct 10
	7,363	–	–	–	**7,363**	2.220	–	01 Jul 10	31 Dec 10
	63,965	–	(40,256)	–	**23,709**	2.210	–	01 Dec 10	31 May 11
	–	215,679	(17,623)	–	**198,056**	1.982	–	01 May 11	31 Oct 11
	–	62,464	–	–	**62,464**	1.956	–	01 Dec 11	31 May 12
Total	300,952	278,143	(141,815)	(44,312)	**392,968**				

Performance share plan

	Number of awards at 1 January 2008	Number of awards granted	Number of awards lapsed	Number of awards exercised	**Number of awards at 31 December 2008**	Market price at date of exercise £	Date from which released
SJ Bridges	215,000	–	–	–	**215,000**	–	12 Jan 09
	120,000	–	–	–	**120,000**	–	26 Mar 10
	–	110,000	–	–	**110,000**	–	7 April 11
RS Childs	250,000	–	–	–	**250,000**	–	12 Jan 09
	150,000	–	–	–	**150,000**	–	26 Mar 10
	–	140,000	–	–	**140,000**	–	7 April 11
RRS Hiscox	100,000	–	–	–	**100,000**	–	12 Jan 09
	80,000	–	–	–	**80,000**	–	26 Mar 10
	–	75,000	–	–	**75,000**	–	7 April 11
BE Masojada	260,000	–	–	–	**260,000**	–	12 Jan 09
	200,000	–	–	–	**200,000**	–	26 Mar 10
	–	175,000	–	–	**175,000**	–	7 April 11
Other employees	3,140,000	–	(10,000)	(40,000)	**3,090,000**	2.225	12 Jan 09
	25,000	–	–	–	**25,000**	–	13 Mar 09
	170,000	–	–	–	**170,000**	–	05 Oct 09
	2,126,500	–	(25,000)	–	**2,101,500**	–	26 Mar 10
	52,000	–	–	–	**52,000**	–	02 Oct 10
	–	1,616,500	(10,000)	–	**1,606,500**	–	7 April 11
Total	6,888,500	2,116,500	(45,000)	(40,000)	**8,920,000**		

Directors' report

The Directors have pleasure in submitting their Annual Report and financial statements for the year ended 31 December 2008.

Principal activity and business review
The Company is a holding company for subsidiaries involved in the business of insurance in Bermuda, the US, the UK, Guernsey and Europe. An analysis of the development and performance of the business can be found within the Chief Executive's report on pages 5 to 11. A description of the major risks can be found in the risk management section on pages 22 to 27.

Financial results
The Group achieved a pre-tax profit for the year of £105.2 million (2007: £237.2 million). Detailed results for the year are shown in the consolidated income statement on page 46, and also within the Group financial performance section on pages 16 to 21.

Going concern
After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Dividends
An interim dividend of 4.25p (net) per share (2007: 4p (net)) was paid on 29 September 2008 by Hiscox Ltd in respect of the year ended 31 December 2008. The Directors recommend the payment of a final dividend of 8.5 (net) per share (2007: 8p (net)). If approved this will be paid on 16 June 2009 to shareholders on the register at the close of business on 15 May 2009, provided that such dividend will not be paid to those shareholders who, prior to 16 May 2009, have made an election to participate in the Company's Dividend Access Plan if Hiscox plc subsequently declares a dividend for the purposes of such Dividend Access Plan prior to the payment date of such dividend. If Hiscox Ltd has declared a dividend, those shareholders who have elected to participate in the Dividend Access Plan will receive payment of that dividend on 16 June 2009.

Share capital
Details of the structure of the Company's share capital and changes in the share capital during the year are disclosed in note 24 to the consolidated financial statements.

Directors
The names and details of the individuals who served as Directors of the Company during the year are set out on pages 30 to 31.

Ernst Jansen and Gunnar Stokholm were appointed as Non Executive Directors on 20 November 2008 and have submitted themselves for election at the Annual General Meeting. Carol Franklin Engler resigned on 20 November 2008. Bronek Masojada, Daniel Healy and Dirk Stuurop retire by rotation in accordance with the Bye-Laws of the Company and they have each submitted themselves for re-election at the Annual General Meeting of the Company.

A copy of the Company's Bye-Laws is available for inspection at the Company's registered office.

Political and charitable contributions
The Group made no political contributions during the year (2007: £nil). Charitable donations totalled £717,000 (2007: £616,572) of which £500,000 (2007: £550,000) was donated to the Hiscox Foundation, a UK registered charity. The policy of the Hiscox Foundation is to assist and improve education, the arts and independent living for disabled and disadvantaged members of society. Further information concerning the Group's charitable activities is contained in the report on Corporate responsibility on page 29.

Major interests in shares
The Company has been notified of the following shareholdings of 5% or more in the ordinary shares of the Company as at 9 March 2009:

	Number of shares	% of total
Invesco Limited	38,254,927	10.4
Jupiter Asset Management	25,210,566	6.4
Legal and General	18,591,533	5.05

Directors' report
continued

Annual General Meeting
The notice of Annual General Meeting, to be held at the Elbow Beach Hotel, 60 South Shore Road, Paget PG04, Bermuda on 3 June 2009 at 10am (2pm BST), is contained in a separate circular to shareholders enclosed with this report.

By order of the Board
Robin Mehta, Secretary
Wessex House, 45 Reid Street,
Hamilton HM12, Bermuda
9 March 2009

Directors' interests

	31-Dec-2008 5p Ordinary Shares number of shares beneficial	**31-Dec-2008 5p Ordinary Shares number of shares non-beneficial**	31-Dec-2007 5p Ordinary Shares number of shares beneficial	31-Dec-2007 5p Ordinary Shares number of shares non-beneficial
Executive Directors				
RRS Hiscox	**6,327,050**	**550,000**	9,398,065	560,237
BE Masojada	**2,941,304**	**10,081,500**	2,710,070	–
RS Childs	**1,794,043**	**–**	1,703,805	–
SJ Bridges	**744,774**	**–**	592,053	–
Non Executive Directors				
DM Healy	**55,000**	**–**	55,000	–
ER Jansen[1]	**–**	**–**	n/a	n/a
Dr J King	**–**	**–**	–	–
Sir Mervyn Pedelty	**18,000**	**–**	18,000	–
AS Rosen	**–**	**–**	–	–
G Stokholm[1]	**–**	**–**	n/a	n/a
DA Stuurop	**50,000**	**–**	50,000	–

[1] Appointed 20 November 2008.

Directors' responsibilities statement

The Board is responsible for ensuring the maintenance of proper accounting records which disclose with reasonable accuracy the financial position of the company. It is required to ensure that the financial statements present a fair view for each financial period.

We confirm that to the best of our knowledge:
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors 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 9 March 2009.

Report of the independent registered public accounting firm to the Board of Directors and the shareholders of Hiscox Ltd

We have audited the accompanying consolidated financial statements of Hiscox Ltd ('the Company') on pages 46 to 95 which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In addition to our audit of the consolidated financial statements, the Directors have engaged us to audit the information in the Directors' remuneration report that is described as having been audited, which the Directors have decided to prepare (in addition to that required to be prepared) as if the Company were required to comply with the requirements of Schedule 7A to the UK Companies Act 1985.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit and, under the terms of our engagement letter, to audit the part of the Directors' remuneration report that is described as having been audited.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the part of the Directors' remuneration report to be audited are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the part of the Directors' remuneration report to be audited. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements and the part of the Directors' remuneration report to be audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements and the part of the Directors' remuneration report to be audited in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the part of the Directors' remuneration report to be audited.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition to our audit of the consolidated financial statements, the Directors have engaged us to review their Corporate Governance statement as if the Company were required to comply with the Listing Rules of the Financial Services Authority in relation to those matters. We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by those rules, and we report if it does not. We are not required by the terms of our engagement to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We also read the other information contained in the Report and Accounts and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Opinion
In our opinion:

- the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the part of the Directors' remuneration report which we were engaged to audit has been properly prepared in accordance with Schedule 7A to the UK Companies Act 1985, as if those requirements were to apply to the Company.

KPMG
Hamilton, Bermuda
9 March 2009

Consolidated income statement
For the year ended 31 December 2008

	Note	2008 Results excluding foreign currency items on economic hedges and intragroup borrowings £000	2008 Foreign currency items on economic hedges and intragroup borrowings (note 14) £000	2008 Total £000	2007 Total £000
Income					
Gross premiums written	4	**1,147,364**	**–**	**1,147,364**	1,198,949
Outward reinsurance premiums		**(216,900)**	**–**	**(216,900)**	(224,039)
Net premiums written	4	**930,464**	**–**	**930,464**	974,910
Gross premiums earned		**1,171,511**	**–**	**1,171,511**	1,179,444
Premiums ceded to reinsurers		**(218,491)**	**–**	**(218,491)**	(214,254)
Net premiums earned	4	**953,020**	**–**	**953,020**	965,190
Investment result – financial assets	7	**(27,632)**	**–**	**(27,632)**	100,787
Investment result – derivatives	7	**(10,438)**	**(42,540)**	**(52,978)**	(1,110)
Other revenues	9	**19,858**	**–**	**19,858**	19,044
Revenue		**934,808**	**(42,540)**	**892,268**	1,083,911
Expenses					
Claims and claim adjustment expenses, net of reinsurance	26.2	**(479,380)**	**–**	**(479,380)**	(423,365)
Expenses for the acquisition of insurance contracts	18	**(252,868)**	**–**	**(252,868)**	(264,570)
Administration expenses		**(83,198)**	**–**	**(83,198)**	(76,813)
Other expenses	9	**(76,499)**	**–**	**(76,499)**	(82,269)
Foreign exchange gains/(losses)		**118,218**	**(8,463)**	**109,755**	8,401
Total expenses		**(773,727)**	**(8,463)**	**(782,190)**	(838,616)
Results of operating activities		**161,081**	**(51,003)**	**110,078**	245,295
Finance costs	11	**(5,158)**	**–**	**(5,158)**	(8,177)
Share of profit of associates after tax	17	**260**	**–**	**260**	81
Profit before tax		**156,183**	**(51,003)**	**105,180**	237,199
Tax expense	28	**(30,255)**	**(4,117)**	**(34,372)**	(45,951)
Profit for the year (all attributable to owners of the Company)		**125,928**	**(55,120)**	**70,808**	191,248
Earnings per share on profit attributable to owners of the Company					
Basic	31			**18.8p**	48.4p
Diluted	31			**18.1p**	46.8p

Consolidated statement of comprehensive income
For the year ended 31 December 2008, after tax

	Note	2008 Results excluding foreign currency items on economic hedges and intragroup borrowings £000	2008 Foreign currency items on economic hedges and intragroup borrowings (note 14) £000	2008 Total £000	2007 Total £000
Profit for the year		**125,928**	**(55,120)**	**70,808**	191,248
Other comprehensive income					
Currency translation differences (net of tax of £nil (2007: £nil))		**71,008**	**80,171**	**151,179**	(4,269)
Net investment hedge (net of tax £(238,000) (2007: £420,000))		**(597)**	**–**	**(597)**	1,400
Total other comprehensive income	13	**70,411**	**80,171**	**150,582**	(2,869)
Total comprehensive income recognised (all attributable to owners of Company)		**196,339**	**25,051**	**221,390**	188,379

In order to permit a fuller understanding of the current year's results and specifically the impact of certain foreign currency items, the Group has elected to present additional columns on the consolidated income statement and the consolidated statement of comprehensive income. No material items of this nature arose in the prior year and the comparative 2007 results are therefore unaffected (note 14).

The notes on pages 50 to 95 are an integral part of these consolidated financial statements.

Consolidated balance sheet
At 31 December 2008

	Note	2008 £000	2007 £000
Assets			
Intangible assets	15	**48,557**	40,452
Property, plant and equipment	16	**19,668**	19,378
Investments in associates	17	**7,200**	1,502
Deferred acquisition costs	18	**131,130**	123,081
Financial assets carried at fair value	20	**2,081,772**	1,747,827
Reinsurance assets	19, 26	**487,720**	280,088
Loans and receivables including insurance receivables	21	**494,315**	385,222
Current tax		**26,289**	–
Cash and cash equivalents	23	**440,622**	302,742
Total assets		**3,737,273**	2,900,292
Equity and liabilities			
Shareholders' equity			
Share capital	24	**20,067**	19,898
Share premium	24	**9,418**	4,955
Contributed surplus	24	**352,078**	398,834
Currency translation reserve	25	**107,317**	(43,265)
Retained earnings	25	**462,146**	443,882
Total equity (all attributable to owners of the Company)		**951,026**	824,304
Employee retirement benefit obligations	30	**–**	–
Deferred tax	29	**68,649**	9,751
Insurance liabilities	26	**2,277,416**	1,713,887
Financial liabilities	20	**143,350**	91,764
Current tax		**–**	24,711
Trade and other payables	27	**296,832**	235,875
Total liabilities		**2,786,247**	2,075,988
Total equity and liabilities		**3,737,273**	2,900,292

The notes on pages 50 to 95 are an integral part of these consolidated financial statements.

The consolidated Group financial statements were approved by the Board of Directors on 9 March 2009 and signed on its behalf by:

Robert Hiscox

RRS Hiscox
Chairman

SJ Bridges

SJ Bridges
Group Finance Director

Consolidated statement of changes in equity

	Note	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2007		19,694	–	442,425	(40,396)	260,362	682,085
Total recognised comprehensive income/(expense) for the year (all attributable to owners of the Company)		–	–	–	(2,869)	191,248	188,379
Employee share options:							
Equity settled share based payments		–	–	–	–	5,689	5,689
Proceeds from shares issued	24	204	4,955	–	–	–	5,159
Purchase of own shares held in treasury		–	–	–	–	(11,343)	(11,343)
Deferred tax		–	–	–	–	(2,074)	(2,074)
Dividends paid to owners of the Company	32	–	–	(43,591)	–	–	(43,591)
Balance at 31 December 2007		19,898	4,955	398,834	(43,265)	443,882	824,304
Total recognised comprehensive income/(expense) for the year (all attributable to owners of the Company)		**–**	**–**	**–**	**150,582**	**70,808**	**221,390**
Employee share options:							
Equity settled share based payments		**–**	**–**	**–**	**–**	**5,269**	**5,269**
Excess tax benefit on share based payments		**–**	**–**	**–**	**–**	**883**	**883**
Proceeds from shares issued	24	**169**	**4,463**	**–**	**–**	**–**	**4,632**
Purchase of own shares held in treasury		**–**	**–**	**–**	**–**	**(62,866)**	**(62,866)**
Purchase of own shares held in trust		**–**	**–**	**–**	**–**	**(2,200)**	**(2,200)**
Deferred tax		**–**	**–**	**–**	**–**	**6,370**	**6,370**
Dividends paid to owners of the Company	32	**–**	**–**	**(46,756)**	**–**	**–**	**(46,756)**
Balance at 31 December 2008		**20,067**	**9,418**	**352,078**	**107,317**	**462,146**	**951,026**

The notes on pages 50 to 95 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Profit before tax		**105,180**	237,199
Adjustments for:			
Interest and equity dividend income		**(92,227)**	(90,205)
Interest expense		**5,158**	8,177
Net fair value losses on financial investments, derivatives and borrowings		**180,085**	687
Non-cash movement in retirement benefit obligation		**–**	(3,801)
Depreciation	16	**5,323**	4,917
Charges in respect of share based payments	10	**5,269**	5,689
Other non-cash movements		**(766)**	(3,571)
Effect of exchange rate fluctuations on cash presented separately		**(62,086)**	2,930
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		**281,633**	133,951
Financial assets		**(284,069)**	(489,745)
Other assets and liabilities		**(10,474)**	31,112
Cash flows from operations		**133,026**	(162,660)
Interest received		**89,608**	85,435
Equity dividends received		**2,619**	4,770
Interest paid		**(5,327)**	(8,243)
Current tax paid		**(18,982)**	(42,823)
Net cash flows from operating activities		**200,944**	(123,521)
Cash outflow from the acquisition of subsidiary	33	**(3,137)**	(11,133)
Cash outflow from the sale of subsidiaries	34	**(42)**	(936)
Cash outflow from the acquisition of associates	17	**(5,438)**	(1,273)
Cash flows from the purchase of property, plant and equipment		**(4,521)**	(7,789)
Cash flows from the purchase of intangible assets	15	**(3,530)**	(2,500)
Net cash flows from investing activities		**(16,668)**	(23,631)
Proceeds from the issue of ordinary shares	24	**4,632**	5,159
Cash flows from the purchase of own shares including those arising on share buy-back programme	25	**(65,066)**	(11,343)
Dividends paid to owners of the Company	32	**(46,756)**	(43,591)
Net repayments of borrowings and financial liabilities	20	**(1,292)**	(272)
Net cash flows from financing activities		**(108,482)**	(50,047)
Net increase/(decrease) in cash and cash equivalents		**75,794**	(197,199)
Cash and cash equivalents at 1 January		**302,742**	502,871
Net increase in cash and cash equivalents		**75,794**	(197,199)
Effect of exchange rate fluctuations on cash and cash equivalents		**62,086**	(2,930)
Cash and cash equivalents at 31 December	23	**440,622**	302,742

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 £47,094,000 (2007: £53,336,000) not available for immediate use by the Group outside of the Lloyd's Syndicate within which they are held.

The notes on pages 50 to 95 are an integral part of these consolidated financial statements.

Notes to the financial statements

1 General information
The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent Company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, and USA and employs over 950 people.

The Company is registered and domiciled in Bermuda and on 12 December 2006 its ordinary shares were listed on the London Stock Exchange. As such it is required to prepare its annual audited financial information in accordance with Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Services Authority (FSA), in addition to the Bermuda Companies Act 1981. The first two pronouncements issued by the FSA require the Group to prepare financial statements which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 38 in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

The consolidated financial statements for the year ended 31 December 2008 include all of the Group's subsidiary companies and the Group's interest in associates. All amounts relate to continuing operations.

The financial statements were approved for issue by the Board of Directors on 9 March 2009.

2 Significant accounting policies
The principal accounting policies applied in the preparation of these consolidated Group financial statements are set out below. The most critical individual components of these financial statements that involve the highest degree of judgement or significant assumptions and estimations are identified at note 2.22.

2.1 Statement of compliance
The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union and in accordance with the provisions of the Bermuda Companies Act 1981.

Since 2002, the standards adopted by the International Accounting Standards Board have been referred to as IFRS. The standards from prior years continue to bear the title 'International Accounting Standards' (IAS). Insofar as a particular standard is not explicitly referred to, the two terms are used in these financial statements synonymously. Compliance with IFRS includes the adoption of interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

In March 2004, the IASB issued IFRS 4 Insurance Contracts which specifies the financial reporting for insurance contracts by an insurer. The standard is only the first phase in the IASB's insurance contract project and as such is only a stepping stone to phase II, introducing limited improvements to accounting for insurance contracts. Accordingly, to the extent that IFRS 4 does not specify the recognition or measurement of insurance contracts, transactions reported in these consolidated financial statements have been prepared in accordance with another comprehensive body of accounting principles for insurance contracts, namely accounting principles generally accepted in the UK.

2.2 Basis of preparation
The financial statements are presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated. They are compiled on a going concern basis and 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. Employee retirement benefit obligations are determined using actuarial analysis. The balance sheet of the Group is presented in order of increasing liquidity.

The accounting policies have been applied consistently by all Group entities, to all periods presented, solely for the purpose of producing the consolidated Group financial statements.

The Group elected to apply the transitional arrangements contained in IFRS 4 that permitted the disclosure of only five years of data in claims development tables, in the year ended 31 December 2005 which was the year of adoption. The number of years of data presented was increased from seven in the prior year, to eight in the current financial year, and will be increased in each succeeding additional year up to a maximum of ten years if material outstanding claims exist for such periods.

The consolidated financial statements reflect the early adoption of IFRS 8 Operating Segments, which was first adopted in the prior year. IFRS 8 is a disclosure standard concerning the designation and presentation of operating segment information and therefore had no impact on the reported primary financial statements or financial position of the Group.

The Group has financial assets of over £2.5 billion. The portfolio is predominantly invested in liquid short dated bonds and cash to ensure significant liquidity to the Group and to reduce risk from the financial markets. In addition the Group has significant borrowing facilities.

The Group writes a balanced book of insurance and reinsurance business spread by product and geography. The Directors believe that the current reinsurance and insurance markets are favourable and that the Group is well placed to trade in these markets whilst successfully managing its business risks.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Standards and interpretations relevant to the Group published and effective or early adopted at 1 January 2008

IAS 1 Presentation of financial statements

The IASB published the revised IAS 1 Presentation of financial statements on September 6, 2007 with an effective date of 1 January 2009. The Group early adopted on 1 January 2008. The revised standard is as a result of Phase A of the IASB's financial statement presentation project, the objective of which is to enhance the usefulness of information presented in a complete set of financial statements.

The main change required by the revised standard is the introduction of 'total comprehensive income' which requires the presentation of changes in non-owner equity in either one statement, the statement of comprehensive income, or two statements, the income statement and a statement showing the profit or loss and all components of other comprehensive income. The revised standard also requires other minor changes in the presentation of financial statements.

The Group has not presented a consolidated balance sheet at the beginning of the earliest comparative accounting period, 1 January 2007, as no retrospective restatements, reclassifications, or changes in accounting policy have occurred.

IFRIC 14, IAS 19 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction
The International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 14, IAS 19 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction on 5 July 2007 with an effective date for annual periods beginning on or after 1 January 2008. The interpretation clarifies when refunds or reductions in future contributions in relation to defined benefit assets are available and also provides guidance on the impact of minimum funding requirements on such assets. The Group has applied the interpretation from 1 January 2008 with no impact on the carrying amount of the defined benefit pension scheme asset or on the financial results of the Group.

Amendments to IFRS 2 Share-based Payment
Amendments to IFRS 2 Share-based Payment were published on 17 January 2008 with an effective date of 1 January 2009 with early application permitted. The amended standard clarifies the definition of vesting conditions and introduces the term of 'non-vesting' conditions which are conditions which are other than service or performance conditions. Non-vesting conditions are reflected in the measurement of the grant date fair value of the awards. There is no requirement to reflect a true up for any differences arising between expected and actual outcome due to failure to meet non-vesting conditions. The amendment has no material impact on the Group's financial results.

Standards and interpretations published but not yet effective
Amendments to IAS 23 Borrowing Costs
Amendments to IAS 23 Borrowing Costs, was published on 29 March 2007 and are applicable from 1 January 2009. The amendment makes it compulsory to capitalise borrowing costs relating to qualifying assets and removes the option to expense such costs. The amendment excludes eligible assets measured at fair value from the revised standard's scope of application. The amendment has no material impact on the Group's financial results.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on liquidation
Amendments to IAS 32 and IAS 1 were published on 14 February 2008 and are effective for annual periods beginning on 1 January 2009. The amendment to IAS 32 will exempt some financial instruments, which would usually be considered equity, from the financial liability classification. The exemption is available to financial instruments that have particular features and meet specific conditions. The application of the amended standard will have limited impact on the Group.

2.3 Basis of consolidation
(a) Subsidiaries
Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Generally this occurs when the Group obtains a shareholding of more than half of the voting rights of an entity. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. Management also exercise significant judgement about any actual or perceived control acquired indirectly, through normal commercial dealings with entities of a special purpose nature. The Group does not undertake any such arrangements with such entities where control of that entity would be acquired. The consolidated financial statements include the assets, liabilities and results of the Group up to 31 December each year. The financial statements of subsidiaries are included in the consolidated financial statements only from the date that control commences until the date that control ceases.

Hiscox Dedicated Corporate Member Limited underwrites as a corporate member of Lloyd's on the main Syndicates managed by Hiscox Syndicates Limited (the 'main managed Syndicates' numbered 33 and, commencing 1 January 2009, 3624). In view of the several but not joint liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, the Group's attributable share of the transactions, assets and liabilities of this main Syndicate have been included in the financial statements. The Group manages the underwriting of, but does not participate as a member of, Syndicate 6104 at Lloyd's which provides reinsurance to Syndicate 33 on a normal commercial basis. Consequently, aside from the receipt of managing agency fees and defined profit commissions as appropriate, the Group has no share in the assets, liabilities or transactions of Syndicate 6104, nor is it controlled. The position and performance of that Syndicate is therefore not included in the Group's financial statements.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, together with directly attributable transaction costs, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

(b) Associates
Associates are those entities in which the Group has significant influence but not control over the financial and operating policies. Significant influence is generally identified with a shareholding of between 20% and 50% of an entity's voting rights. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis from the date that significant influence commences until the date that significant influence ceases. The Group's share of its associates' post-acquisition profits or losses after tax is recognised in the income statement each period, and its share of the movement in the associates' net assets is reflected in the investments' carrying values in the balance sheet. When the Group's share of losses equals or exceeds the carrying amount of the associate, the carrying

Notes to the financial statements continued

2 Significant accounting policies continued
2.3 Basis of consolidation continued
(b) Associates *continued*

amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(c) Transactions eliminated on consolidation
Intragroup balances, transactions and any unrealised gains arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. In accordance with IAS 21, foreign currency gains and losses on intragroup monetary assets and liabilities may not fully eliminate on consolidation when the intragroup monetary item concerned is transacted between two Group entities that have different functional currencies.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.4 Foreign currency translation
(a) Functional and presentational currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of all individual entities in the Group is deemed to be Sterling with the exception of the entities operating in France, Germany, the Netherlands and Belgium whose functional currency is Euros, those subsidiary entities operating from the USA and Bermuda whose functional currency is US Dollars, and Hiscox Insurance Company (Guernsey) Limited whose functional currency is also US Dollars.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as IAS 39 effective net investment hedges or when the underlying balance is deemed to form part of the Group's net investment in a subsidiary operation and is unlikely to be settled in the forseeable future. Non-monetary items carried at historical cost are translated in the balance sheet at the exchange rate prevailing on the original transaction date. Non-monetary items measured at fair value are translated using the exchange rate ruling when the fair value was determined.

(c) Group companies
The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions)
- (iii) all resulting exchange differences are recognised as a separate component of equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

2.5 Property, plant and equipment
Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance items are charged to the income statement during the financial period in which they are incurred.

Land and artwork assets are not depreciated as they are deemed to have indefinite useful economic lives. The cost of leasehold improvements is amortised over the unexpired term of the underlying lease or the estimated useful life of the asset, whichever is shorter. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, less their residual values, over their estimated useful lives. The rates applied are as follows:

Buildings	50 years
Vehicles	3 years
Leasehold improvements including fixtures and fittings	10–15 years
Furniture, fittings and equipment	3–15 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Intangible assets
(a) Goodwill
Goodwill represents amounts arising on acquisition of subsidiaries and associates. In respect of acquisitions that have occurred since 1 January 2004, goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the acquisition date.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous generally accepted accounting principles.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment review process examines whether or not the carrying value of the

2 Significant accounting policies continued
2.6 Intangible assets continued
(a) Goodwill *continued*

goodwill attributable to individual cash generating units exceeds its implied value. Any excess of goodwill over the recoverable amount arising from the review process indicates impairment. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Syndicate capacity
The cost of purchasing the Group's participation in the Lloyd's insurance syndicates is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. Having considered the future prospects of the London insurance market, the Board believe that the Group's ownership of syndicate capacity will provide economic benefits over an indefinite number of future periods.

(c) State authorisation licences
State authorisation licences acquired in business combinations are recognised initially at their fair value. The asset is not amortised, as the Board considers that economic benefits will accrue to the Group over an indefinite number of future periods, but is tested annually for impairment, and any accumulated impairment losses recognised are deducted from the historical cost amount to produce the net balance sheet carrying amount.

(d) Rights to customer contractual relationships
Costs directly attributable to securing the intangible rights to customer contract relationships are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered by directly related future profits. These costs are amortised on a straight-line basis over the useful economic life which is deemed to be 20 years and are carried at cost less accumulated amortisation and impairment losses.

(e) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over the expected useful life of the software of between three and five years on a straight-line basis.

Internally developed computer software is only capitalised where the cost can be measured reliably, the Group intends to and has adequate resources to complete development and where the computer software will yield future economic benefits in excess of the costs incurred.

2.7 Financial assets including loans and receivables
The Group has classified financial assets as a) financial assets designated at fair value through profit or loss, and b) loans and receivables. Management determines the classification of its financial investments at initial recognition. The decision by the Group to designate all financial investments, comprising debt and fixed income securities, equities and shares in unit trusts and deposits with credit institutions, at fair value through profit or loss reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair value basis. Regular way purchases and sales of investments are accounted for at the date of trade.

Financial assets are initially recognised at fair value. Subsequent to initial recognition financial assets are measured as described below.

Financial assets are de-recognised when the right to receive cash flows from them expires or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Fair value for securities quoted in active markets is the bid price exclusive of transaction costs. For instruments where no active market exists, fair value is determined by referring to recent transactions and other valuation factors including the discounted value of expected future cash flows. Fair value changes are recognised immediately within the investment result line in the income statement.

(a) Financial assets at fair value through profit or loss
A financial asset is classified into this category at inception if it is managed and evaluated on a fair value basis in accordance with documented strategy, if acquired principally for the purpose of selling in the short-term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Receivables arising from insurance contracts are included in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Loans and receivables are carried at amortised cost less any provision for impairment in value.

2.8 Cash and cash equivalents
The Group has classified cash deposits and short-term highly liquid investments as cash and cash equivalents. These assets are readily convertible into known amounts of cash and are subject to inconsequential changes in value. Cash equivalents are financial investments with less than three months to maturity at the date of acquisition.

2.9 Impairment of assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually or whenever there is an indication of impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(a) Non-financial assets
Objective factors that are considered when determining whether a non-financial asset (such as goodwill, an intangible asset or item of property, plant and equipment) or group of non-financial assets may be impaired include, but are not limited to, the following:
- adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability;
- the likelihood of accelerated obsolescence arising from the development of new technologies and products; and
- the disintegration of the active market(s) to which the asset is related.

(b) Financial assets
Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:
- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicity supporting the asset.

Notes to the financial statements continued

2 Significant accounting policies continued
2.9 Impairment of assets continued

(c) Impairment loss
An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately. Impairment losses recognised in respect of goodwill are not subsequently reversed.

2.10 Derivative financial instruments
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at their fair value at each balance sheet date. Fair values are obtained from quoted market values and, if these are not available, valuation techniques including option pricing models as appropriate. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. For derivatives not formally designated as a hedging instrument, fair value changes are recognised immediately in the income statement. Changes in the value of derivative and other financial instruments formally designated as hedges of net investments in foreign operations are recognised in the currency translation reserve to the extent they are effective; gains or losses relating to the ineffective portion of the hedging instruments are recognised immediately in the consolidated income statement.

The Group had no derivative instruments designated for hedge accounting during the current and prior financial year (see note 2.17).

2.11 Own shares
Where any Group company purchases the parent Company's equity share capital (own shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's owners on consolidation. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's owners, net of any directly attributable incremental transaction costs and the related tax effects.

2.12 Revenue
Revenue comprises insurance premiums earned on the rendering of insurance protection, net of reinsurance, together with profit commission, investment returns, agency fees and other income inclusive of fair value movements on derivative instruments not formally designated for hedge accounting treatment. The Group's share of the results of associates is reported separately. The accounting policies for insurance premiums are outlined below. Profit commission, investment income and other sources of income are recognised on an accruals basis net of any discounts and amounts such as sales based taxes collected on behalf of third parties.

2.13 Insurance contracts
(a) Classification
The Group issues short-term casualty and property insurance contracts that transfer significant insurance risk. Such contracts may also transfer a limited level of financial risk.

(b) Recognition and measurement
Gross premiums written comprise premiums on business incepting in the financial year together with adjustments to estimates of premiums written in prior accounting periods. Estimates are included for pipeline premiums and an allowance is also made for cancellations. Overrider and profit commissions earned on ceded reinsurance are also included within premiums. Premiums are stated before the deduction of brokerage and commission but net of taxes and duties levied. Premiums are recognised as revenue (premiums earned) proportionally over the period of coverage except where time does not approximate to the pattern of risk, where previous claims information and other factors determine revenue recognition. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability.

Claims and associated expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, and an estimate of the expected ultimate cost of more complex claims that may be affected by external factors e.g. court decisions.

(c) Deferred acquisition costs ('DAC')
Commissions and other direct and indirect costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as deferred acquisition costs. All other costs are recognised as expenses when incurred. DAC are amortised over the terms of the insurance contracts as the related premium is earned.

(d) Liability adequacy test
At each balance sheet date, liability adequacy tests are performed by each segment of the Group to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing-off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('the unexpired risk provision').

Any DAC written-off as a result of this test cannot subsequently be reinstated.

(e) Outwards reinsurance contracts held
Contracts entered into by the Group, with reinsurers, under which the Group is compensated for losses on one or more insurance or reinsurance contracts and that meet the classification requirements for insurance contracts, are classified as insurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

2 Significant accounting policies continued
2.13 Insurance contracts continued
***(e) Outwards reinsurance contracts held** continued*

Reinsurance liabilities primarily comprise premiums payable for 'outwards' reinsurance contracts. These amounts are recognised in profit or loss proportionally over the period of the contract. Receivables and payables are recognised when due.

The Group assesses its reinsurance assets on a regular basis and if there is objective evidence, after initial recognition, of an impairment in value, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement.

(f) Receivables and payables related to insurance contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss.

(g) Salvage and subrogation reimbursements
Some insurance contracts permit the Group to sell property acquired in settling a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third-party.

2.14 Deferred tax
Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits
(a) Pension obligations
The Group operated both defined contribution and defined benefit pension schemes during the year under review. The defined benefit scheme closed to future accrual with effect from 31 December 2006 and active members were offered membership of the defined contribution scheme from 1 January 2007.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity and has no further obligation beyond the agreed contribution rate. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a contractual basis. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The amount recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the Group. To the extent that a surplus emerges on the defined benefit obligation, it is only recognisable on the asset side of the balance sheet when it is probable that future economic benefits will be recovered by the scheme sponsor in the form of refunds or reduced future contributions. The Group is not currently required to make ongoing, regular contributions and does not forsee future refunds with sufficient probability for the scheme's current reported surplus to be recognised as an asset on the balance sheet.

Actuarial gains and losses are only recognised when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous accounting period exceeds 10% of the higher of the defined benefit obligation and the fair value of the plan assets at that date. Such actuarial gains or losses falling outside of this 10% corridor are charged or credited to income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

(b) Other long-term employee benefits
The Group provides sabbatical leave to employees on completion of a minimum service period of ten years. The present value of the expected costs of these benefits is accrued over the period of employment. In determining this liability, consideration is given to future increases in salary levels, experience with employee departures and periods of service.

(c) Share based compensation
The Group operates a number of equity settled share based employee compensation plans. These include both the approved and unapproved share option schemes, and the Group's performance share plans, outlined in the Directors' remuneration report together with the Group's save as you earn ('SAYE') schemes.

The fair value of the employee services received, measured at grant date, in exchange for the grant of the awards is recognised as an expense with the corresponding credit being recorded in retained earnings within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted, excluding the impact of any non-market vesting conditions (e.g. profitability or net asset growth targets). Non-market vesting

Notes to the financial statements continued

2 Significant accounting policies continued
2.15 Employee benefits continued
(c) Share based compensation *continued*

conditions are included in assumptions about the number of awards that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of awards that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity, over the remaining vesting period.

When the terms and conditions of an equity settled share based employee compensation plan are modified, and the expense to be recognised increases as a result of the modification, then the increase is recognised evenly over the remaining vesting period. When a modification reduces the expense to be recognised, there is no adjustment recognised and the pre-modification expense continues to be applied. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

In accordance with the transitional arrangements of IFRS 2 only share based awards granted or modified after 7 November 2002, but not yet vested at the date of adoption of IFRS are included in the calculations.

(d) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(e) Profit sharing and bonus plans
The Group recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where a contractual obligation to employees exists or where there is a past practice that has created a constructive obligation.

(f) Accumulating compensation benefits
The Group recognises a liability and an expense for accumulating compensation benefits (e.g. holiday entitlement), based on the additional amount that the Group expects to pay as a result of the unused entitlement accumulated at the balance sheet date.

2.16 Financial liabilities
Financial liabilities are initially measured at fair value. The Group's borrowings are financial liabilities and were previously designated on inception as being held at fair value through profit or loss if they were managed and evaluated on a fair value basis in accordance with a documented strategy or if they eliminate or significantly reduce a measurement or recognition inconsistency.

In the prior year and up to 6 May 2008 (when all existing borrowings were repaid in full), borrowings were consequently remeasured at fair value at each balance sheet date using observable market interest rate data for similar instruments, with all changes in value from one accounting period to the next reflected in the income statement unless they formed part of a designated hedge accounting relationship in which case certain changes in value were recognised directly in equity, (see notes 2.17 and 20).

All borrowings drawn after 6 May 2008 are now remeasured at amortised cost at each balance sheet date thereafter using the effective interest method. Any difference between the remeasured amortised cost carrying amount and the ultimate redemption amount is recognised in the income statement over the period of the borrowings.

2.17 Net investment hedge accounting
In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

The Group hedged elements of its net investment in certain foreign entities through foreign currency borrowings that qualified for hedge accounting from 3 January 2007 until their replacement on 6 May 2008; accordingly gains or losses on retranslation are recognised in equity to the extent that the hedge relationship was effective during this period. Accumulated gains or losses will be recycled to the income statement only when the foreign operation is disposed of. The ineffective portion of any hedge is recognised immediately in the income statement.

2.18 Finance costs
Finance costs consist of interest charges accruing on the Group's borrowings and bank overdrafts together with commission fees charged in respect of letters of credit. Arrangement fees in respect of financing arrangements are charged over the life of the related facilities.

2.19 Provisions
The Group is subject to various insurance related assessments and guarantee fund levies. Provisions are recognised where there is a present obligation (legal or constructive) as a result of a past event that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle that obligation.

2.20 Leases
(a) Hiscox as lessee
Leases in which significantly all of the risks and rewards of ownership are transferred to the Group are classified as finance leases. At the commencement of the lease term, finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. The minimum lease payments are apportioned between finance charges and repayments of the outstanding liability, finance charges being charged to each period of the lease term so as to produce a constant rate of interest on the outstanding balance of the liability.

All other leases are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) Hiscox as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant contractual agreement.

2.21 Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

2 Significant accounting policies continued

2.22 Use of critical estimates, judgements and assumptions

The preparation of financial statements requires the use of significant estimates, judgements and assumptions. The Directors consider the accounting policies for determining insurance liabilities, the valuation of investments, the valuation of retirement benefit scheme obligations and the determination of current and deferred tax assets and liabilities as being most critical to an understanding of the Group's result and position.

The inherent uncertainty of insurance risk requires the Group to make estimates, judgements and assumptions that affect the reported amounts of insurance and reinsurance assets and liabilities at the balance sheet date. This is the most significant area of potential uncertainty in the Group's financial statements.

There are several sources of uncertainty that need to be considered in the estimation of the insurance liabilities that the Group will ultimately pay for valid claims. These include but are not restricted to: inflation; changes in legislation; changes in the Group's claims handling procedures; and judicial opinions which extend the Group's coverage of risk beyond that envisaged at the time of original policy issuance. The Group seeks to gather corroborative evidence from all relevant sources before making judgements as to the eventual outcome of claims, particularly those under litigation, which have occurred and been notified to the Group but remain unsettled at the balance sheet date.

Estimates are continually evaluated based on entity specific historical experience and contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. Although the possibility exists for material changes in insurance liabilities estimates to have a critical impact on the Group's reported performance and financial position, it is anticipated that the scale and diversity of the Group's portfolio of insurance business considerably lessens the likelihood of this occurring. Note 26 to the consolidated financial statements provides a greater analysis of the main methods used by the Group when formulating estimates of the insurance claims liabilities at each balance sheet date.

The Group carries its financial investments at fair value through profit or loss with fair value determined using published price quotations in the most active financial markets in which the assets trade. During periods of economic distress and diminished liquidity, the ability to obtain quoted bid prices may be reduced and as such as a greater degree of judgment is required in obtaining the most reliable source of valuation. Note 3.2 to the financial statements discusses the reliability of the Group's fair values.

With regard to employee retirement benefit scheme obligations, the amounts disclosed in these consolidated financial statements are sensitive to judgemental assumptions regarding mortality, inflation, investment returns and interest rates on corporate bonds, many of which have been subject to specific recent volatility. This complex set of economic variables may be expected to influence the liability obligation element of the reported net balance amount to a greater extent than the reported value of the scheme assets element. For example, if the recent cuts in official UK interest rates are replicated with lower yields emerging in UK corporate bond indices, a significant uplift may occur in the reported net scheme deficit through the reduced effect of discounting outweighing any expected appreciation in asset values. A sensitivity analysis is given at note 30.

Legislation concerning the determination of taxation assets and liabilities is complex and continually evolving. In preparing the Group's financial statements, the Directors estimate taxation assets and liabilities after taking appropriate professional advice. The determination and finalisation of agreed taxation assets and liabilities may not occur until several years after the balance sheet date and consequently the final amounts payable or receivable may differ from those presently recorded in these financial statements.

2.23 Reporting of additional performance measures

The Directors consider that the claims ratio, expense ratio and combined ratio measures reported in respect of operating segments and the Group overall at note 4 provide useful information regarding the underlying performance of the Group's businesses. These measures are widely recognised by the insurance industry and are consistent with internal performance measures reviewed by senior management including the chief operating decision maker. However, these three measures are not defined within the IFRS framework and body of standards and interpretations and therefore may not be directly comparable with similarly titled additional performance measures reported by other companies. Net asset value per share and return on equity measures, disclosed at notes 5 and 6, are likewise considered to be additional performance measures.

3 Management of risk

Overview of risk

The Group enters into contracts that directly accept and transfer insurance risk, which in turn necessarily creates exposure to financial and other classes of risk. Consequently, Hiscox is fundamentally concerned with the identification and management of all significant risks.

The Group's overall appetite for accepting and managing varying classes of risk is defined by the Group's Board. The Board has developed a governance framework and set Group-wide risk management policies and procedures which cover specific areas such as risk identification, risk management and mitigation, and risk reporting. The objective of these policies and procedures is to protect the Group's shareholders, policyholders and other stakeholders from negative events that could hinder the Group's delivery of its contractual obligations and its achievement of sustainable profitable economic and social performance.

The Board exercises oversight over the development and operational implementation of its risk management policies and procedures, and ongoing compliance therewith, partially through its own enquiries but primarily through a dedicated internal audit function, which has operational independence, clear terms of reference influenced by the Board's Non Executive Directors and a clear upwards reporting structure back into the Board.

The main sources of risk relevant to the Group's operations and its financial statements fall into two broad categories: insurance risk and financial risk. Note 3.1 details the Group's approach to managing insurance risk specifically whilst note 3.2 onwards outlines the Group's sensitivity to financial risk generally. Additional unaudited information is also provided in the corporate governance and risk management sections of this Report and Accounts.

The Group, in common with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity, rather than engaging in mass distribution of the risks assumed through large scale securitisation. The Group's business is therefore fundamentally different to other types of financial institutions in that its cash flows are funded mainly through advance premium collections rather than assuming cash deposits, and the timing of such

3 Management of risk continued

premium inflows is reasonably predictable. In addition, the majority of material cash outflows are typically triggered by the occurrence of insured events non-correlated to financial markets, and not by the inclination or will of policyholders.

Consequently, as the Group therefore has the capacity to invest and hold a significant proportion of assets to maturity if required, it has the ability for many of its ultimate cash flows to remain relatively immune to short-term, technically driven accounting losses in fair value terms.

3.1 Insurance risk

Insurance risk is transferred to the Group by contract holders through the underwriting process. The Group's exposure to insurance risk arises from the possibility that an insured event occurs, and a claim is subsequently submitted by the insured for payment. Management of insurance risk on a day-to-day basis is the responsibility of the Chief Underwriting Officer, who receives assistance from the management information and risk modelling departments. The Board sets the Group's underwriting strategy for accepting and managing insurance risk prospectively, seeking to exploit identified opportunities and taking cognisance of other relevant anticipated market conditions. Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures and line of business diversification parameters are prepared and reviewed by the Chief Underwriting Officer in order to translate the Board's summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved by the Board in advance of each underwriting year. The Board continually reviews its underwriting strategy throughout each underwriting year in light of the evolving market pricing and loss conditions and as opportunities present themselves.

The Board requires all underwriters to operate within an overall Group appetite for individual events. This defines the maximum exposure that the Group is prepared to retain on its own account for any one potential catastrophe event or disaster. The Group's underwriting risk appetite seeks to ensure that it should not lose more than one year's profit plus 15% of core capital as a result of a 1 in 250 year event.

Realistic disaster scenarios are extreme, hypothetical events selected by Lloyd's to represent major events occurring in areas with large insured values. They also reflect the areas that represent significant exposures for Hiscox. The Group compiles estimates of losses arising from realistic disaster events using statistical models alongside input from its underwriters. The selection of realistic disaster scenario events is adjusted each year and they are not therefore necessarily directly comparable from one year to the next. The events are extreme and as yet untested, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodelled risks. This means that should a realistic disaster actually eventuate, the Group's final ultimate losses could materially differ from those unaudited estimates modelled by management. The Group's estimated concentration of insurance risk, determined in relation to the broad categories of insurance liabilities reserved on the balance sheet, is summarised in the tables on page 59.

The Group's underwriters and management consider insurance risk at an individual contract level, and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors. To assist with the process of pricing and managing insurance risk the Group routinely performs a wide range of activities including the following:

- regularly updating the Group's risk models;
- documenting, monitoring and reporting on the Group's strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modelling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;
- regularly aggregating risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular review. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as the maximum sums insured per insurance contract, maximum gross written premiums and maximum aggregated exposures per geographical zone and risk class. Monthly meetings are held between the Chief Underwriting Officer and a specialist central analysis and review team in order to monitor claim development patterns and discuss individual underwriting issues as they arise. The Chief Underwriting Officer also holds weekly video conference meetings with this team to discuss interim underwriting matters.

The Group's insurance contracts include provisions to contain losses such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Group's exposure to repeated catastrophic events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period.

One tool for managing insurance risk is reinsurance. Reinsurance protection such as excess of loss cover is purchased at an entity level and is also considered at an overall Group level to mitigate the effect of catastrophes and unexpected concentrations of risk. However, the scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market.

3 Management of risk continued
3.1 Insurance risk continued

Estimated concentration of gross and net insurance liabilities on balance sheet by territory coverage of premium written 31 December 2008

		Types of insurance risk in Group						
		Reinsurance inwards £000	Property – Marine and major assets £000	Property – Other assets £000	Casualty – Professional indemnity £000	Casualty – Other risks £000	Other* £000	Total £000
UK and Ireland	Gross	**51,386**	**8,900**	**141,470**	**223,181**	**3,100**	**13,887**	**441,924**
	Net	**43,742**	**8,163**	**139,135**	**177,272**	**2,610**	**11,807**	**382,729**
Europe	Gross	**27,922**	**5,370**	**75,624**	**44,932**	**9,219**	**11,447**	**174,514**
	Net	**22,546**	**4,097**	**70,269**	**41,082**	**7,478**	**9,615**	**155,087**
United States	Gross	**249,389**	**50,252**	**168,770**	**338,150**	**46,713**	**20,352**	**873,626**
	Net	**143,826**	**36,889**	**118,909**	**306,694**	**33,186**	**15,554**	**655,058**
Other territories	Gross	**81,258**	**15,736**	**28,459**	**37,062**	**7,118**	**62,779**	**232,412**
	Net	**69,570**	**13,510**	**23,470**	**34,746**	**5,840**	**49,580**	**196,716**
Multiple territory coverage	Gross	**124,552**	**183,410**	**38,615**	**3,990**	**154,195**	**50,178**	**554,940**
	Net	**90,170**	**130,813**	**31,325**	**3,756**	**106,023**	**38,019**	**400,106**
Total	**Gross**	**534,507**	**263,668**	**452,938**	**647,315**	**220,345**	**158,643**	**2,277,416**
	Net	**369,854**	**193,472**	**383,108**	**563,550**	**155,137**	**124,575**	**1,789,696**

31 December 2007		Types of insurance risk in Group						
		Reinsurance inwards £000	Property – Marine and major assets £000	Property – Other assets £000	Casualty – Professional indemnity £000	Casualty – Other risks £000	Other* £000	Total £000
UK and Ireland	Gross	47,633	7,200	122,967	263,869	1,332	28,446	471,447
	Net	40,498	6,841	101,690	199,573	1,235	17,307	367,144
Europe	Gross	43,751	22,367	47,799	66,758	11,662	15,340	207,677
	Net	41,167	16,918	41,764	53,523	9,022	10,194	172,588
United States	Gross	111,008	26,390	92,012	131,466	18,083	13,095	392,054
	Net	87,937	15,270	90,686	129,457	16,495	10,406	350,251
Other territories	Gross	34,163	96,391	53,664	75,478	58,735	37,827	356,258
	Net	31,292	74,946	52,564	61,171	43,920	49,650	313,543
Multiple territory coverage	Gross	103,081	81,095	18,364	1,808	48,576	33,527	286,451
	Net	88,419	61,345	18,165	1,101	32,842	28,401	230,273
Total	Gross	339,636	233,443	334,806	539,379	138,388	128,235	1,713,887
	Net	289,313	175,320	304,869	444,825	103,514	115,958	1,433,799

*Includes a diverse mix of certain specialty lines such as kidnap and ransom, terrorism, bloodstock and other risks which contain a mix of property and casualty exposures.

Frequency and severity of claims

The specific insurance risks accepted by the Group fall broadly into four main categories: reinsurance inwards, marine and major property risks, other property risks and casualty insurance risks. These specific categories are defined for risk review purposes only and are not exclusively aligned to any specific reportable segment in the Group's operational structure or the primary internal reports reviewed by the chief operating decision maker. A discussion of the frequency and severity of claims for each of those categories is given below. The Group has no significant exposure to asbestos risks or life insurance business.

Reinsurance inwards

The Group's reinsurance inwards acceptances are primarily focused on large commercial property, homeowner and marine and crop exposures held by other insurance companies predominantly in North America and other developed economies. This business is characterised more by large claims arising from individual events or catastrophes than the high frequency, low severity attritional losses associated with certain other business written by the Group. Multiple insured losses can periodically arise out of a single natural or man-made occurrence.

The main circumstances that result in claims against the reinsurance inwards book are conventional catastrophes, such as earthquakes or storms, and other events including fires and explosions. The occurrence and impact of these events is very difficult to model over the short-term which complicates attempts to anticipate loss frequencies on an annual basis. In those years where there is a low incidence of severe catastrophes, loss frequencies on the reinsurance inwards book can be relatively low.

A significant proportion of the reinsurance inwards business provides cover on an excess of loss basis for individual events. The Group agrees to reimburse the cedant once their losses exceed a minimum level. Consequently the frequency and severity of reinsurance inwards' claims is related not only to the number of significant insured events that occur but also to their individual magnitude. If numerous catastrophes occurred in any one year but the cedant's individual loss on each was below the minimum stated, then the Group would have no liability under such contracts.

Notes to the financial statements continued

3 Management of risk continued
3.1 Insurance risk continued

Maximum gross line sizes and aggregate exposures are set for each type of programme.

Property risks – Marine and major assets
The Group directly underwrites a diverse range of property risks. The risk profile of the property covered under marine and major asset policies is different to that typically contained in the other classes of property (such as private households and contents insurance) covered by the Group.

Typical property covered by marine and other major property contracts include fixed and moveable assets such as ships and other vessels, cargo in transit, energy platforms and installations, pipelines, other subsea assets, satellites, commercial buildings and industrial plants and machinery. These assets are typically exposed to a blend of catastrophic and other large loss events, and attritional claims arising from conventional hazards such as collision, flooding, fire and theft. Climatic changes may give rise to more frequent and severe extreme weather events (for example earthquakes, windstorms and river flooding etc.) and it may be expected that their frequency will increase over time.

For this reason the Group accepts major property insurance risks for periods of mainly one year so that each contract can be re-priced on renewal to reflect the continually evolving risk profile. The most significant risks covered for periods exceeding one year are certain specialist lines such as marine and offshore construction projects which can typically have building and assembling periods of between three and four years. These form a small proportion of the Group's overall portfolio.

Marine and major property contracts are normally underwritten by reference to the commercial replacement value of the property covered. The cost of repairing or rebuilding assets, of replacement or indemnity for contents and time taken to restart or resume operations to original levels for business interruption losses are the key factors that influence the level of claims under these policies. The Group's exposure to commodity price risk in relation to insurance contracts is very limited, given the controlled extent of business interruption cover offered in the areas prone to losses of asset production.

Other property risks
The Group provides home and contents insurance, together with cover for art work, antiques, classic cars, jewellery, collectables and other assets typically held by affluent individuals. The Group also extends cover to reimburse certain policyholders when named insureds or insured assets are seized for kidnap and a ransom demand is subsequently met. Events which can generate claims on these contracts include burglary, kidnap, seizure of assets, acts of vandalism, fires, flooding and storm damage. Losses on most classes can be predicted with a greater degree of certainty as there is a rich history of actual loss experience data and the locations of the assets covered, and the individual levels of security taken by owners, are relatively static from one year to the next. The losses associated with these contracts tend to be of a higher frequency and lower severity than the marine and other major property assets covered above.

The Group's home and contents insurance contracts are exposed to weather and climatic risks such as floods and windstorms and their consequences. As outlined earlier the frequency and severity of these losses do not lend themselves to accurate prediction over the short-term. Contract periods are therefore not normally more than one year at a time to enable risks to be regularly re-priced.

Contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event.

Casualty insurance risks
The casualty underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of potential hazard, industry and geography. However, the Group's exposure is more focused towards marine and professional and technological liability risks rather than human bodily injury risks, which are only accepted under limited circumstances. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence and specific losses suffered as a result of electronic or technological failure of software products and websites. The provision of insurance to cover allegations made against individuals acting in the course of fiduciary or managerial responsibilities, including directors' and officers' insurance, is one example of a casualty insurance risk. However the Group's specific exposure to this specific risk category is relatively limited. The Group's casualty insurance contracts mainly experience low severity attritional losses.

The Group's pricing strategy for casualty insurance policies is typically based upon historical claim frequencies and average claim severities, adjusted for inflation and extrapolated forwards to incorporate projected changes in claims patterns. In determining the price of each policy an allowance is also made for acquisition and administration expenses, reinsurance costs, investment returns and the Group's cost of capital.

Sources of uncertainty in the estimation of future claim payments
The Group's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including those not yet notified by, or apparent to, the insured, are detailed in note 26.

The majority of the Group's insurance risks are short tail and, based on past history, significant claims are normally notified and settled within 12 to 24 months of the insured event occurring. Those claims taking the longest time to develop and settle typically relate to casualty risks where legal complexities occasionally develop regarding the insured's alleged omissions or negligence. The length of time required to obtain definitive legal judgements and make eventual settlements exposes the Group to a degree of reserving risk in an inflationary environment.

The majority of the Group's casualty exposures are written on a claims made basis. However the final quantum of these claims may not be established for a number of years after the event. Consequently a significant proportion of the casualty insurance amounts reserved on the balance sheet may not be expected to settle within 24 months of the balance sheet date.

Certain marine and property insurance contracts such as those relating to subsea and other energy assets, and the related business interruption risks, can also take longer than normal to settle. This is because of the length of time required for detailed subsea surveys to be carried out and damage assessments agreed together with difficulties in predicting when the assets can be brought back into full production.

3 Management of risk continued

3.2 Financial risk

Overview

The Group is exposed to financial risk through its ownership of financial assets including loans and receivables, financial liabilities and reinsurance assets. These items collectively represent a significant element of the Group's net shareholder funds.

The key financial risk for the Group is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts and financial liabilities. The most important entity and economic variables that could result in such an outcome relate to risk factors such as equity price risk, interest rate risk, credit risk, liquidity risk and currency risk. The Group's policies and procedures for managing exposure to these specific categories of risk are detailed below.

Reliability of fair values

The Group has elected to carry all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy. With the exception of unquoted equity investments, all of the financial investments held by the Group are available to trade in public markets and the Group therefore seeks to determine fair value by reference to published price quotations in the most active financial markets in which the assets trade. The Group seeks to determine the fair value of financial assets primarily with reference to their closing bid market prices at the balance sheet date. The ability to obtain quoted bid market prices may be reduced in periods of diminished liquidity, such as those prevailing for certain categories of asset-backed and mortgage-backed fixed income instruments affected by the continued market dislocation that commenced during the second half of 2007. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Group. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely related instruments occurring before the balance sheet date but updated for relevant perceived changes in market conditions. Throughout 2008 the Group has witnessed substantial declines in observable market values for many fixed income assets such as corporate, municipal and asset backed bonds. In some cases the extent and duration of declines witnessed appears to arise as a response to global macroeconomic and liquidity concerns and not as a result of specific issuer events or credit concerns.

At 31 December 2008, the Group holds asset-backed and mortgage-backed fixed income instruments in its investment portfolio but has minimal direct exposure to sub-prime asset classes. Together with the Group's investment managers, management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant factors such as credit ratings, collateral, subordination levels and default rates in relation to the securities held.

Valuation of these securities will continue to be impacted by external market factors including default rates, rating agency actions, and liquidity. The Group will make adjustments to the investment portfolio as appropriate as part of its overall portfolio strategy, but its ability to mitigate its risk by selling or hedging its exposures may be limited by the market environment. The Group's future results may be impacted, both positively and negatively, by the valuation adjustments applied to these securities.

In October 2008, the IASB issued an Exposure Draft on Improving Disclosures about Financial Instruments, Proposed amendments to IFRS 7. The Exposure Draft was in response to the requirement by users of financial statements to enhance the disclosures over the fair value measurement of financial instruments. This was particularly relevant in light of the current market conditions. On 5 March 2009, the IASB issued the amendments to IFRS 7 with an effective date for annual periods beginning on or after 1 January 2009.

One amendment to enhance the disclosure of fair value measurements is based on a three level fair value hierarchy similar to that issued by the US Financial Accounting Standard Board in SFAS 157. The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The levels within the fair value hierarchy are defined as follows:

Level 1 – Quoted prices in active markets for the same instrument.

Level 2 – Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3 – Valuation techniques for which any significant input is not based on observable market data.

The Group will adopt the amended standard from its effective date and endorsement by the EU. Given the instability of the global markets in the fourth quarter of 2008, the Group has classified its financial investments as at 31 December 2008 using the above proposed fair value hierarchy in order to present useful information on the inputs used to measure fair value.

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

Notes to the financial statements continued

3 Management of risk continued
3.2 Financial risk continued
Reliability of fair values *continued*

The level within the hierarchy that a financial instrument is placed is based on the lowest level of any input that is significant to its fair value measurement. Where a valuation technique is used, the Group selects inputs using the most reliable source of data and where possible observable market data. The models used to measure fair value in these cases may not be the same across the industry and as such fair value measurements may differ.

The fair value of unquoted equity investments is determined by reference to recent observable market transactions and other valuation factors including the discounted value of expected future cash flows. The carrying value of unquoted equity investments included in the Group's balance sheet at 31 December 2008 was £539,000 (2007: £4,151,000), representing less than 1% of the total financial assets carried at fair value.

(a) Equity price risk
The Group is exposed to equity price risk through its holdings of equity and unit trust investments. However this is limited to a small and controlled proportion of the overall investment portfolio and the equity and unit trust holdings involved are well diversified over a number of companies and industries. The fair value amounts held at the balance sheet date may be analysed as follows:

	2008 % weighting	2007 % weighting
Nature of equity and unit trust holdings		
Directly held equity securities	**–**	3
Units held in funds – traditional long only	**68**	77
Units held in funds – long and short and special strategies	**32**	20
Geographic focus		
Specific UK mandates	**29**	40
Global mandates	**71**	60

The allocation of equity risk is not heavily confined to any one market index so as to reduce the Group's exposure to individual sensitivities. A 10% downward correction in equity prices at 31 December 2008 would have been expected to reduce Group equity and profit after tax for the year by approximately £10.0 million (2007: £11.6 million) assuming that the only area impacted was equity financial assets. A 10% upward movement is estimated to have an equal but opposite effect.

(b) Interest rate risk
Fixed income investments represent a significant proportion of the Group's assets and the Board continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Group is able to underwrite or its ability to settle claims as they fall due. The fair value of the Group's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group's debt and fixed income investments would tend to rise and vice versa if credit spreads remained constant.

Debt and fixed income assets are predominantly invested in high quality corporate, government and asset backed bonds. The investments typically have relatively short durations and terms to maturity. The portfolio is managed to minimise the impact of interest rate risk on anticipated Group cash flows.

The fair value of debt and fixed income assets in the Group's balance sheet at 31 December 2008 was £1,929 million (2007: £1,445 million). These may be analysed as follows:

Nature of debt and fixed income holdings	31 December 2008 % weighting	31 December 2007 % weighting
Government issued bonds and instruments	**35**	26
Agency and Government supported debt	**17**	9
Asset backed securities	**10**	16
Mortgage backed instruments – Agency	**8**	7
Mortgage backed instruments – Non-agency	**8**	13
Corporate bonds	**20**	27
Lloyd's and money market deposits	**2**	2

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity based sensitivity analysis, if market interest rates had risen by 100 basis points at the balance sheet date, the fair value might have been expected to decrease by £31 million (2007: decrease of £22 million) assuming that the only balance sheet area impacted was debt and fixed income financial assets.

Duration is the weighted average length of time required for an instrument's cashflow stream to be recovered, where the weightings involved are based on the discounted present values of each cashflow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity. Convexity measures the sensitivity of modified duration to changes in the yield to maturity.

Using these three concepts, scenario modelling derives the above estimated impact on instruments' fair values for a 100 basis point change in the term structure of market interest rates.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. The Group's debt and fixed income assets are further detailed at note 20.

The $182 million facility drawn down at 31 December 2007 was fully repaid in the year. The Group negotiated a new loan facility with its primary lender for £350 million. At 31 December 2008, $130 million was drawn on this facility. The Group has no other significant borrowings or other assets or liabilities carrying interest rate risk, other than the facilities and Letters of Credit outlined in note 35.

(c) Credit risk
The Group has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in perceived financial strength or be unable to pay amounts in full when due.

The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Group interacts with a number of counterparties who are engaged in similar activities with similar customer profiles, and often in the same geographical areas and in industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the Group's agreed contractual terms and obligations.

Key areas of exposure to credit risk include:
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- counterparty risk with respect to cash and cash equivalents, and investments including deposits and derivative transactions.

The Group's maximum exposure to credit risk is represented by the carrying values of financial assets and reinsurance assets included in the consolidated balance sheet. The Group does not use credit derivatives or other products to mitigate maximum credit risk exposures. The Group structures the levels of credit risk accepted by placing limits on their exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors with unrelated operations.

Reinsurance is used to contain insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The Group Reinsurance Security Committee assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance. The financial analysis of reinsurers produces an assessment categorised by Standard & Poor's (S&P) rating (or equivalent when not available from S&P).

Despite the rigorous nature of this assessment exercise, and the resultant restricted range of reinsurance counterparties with acceptable strength and credit credentials that emerges therefrom, some degree of credit risk concentration remains inevitable.

The Committee considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any ongoing negotiations between Group companies and these third parties. This information is used to update the reinsurance purchasing strategy.

Individual operating units maintain records of the payment history for significant brokers and contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reports detail provisions for impairment on loans and receivables and subsequent write-off. Exposures to individual intermediaries and groups of intermediaries are collected within the ongoing monitoring of the controls associated with regulatory solvency.

The Group also mitigates credit counterparty risk by concentrating debt and fixed income investments in high quality instruments, including a particular emphasis on government gilts issued mainly by European Union and North American countries.

An analysis of the Group's major exposures to counterparty credit risk excluding loans and receivables, based on Standard & Poor's or equivalent rating, is presented below:

As at 31 December 2008	Note	AAA £000	AA £000	A £000	Other/ not rated £000	Total £000
Debt and fixed income securities	20	**1,471,797**	**179,416**	**172,832**	**104,554**	**1,928,599**
Deposits with credit institutions	20	**4,146**	**11,800**	**12,323**	**–**	**28,269**
Derivative financial assets	20, 22	**–**	**40**	**–**	**–**	**40**
Reinsurance assets	19	**6,896**	**278,685**	**175,756**	**26,383**	**487,720**
Cash and cash equivalents	23	**54,227**	**330,246**	**56,010**	**139**	**440,622**
Total		**1,537,066**	**800,187**	**416,921**	**131,076**	**2,885,250**
Amounts attributable to largest single counterparty		**415,429**	**271,991**	**15,508**	**8,103**	

The largest counterparty exposure within AAA rating is with the US Treasury. A significant proportion of 'other/not rated' reinsurance assets at 31 December 2008 are supported by Letter of Credit guarantees issued by financial institutions with Standard & Poor's or equivalent credit or financial strength ratings of A or better.

As at 31 December 2007	Note	AAA £000	AA £000	A £000	Other/ not rated £000	Total £000
Debt and fixed income securities	20	1,116,903	106,754	158,157	62,718	1,444,532
Deposits with credit institutions	20	35,911	501	107,462	–	143,874
Derivative financial assets	20, 22	–	–	–	–	–
Reinsurance assets	19	15,309	134,475	120,536	9,768	280,088
Cash and cash equivalents	23	97,816	173,755	31,166	5	302,742
Total		1,265,939	415,485	417,321	72,491	2,171,236
Amounts attributable to largest single counterparty		252,875	96,909	17,984	4,996	

The largest counterparty exposure within the AAA rating is with the US Treasury. The largest counterparty exposure under other ratings is a reinsurance asset that is supported by Letter of Credit guarantees rated A or better.

3 Management of risk continued
3.2 Financial risk continued
***(c) Credit risk** continued*

At 31 December 2008 the Group held no material debt and fixed income assets that were past due or impaired beyond their reported fair values, either for the current period under review or on a cumulative basis (2007: £nil). For the current period under review, the Group experienced defaults on debt securities with one financial institution. The total market value of those securities is negligible to the overall portfolio. No defaults occurred in investments during the prior year.

The available headroom of working capital is monitored through the use of a detailed Group cash flow forecast which is reviewed by management monthly or more frequently as required.

(d) Liquidity risk
The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum level of cash and maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover unexpected levels of claims and other cash demands.

A significant proportion of the Group's investments are in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The deposits with credit institutions largely comprise short dated certificates for which an active market exists and which the Group can easily access. The Group's exposure to equities is concentrated on shares and funds that are traded on internationally recognised stock exchanges.

The main focus of the investment portfolio is on high quality short duration debt and fixed income securities, and cash. There are no significant holdings of investments with specific repricing dates. Notwithstanding the regular interest receipts and also the Group's ability to liquidate these securities and the majority of its other financial instrument assets for cash in a prompt and reasonable manner, the contractual maturity profile of the fair value of these securities at 31 December was as follows:

Fair values at balance sheet date analysed by contractual maturity	Debt and fixed income securities £000	Deposits with credit institutions £000	Derivative financial assets £000	Cash and cash equivalents £000	**2008 Total £000**	2007 Total £000
Less than one year	196,839	28,269	40	440,622	**665,770**	611,931
Between one and two years	593,371	–	–	–	**593,371**	385,986
Between two and five years	669,819	–	–	–	**669,819**	563,052
Over five years	407,273	–	–	–	**407,273**	282,110
Sub-total	1,867,302	28,269	40	440,622	**2,336,233**	1,843,079
Perpetual notes and other non-dated instruments	61,297	–	–	–	**61,297**	48,069
Total	1,928,599	28,269	40	440,622	**2,397,530**	1,891,148

The Group's equities and shares in unit trusts and perpetual notes and other non-dated instruments have no contractual maturity terms but could also be orderly liquidated for cash in a prompt and reasonable timeframe within one year of the balance sheet date if so required.

Average contractual maturity analysed by denominational currency of investments	**2008 Years**	2007 Years
Pound Sterling	**4.85**	4.69
US Dollar	**6.95**	9.42
Euro	**5.10**	4.11
Canadian Dollar	**2.45**	1.83

The following is an analysis by liability type of the estimated timing of net cash flows based on the net claims liabilities held. The Group does not discount claims liabilities. The estimated phasing of settlement is based on current estimates and historical trends and the actual timing of future settlement cash flows may differ materially from that disclosure below.

Liquidity requirements to settle estimated profile of net claim liabilities on balance sheet	Within one year £000	Between one and two years £000	Between two and five years £000	Over five years £000	**2008 Total £000**
Reinsurance inwards	136,718	75,744	53,762	8,859	**275,083**
Property – marine and major assets	71,590	41,561	39,787	6,630	**159,568**
Property – other assets	143,891	44,696	30,918	3,826	**223,331**
Casualty – professional indemnity	109,421	109,516	185,154	41,266	**445,357**
Casualty – other risks	60,526	47,281	49,774	11,912	**169,493**
Other*	34,985	15,742	14,220	3,646	**68,593**
Total	557,131	334,540	373,615	76,139	**1,341,425**

Liquidity requirements to settle estimated profile of net claim liabilities on balance sheet	Within one year £000	Between one and two years £000	Between two and five years £000	Over five years £000	2007 Total £000
Reinsurance inwards	95,083	71,981	20,058	21,404	208,526
Property – marine and major assets	53,458	53,688	15,932	7,947	131,025
Property – other assets	108,740	50,832	16,618	6,369	182,559
Casualty – professional indemnity	104,889	121,326	87,778	34,188	348,181
Casualty – other risks	26,851	32,324	15,355	12,462	86,992
Other*	14,965	13,062	4,518	3,387	35,932
Total	403,986	343,213	160,259	85,757	993,215

*Includes a diverse mix of certain specialty lines such as kidnap and ransom, terrorism, bloodstock and other risks which contain a mix of property and casualty exposures.

Details of the payment profile of other Group liabilities is given in notes 20 and 27.

(e) Currency risk

The Group operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar and the Euro. These exposures may be classified in two main categories:

1) Structural foreign exchange risk through taking net investments in subsidiaries with different functional currencies to the Group; and
2) Operational foreign exchange risk through routinely entering into insurance, investment and operational contracts, as a Group of international insurance entities serving international communities, where rights and obligations are denominated in currencies other than each respective entities' functional currency.

The Group's exposure to structural foreign exchange risk primarily relates to the US Dollar net investments made in its domestic operation in Bermuda and its overseas operation in Guernsey and the US. Other structural exposures also arise on a smaller scale in relation to net investments made in European operations. The Group's risk appetite permits the acceptance of structural foreign exchange movements within defined aggregate limits and exchange rate parameters which are monitored centrally. Exchange rate derivatives are used when appropriate to shield the Group against significant movements outside of the defined range.

At a consolidated level, the Group is exposed to foreign exchange gains or losses on balances held between group companies where one party to the transaction has a functional currency other than Pound Sterling. To the extent that such gains or losses are considered to relate to economic hedges and intragroup borrowings, they are disclosed separately in order for users of the financial statements to obtain a fuller understanding of the Group's financial performance (note 14).

In the prior year and up to 6 May 2008 the Group financed a portion of its net investment in the Bermuda and Guernsey insurance operations using US Dollar borrowings to which hedge accounting was applied for the vast majority of the periods under review (see note 20).

The Group has the ability to draw on its current borrowing facility in any currency requested, enabling the Group to match its funding requirements with the relevant currency.

Operational foreign exchange risk is controlled within the Group's operations. The assets of the Group's overseas operations are generally invested in the same currencies as their underlying insurance and investment liabilities producing a natural hedge. Due attention is paid to local regulatory solvency and risk based capital requirements.

Details of all foreign currency derivative contracts entered into with external parties are given in note 22. All foreign currency derivative transactions with external parties are managed centrally. Included in the tables below are net non-monetary liabilities of £225m (2007: £233m) which are denominated in foreign currencies.

3 Management of risk continued
3.2 Financial risk continued
(e) Currency risk *continued*

The currency profile of the Group's assets and liabilities is as follows:

At 31 December 2008	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	42,249	6,308	–	–	48,557
Property, plant and equipment	16,378	2,404	886	–	19,668
Investments in associates	6,504	–	696	–	7,200
Deferred acquisition costs	40,263	66,462	20,094	4,311	131,130
Financial assets carried at fair value	370,043	1,430,712	236,066	44,951	2,081,772
Reinsurance assets	63,782	389,121	24,769	10,048	487,720
Loans and receivables including insurance receivables	127,702	290,523	64,748	11,342	494,315
Current tax	26,289	–	–	–	26,289
Cash and cash equivalents	127,881	229,165	75,109	8,467	440,622
Total assets	821,091	2,414,695	422,368	79,119	3,737,273

	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Employee retirement benefit obligations	–	–	–	–	–
Deferred tax	68,649	–	–	–	68,649
Insurance liabilities	455,606	1,570,090	206,228	45,492	2,277,416
Financial liabilities	–	132,818	10,532	–	143,350
Current tax	–	–	–	–	–
Trade and other payables	143,627	108,627	40,680	3,898	296,832
Total liabilities	667,882	1,811,535	257,440	49,390	2,786,247

At 31 December 2007	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	35,369	5,083	–	–	40,452
Property, plant and equipment	17,281	1,499	598	–	19,378
Investments in associates	986	–	516	–	1,502
Deferred acquisition costs	47,637	56,001	15,204	4,239	123,081
Financial assets carried at fair value	411,908	1,130,080	165,258	40,581	1,747,827
Reinsurance assets	87,963	166,436	19,912	5,777	280,088
Loans and receivables including insurance receivables	158,151	168,889	48,280	9,902	385,222
Cash and cash equivalents	116,780	130,634	44,606	10,722	302,742
Total assets	876,075	1,658,622	294,374	71,221	2,900,292

	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Employee retirement benefit obligations	–	–	–	–	–
Deferred tax	9,751	–	–	–	9,751
Insurance liabilities	491,339	1,015,832	167,302	39,414	1,713,887
Financial liabilities	–	91,764	–	–	91,764
Current tax	24,711	–	–	–	24,711
Trade and other payables	51,390	114,521	54,219	15,745	235,875
Total liabilities	577,191	1,222,117	221,521	55,159	2,075,988

3 Management of risk continued
3.2 Financial risk continued
(e) Currency risk *continued*

Sensitivity analysis
The Group performs sensitivity analysis before and after the impact of US Dollar derivative contracts. The estimated impact of a 10% strengthening or weakening of the following currencies against Pound Sterling occurring on 31 December 2008 on total equity and profit before tax is shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities together with the impact on the retranslation of those Group entities with non-sterling functional currency financial statements. Cognizance is also paid to non-linear estimated changes in the valuation of certain foreign currency linked derivative contracts. No account is taken of potential management actions such as the instigation of stop loss procedures on foreign currency derivative contracts that would have been contemplated if a change towards the actual scenarios had actually arisen.

At 31 December 2008	Effect on equity excluding the impact of US Dollar derivative contracts £m	Effect on profit before tax excluding the impact of US Dollar derivative contracts £m	Effect on equity including the impact of US Dollar derivative contracts £m	Effect on profit before tax including the impact of US Dollar derivative contracts £m
Strengthening of US Dollar	**71.8**	**19.5**	**21.7**	**(30.6)**
Weakening of US Dollar	**(59.8)**	**(15.9)**	**(24.7)**	**19.3**
Strengthening of Euro	**20.6**	**28.7**	**20.6**	**28.7**
Weakening of Euro	**(11.6)**	**(16.2)**	**(11.6)**	**(16.2)**

The sensitivity analysis performed as at 31 December 2007 showed an impact on equity of £58.2 million and an impact on profit of £42.1 million based on the US Dollar and Euro strengthening by 10% against Pound Sterling.

(f) Limitations of sensitivity analysis
The sensitivity information given in notes (a) to (e) above demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there is normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The same limitations exist in respect to the retirement benefit scheme sensitivities presented at note 30 to these financial statements. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk free interest rates fall towards zero.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

3.3 Capital risk management
The Group's primary objectives when managing its capital position are:
- to safeguard its ability to continue as a going concern, so that it can continue to provide long-term growth and progressive dividend returns for shareholders;
- to provide an adequate return to the Group's shareholders by pricing its insurance products and services commensurately with the level of risk;
- the attainment of an efficient cost of capital; and
- to comply with all regulatory requirements by a significant margin.

The Group sets the amount of capital required in its funding structure in proportion to risk. The Group then manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to obtain or maintain an optimal capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, assume debt, or sell assets to reduce debt.

The Group's activities are funded by a mixture of capital sources including issued equity share capital, retained earnings, Letters of Credit, bank debt and other third-party insurance capital.

The Board ensures that the use and allocation of capital are given a primary focus in all significant operational actions. With that in mind, the Group has developed and embedded sophisticated capital modelling tools within its business. These join together short-term and long-term business plans and link divisional aspirations with the Group's overall strategy. The models provide the basis of the allocation of capital to different businesses and business lines, as well as the regulatory and rating agency capital processes.

Notes to the financial statements continued

3.3 Capital risk management continued

During the year the Group was in compliance with capital requirements imposed by regulators in each jurisdiction where the Group operates.

There were no changes in the Group's approach to capital risk management during the current or prior year under review.

Gearing
The Group currently utilises short- to medium-term gearing as an additional source of funds to maximise the opportunities from strong markets and to reduce the risk profile of the business when the rating environment shows a weaker model for the more volatile business. The Group's gearing is obtained from a number of sources, including:

- Letter of Credit and revolving credit facility – the Group's main facility currently in place is for a total of £350 million which may be drawn as cash (under a revolving credit facility) or letter of credit or a combination thereof, providing that the cash portion does not exceed £200 million. This facility was secured during 2008 by the Company's subsidiary Hiscox plc. The Letter of Credit availability period ends on 31 December 2009. This enables the Group to utilise the Letter of Credit as Funds at Lloyd's to support underwriting on both the 2009 and 2010 years of account. Subject to agreement by the banks, the Group is able to extend the Letter of Credit availability period to 2011, which would provide Fund's at Lloyd's cover up to and including the 2012 year of account. The revolving credit facility has a maximum five year contractual period for repayment. At 31 December 2008 £137,500,000 was drawn by way of Letter of Credit to support the Funds at Lloyd's requirement and a further US$130,000,000 by way of cash to support general trading activities;
- external Names – 27.5% of Syndicate 33's capacity is capitalised by third-parties paying a profit share of approximately 17.5%;
- Syndicate 6104 at Lloyd's – with an approximate capacity of £43 million (2007: £34 million). This Syndicate is wholly backed by external members and takes a pure 2009 year of account quota share of Syndicate 33's international property catastrophe reinsurance account;
- gearing quota shares – historically the Group has used reinsurance capital to fund its capital requirement for short-term expansions in the volume of business underwritten by the Syndicate; and
- qualifying quota shares – these are reinsurance arrangements that allow the Group to increase the amount of premium it writes in hard markets.

The funds raised through Letters of Credit and loan facilities have been applied to support both the 2009 year of account for Syndicate 33 and the capital requirements of Hiscox Insurance Company (Bermuda) Limited, formed in 2005.

Financial strength
The financial strength ratings of the Group's insurance company subsidiaries is outlined below:

	A.M. Best	Fitch	Standard & Poor's
Hiscox Insurance Company Limited	A (Excellent)	A	A (Strong)
Hiscox Insurance Company (Bermuda) Limited	A (Excellent)	A	–
Hiscox Insurance Company (Guernsey) Limited	A (Excellent)	A	–
Hiscox Insurance Company Inc.	A (Excellent)	A	–

Syndicate 33 benefits from an A.M. Best rating of A (Excellent). In addition, the Syndicate also benefits from the Lloyd's ratings of A (Excellent) from A.M. Best and A+ (Strong) from Standard & Poor's.

Capital performance
The Group's main capital performance measure is the achieved return on equity (ROE). This marker best aligns the aspirations of employees and shareholders. As variable remuneration, the vesting of options and longer-term investment plans all relate directly to ROE, this concept is embedded in the workings and culture of the Group. The Group maintains its cost of capital levels and its debt to overall equity ratios in line with others in the non-life insurance industry.

Capital modelling and regulation
The capital requirements of an insurance group are determined by its exposure to risk and the solvency criteria established by management and statutory regulations.

In 2005, the UK Financial Services Authority (FSA) and Lloyd's introduced a new capital regime that requires insurance companies to calculate their own capital requirements through Individual Capital Assessments (ICA). Hiscox Insurance Company Limited and Syndicate 33 maintain ICA models in accordance with this regime. The models are concentrated specifically on the particular product lines, market conditions and risk appetite of each entity. If the FSA considers an ICA to be inadequate, it can require the entity to maintain an increased capital safeguard. The Directors are also required to certify that the Group has complied, in all material aspects, with the provisions of the Interim Prudential Sourcebook: Insurers (IPRU(INS)), the Integrated Prudential Sourcebook for Insurers (INSPRU) and General Prudential Sourcebook (GENPRU) when completing the ICA return.

The Group used its own integrated modelling expertise to produce the ICA calculations. The results mirrored those driving the existing internal capital setting process.

The assessed capital requirement for the business placed through Hiscox Insurance Company Limited is driven by the level of resources necessary to maintain an A rating.

For Syndicate 33, the ICA process produces a result that is uplifted by Lloyd's to identify the capital required to hold the A rating. The strong control and risk management environment, together with the sophistication of the modelling, have produced a capital ratio below that suggested under the previous risk-based capital regime.

Another key area of capital modelling for Hiscox is to identify which insurance vehicle produces the best return on capital employed for the Group, given certain restraints from licences, reinsurance and the regulatory environment. This modelling takes into account transactional costs and tax, in addition to the necessary capital ratios. It proves the capital efficiency of Lloyd's, despite a tax disadvantage against offshore entities, and the cost advantage of processing smaller premium business outside of Lloyd's.

In addition to the ICA modelling process, the EU Insurance Group's Directive of 1998, as amended by the Financial Group's Directive (FGD), compels insurance companies that are members of a group to consider the solvency margin of their ultimate parent company. This consideration must refer to the surplus assets of the ultimate parent's related insurers, reinsurers, intermediate holding companies and other regulated entities.

The FGD has been applied in the UK through INSPRU and GENPRU. In accordance with these provisions, the parent company's solvency margin consideration became a minimum capital requirement for the Group from 31 December 2006 onwards. The estimated regulatory capital position of the Group under FGD at 31 December 2008 was

3 Management of risk continued
3.3 Capital risk management continued

a surplus of £638 million (2007: surplus of £536 million), which is calculated as below. The final regulatory capital position will be submitted to the FSA before 30 April 2009 in accordance with the required regulatory timetable.

In the Group's other geographical territories, including the USA, its subsidiaries underwriting insurance business are required to operate within broadly similar risk-based externally imposed capital requirements when accepting business.

Estimated Group capital position

At 31 December	2008 £m	2007 £m
Group capital resources	829	738
Group capital resources requirement	(191)	(202)
Surplus	638	536

Group capital resources are less than the Group's total equity value primarily as a result of the inadmissibility of certain assets including intangible assets for regulatory purposes.

4 Operating segments
The Group's four operating segments are:
- **Global Markets** comprises the results of Syndicate 33, excluding Syndicate 33's fine art, UK regional events coverage, non-US household business and underwriting result of Hiscox Inc. It includes the results of the larger retail TMT business written by Hiscox Insurance Company Limited.
- **UK and Europe** comprises the results of Hiscox Insurance Company Limited, the results of Syndicate 33's fine art, UK regional events coverage and non-US household business, together with the income and expenses arising from the Group's retail agency activities in the UK and in continental Europe. It excludes the results of the larger retail TMT business written by Hiscox Insurance Company Limited.
- **International** comprises the results of Hiscox Insurance Company (Guernsey) Limited, Hiscox Inc., Hiscox Insurance Company (Bermuda) Limited and the ALTOHA sub-group.
- **Corporate Centre** comprises the investment return, finance costs and administrative costs associated with Group management activities. In respect of the current year under review, Corporate Centre also includes the majority of foreign currency items on economic hedges and intragroup borrowings. These relate to certain foreign currency items on economic hedges and intragroup borrowings, further details of which are given at note 14. Corporate Centre forms a reportable segment due to its investment activities which earn significant external coupon revenues.

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.

(a) Profit before tax by segment

	Year to 31 December 2008					Year to 31 December 2007				
	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	586,458	354,899	206,007	–	1,147,364	676,464	302,273	220,212	–	1,198,949
Net premiums written	425,056	328,744	176,664	–	930,464	524,683	265,001	185,226	–	974,910
Net premiums earned	477,814	302,418	172,788	–	953,020	552,205	248,348	164,637	–	965,190
Investment result – financial assets*	(5,785)	(11,935)	(8,114)	(1,798)	(27,632)	46,617	18,343	23,915	11,912	100,787
Investment result – derivatives	–	(10,483)	–	(42,495)	(52,978)	–	–	–	(1,110)	(1,110)
Other revenues	15,606	2,929	1,323	–	19,858	11,996	2,672	1,216	3,160	19,044
Revenue	487,635	282,929	165,997	(44,293)	892,268	610,818	269,363	189,768	13,962	1,083,911
Claims and claim adjustment expenses, net of reinsurance	(275,679)	(129,889)	(73,812)	–	(479,380)	(246,876)	(115,032)	(61,457)	–	(423,365)
Expenses for the acquisition of insurance contracts	(137,379)	(74,625)	(40,864)	–	(252,868)	(157,718)	(65,423)	(41,429)	–	(264,570)
Administration expenses	(23,157)	(46,228)	(13,813)	–	(83,198)	(27,822)	(37,399)	(11,592)	–	(76,813)
Other expenses	(19,149)	(33,042)	(14,112)	(10,196)	(76,499)	(27,292)	(33,509)	(8,613)	(12,855)	(82,269)
Foreign exchange gains/(losses)	108,536	32,507	(22,291)	(8,997)	109,755	4,462	3,817	2,509	(2,387)	8,401
Total expenses	(346,828)	(251,277)	(164,892)	(19,193)	(782,190)	(455,246)	(247,546)	(120,582)	(15,242)	(838,616)
Results of operating activities	140,807	31,652	1,105	(63,486)	110,078	155,572	21,817	69,186	(1,280)	245,295
Finance costs including interest expense	(273)	(35)	(186)	(4,664)	(5,158)	–	–	(82)	(8,095)	(8,177)
Share of profit of associates after tax	–	–	–	260	260	–	–	–	81	81
Profit before tax	140,534	31,617	919	(67,890)	105,180	155,572	21,817	69,104	(9,294)	237,199

*Interest revenues included total £89,608,000 (2007: £85,435,000).

Notes to the financial statements continued

4 Operating segments continued
(a) Profit before tax by segment continued

The following charges are included within the consolidated income statement:

	Year to 31 December 2008					Year to 31 December 2007				
	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Depreciation	**1,348**	**3,007**	**921**	**47**	**5,323**	975	3,303	599	40	4,917
Amortisation of intangible assets	**–**	**135**	**123**	**1**	**259**	40	137	41	5	223

The Group's wholly owned subsidiary, Hiscox Syndicates Limited, oversees the operation of Syndicate 33 at Lloyd's. The Group's percentage participation in Syndicate 33 can fluctuate from year to year and consequently, presentation of the results at the 100% level removes any distortions arising therefrom.

	Year to 31 December 2008					Year to 31 December 2007				
100% ratio analysis	Global Markets	UK and Europe	International	Corporate Centre	Total	Global Markets	UK and Europe	International	Corporate Centre	Total
Claims ratio (%)	**57.8**	**41.9**	**43.0**	**–**	**51.1**	45.1	45.6	40.1	–	44.5
Expense ratio (%)	**36.7**	**50.3**	**38.8**	**–**	**40.8**	37.4	54.3	36.8	–	41.0
Combined ratio excluding foreign exchange impact (%)	**94.5**	**92.2**	**81.8**	**–**	**91.9**	82.5	99.9	76.9	–	85.5
Foreign exchange impact (%)	**(26.0)**	**(10.7)**	**12.4**	**–**	**(15.8)**	(0.8)	(1.7)	(1.5)	–	(1.1)
Combined ratio (%)	**68.5**	**81.5**	**94.2**	**–**	**76.1**	81.7	98.2	75.4	–	84.4

The combined ratio is an underwriting ratio and as such the costs of the Corporate Centre are not included in the total combined ratio calculation. The impact on profit before tax of a 1% change in each component of the segmental combined ratios is:

	Year to 31 December 2008				Year to 31 December 2007			
	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000
At 100% level (note 4b) 1% change in claims or expense ratio	**6,531**	**3,168**	**1,793**	**–**	7,660	2,598	1,695	–
At Group level 1% change in claims or expense ratio	**4,778**	**3,024**	**1,728**	**–**	5,522	2,483	1,646	–

(b) 100% operating result by segment

	Year to 31 December 2008					Year to 31 December 2007				
	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	**803,189**	**371,511**	**215,040**	**–**	**1,389,740**	932,251	316,017	227,576	–	1,475,844
Net premiums written	**580,806**	**344,101**	**183,798**	**–**	**1,108,705**	722,209	276,967	191,219	–	1,190,395
Net premiums earned	**653,090**	**316,791**	**179,340**	**–**	**1,149,221**	765,959	259,841	169,465	–	1,195,265
Investment result – financial assets	**(7,933)**	**(11,970)**	**(8,149)**	**(1,798)**	**(29,850)**	64,552	19,161	23,915	11,912	119,540
Investment result – derivatives	**–**	**(10,483)**	**–**	**(42,495)**	**(52,978)**	–	–	–	(1,110)	(1,110)
Other revenues	**23**	**2,929**	**35**	**–**	**2,987**	2,665	2,672	500	3,160	8,997
Claim and claim adjustment expenses, net of reinsurance	**(377,626)**	**(132,838)**	**(77,038)**	**–**	**(587,502)**	(345,318)	(118,418)	(67,938)	–	(531,674)
Expenses for the acquisition of insurance contracts	**(188,724)**	**(79,474)**	**(41,868)**	**–**	**(310,066)**	(222,965)	(69,428)	(42,375)	–	(334,768)
Administration expenses	**(31,245)**	**(46,933)**	**(14,082)**	**–**	**(92,260)**	(34,640)	(38,079)	(11,913)	–	(84,632)
Other expenses	**(19,531)**	**(33,042)**	**(13,589)**	**(10,196)**	**(76,358)**	(28,739)	(33,510)	(8,105)	(12,855)	(83,209)
Foreign exchange gains/(losses)	**169,713**	**34,152**	**(22,291)**	**(8,997)**	**172,577**	5,881	4,160	2,509	(2,387)	10,163
Results of operating activities	**197,767**	**39,132**	**2,358**	**(63,486)**	**175,771**	207,395	26,399	66,058	(1,280)	298,572

Segment results at the 100% level presented above differ from those presented at the Group's share at note 4(a) solely as a result of the Group not owning 100% of the capacity of Syndicate 33 at Lloyd's.

(c) Segmental analysis of assets and liabilities

The segment assets and liabilities at 31 December and the capital expenditure for the year then ended are as follows:

31 December 2008	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Intragroup items and eliminations £000	Total £000
Financial assets	1,175,492	320,776	471,676	121,028	–	2,088,972
Reinsurance assets	460,804	120,543	107,011	–	(200,638)	487,720
Intangible assets	30,507	2,850	8,645	6,555	–	48,557
Deferred acquisition costs	55,158	41,102	35,352	–	(482)	131,130
Other assets	486,926	231,224	525,984	742,713	(1,005,953)	980,894
Total assets	**2,208,887**	**716,495**	**1,148,668**	**870,296**	**(1,207,073)**	**3,737,273**
Insurance liabilities	1,553,432	436,949	487,176	–	(200,141)	2,277,416
Other liabilities	560,451	219,317	100,916	196,041	(567,894)	508,831
Total liabilities	**2,113,883**	**656,266**	**588,092**	**196,041**	**(768,035)**	**2,786,247**
Capital expenditure	**8,622**	**337**	**934**	**220**		**10,113**

31 December 2007	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Intragroup items and eliminations £000	Total £000
Financial assets	954,701	271,572	385,091	137,965	–	1,749,329
Reinsurance assets	162,516	102,137	28,691	–	(13,256)	280,088
Intangible assets	25,275	2,985	7,543	4,649	–	40,452
Deferred acquisition costs	56,231	36,087	24,792	–	5,971	123,081
Other assets	456,515	248,366	222,796	658,318	(878,653)	707,342
Total assets	1,655,238	661,147	668,913	800,932	(885,938)	2,900,292
Insurance liabilities	1,081,287	407,332	229,481	–	(4,213)	1,713,887
Other liabilities	419,549	166,858	51,859	158,760	(434,925)	362,101
Total liabilities	1,500,836	574,190	281,340	158,760	(439,138)	2,075,988
Capital expenditure	9,409	190	3,375	167		13,141

Segment assets and liabilities primarily consist of operating assets and liabilities, which represent the majority of the balance sheet. Intragroup assets and liabilities that cross segments are presented under the separate category heading 'Intragroup items and eliminations'.

Capital expenditure comprises expenditure on intangible assets (note 15) other than goodwill, and additions to property, plant and equipment (note 16), but excluding assets acquired on business combinations.

(d) Geographical information

The Group's operational segments underwrite business domestically in Bermuda and from locations in the UK and Ireland, the USA, Guernsey, France, Germany, Belgium, the Netherlands, Spain, Portugal, Sweden and Austria.

The following table provides an analysis of the Group's gross premium revenues earned by material geographical location of external parties:

	Year to 31 December 2008					Year to 31 December 2007				
Gross premium revenues earned from external parties	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	Global Markets £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
UK and Ireland	36,204	220,213	9,878	–	266,295	85,441	202,703	9,095	–	297,239
Europe	52,722	84,776	18,914	–	156,412	69,956	77,171	19,913	–	167,040
United States	308,818	4,567	124,450	–	437,835	310,892	2,006	101,485	–	414,383
Rest of World	232,044	23,535	55,390	–	310,969	234,808	3,924	62,050	–	300,782
	629,788	**333,091**	**208,632**	**–**	**1,171,511**	701,097	285,804	192,543	–	1,179,444

The Group's largest external policyholder contributed less than 2% of total gross Group premium revenues earned and the details thereof are not disclosed on the grounds of materiality.

The Group has not reported segmental details of non-current assets excluding financial instruments and including loans and receivables, rights and obligations under insurance and reinsurance contracts, investments in associates and subsidiaries on the grounds of the relevance of these items to the Group's operations and the usefulness of such information to users.

5 Net asset value per share

	2008		2007	
	Net asset value (total equity) £000	**NAV per share pence**	Net asset value (total equity) £000	NAV per share pence
Net asset value	**951,026**	**258.1**	824,304	209.5
Net tangible asset value	**902,469**	**244.9**	783,852	199.3

The net asset value per share is based on 368,477,595 shares (2007: 393,386,041), being the adjusted number of shares in issue at 31 December.

Net tangible assets comprise total equity excluding intangible assets.

6 Return on equity

	2008 £000	2007 £000
Profit for the period	**70,808**	191,248
Opening shareholders' equity	**824,304**	682,085
Adjusted for the time weighted impact of:		
– Distribution and other movements in capital	**(55,700)**	(18,029)
Adjusted opening shareholders' equity	**768,604**	664,056
Annualised return on equity (%)	**9.2**	28.8
Profit for the period excluding foreign currency items on economic hedges and intragroup borrowings	**125,928**	191,248
Annualised return on equity excluding foreign currency items on economic hedges and intragroup borrowings (%)	**16.4**	28.8

7 Investment result

The total result for the Group before taxation comprises:

	Note	**2008 £000**	2007 £000
Investment income including interest receivable		**94,678**	90,259
Net realised gains on financial investments at fair value through profit or loss		**4,743**	10,105
Net fair value (losses)/gains on financial investments at fair value through profit or loss		**(127,053)**	423
Investment result – financial assets	8	**(27,632)**	100,787
Fair value gains/(losses) on derivative instruments and borrowings	20, 22	**(52,978)**	(1,110)
Total result		**(80,610)**	99,677

Investment expenses are presented within other expenses (note 9).

8 Analysis of return on financial investments

(i) The weighted average return on financial investments for the year by currency was:

	2008 %	2007 %
Sterling	**(0.1)**	4.9
US Dollar	**(2.5)**	5.5
Other	**0.4**	3.6

(ii) Investment yields

	Global Markets		UK and Europe		International		Corporate Centre		2008 Total	
	£000	%	£000	%	£000	%	£000	%	£000	%
Debt and fixed income securities	(8,288)	(0.9)	7,367	3.4	(7,490)	(2.3)	4,384	5.4	(4,027)	(0.3)
Equities and shares in unit trusts	–	–	(25,529)	(41.9)	(5,552)	(16.2)	(7,186)	(18.0)	(38,267)	(28.4)
Deposits with credit institutions/ cash and cash equivalents	2,503	4.2	6,227	5.0	4,928	2.8	1,004	2.6	14,662	3.7
	(5,785)	(0.6)	(11,935)	(3.0)	(8,114)	(1.5)	(1,798)	(1.1)	(27,632)	(1.3)

8 Analysis of return on financial investments continued

	Global Markets		UK and Europe		International		Corporate Centre		2007 Total	
	£000	%	£000	%	£000	%	£000	%	£000	%
Debt and fixed income securities	43,802	5.2	9,599	5.6	11,553	6.1	5,734	6.1	70,688	5.5
Equities and shares in unit trusts	–	–	1,131	1.3	2,181	9.1	3,647	6.4	6,959	4.1
Deposits with credit institutions/ cash and cash equivalents	2,815	4.9	7,613	5.5	10,181	5.2	2,531	6.5	23,140	5.4
	46,617	5.2	18,343	4.6	23,915	5.9	11,912	6.3	100,787	5.4

9 Other revenues and expenses

	Note	**2008 £000**	2007 £000
Agency related income		**5,324**	4,626
Profit commission		**14,382**	10,468
Other income		**152**	3,950
Other revenues		**19,858**	19,044
Managing agency expenses		**19,513**	28,870
Overseas underwriting agency expenses		**28,787**	23,811
Connect agency expenses		**13,343**	14,492
Investment expenses		**1,899**	1,250
Other Group expenses including central overheads	15, 16	**12,957**	13,846
Other expenses		**76,499**	82,269

10 Employee benefit expense

The aggregate remuneration and associated costs were:

	Note	**2008 £000**	2007 £000
Wages and salaries, including holiday pay and sabbatical leave charges		**79,048**	68,135
Social security costs		**10,468**	8,909
Share based payments cost of options granted to Directors and employees	24	**5,269**	5,689
Pension costs – defined contribution		**5,794**	7,256
Pension costs – net expense/(credit) arising on defined benefit schemes	30	**–**	(3,801)
		100,579	86,188

The average monthly number of staff employed by the Group was 914 (2007: 804) comprising 335 underwriting and 579 administrative staff (2007: 301 and 503 respectively). Of the total remuneration shown above, an amount of £21,053,000 (2007: £19,838,000) was recharged to Syndicate 33.

11 Finance costs

	Note	**2008 £000**	2007 £000
Interest and expenses associated with bank borrowings carried at fair value	20	**3,201**	6,278
Interest and charges associated with Letters of Credit	35	**1,922**	1,845
Interest charges arising on finance leases	36	**35**	54
		5,158	8,177

Notes to the financial statements continued

12 Auditors' remuneration

Fees payable to the Group's main external auditor, KPMG, its member firms and its associates (exclusive of VAT) include the following amounts recorded in the consolidated income statement:

Group	2008 £000	2007 £000
Fees payable to the Company's auditor for the audit of the Group's consolidated financial statements	**262**	201
Fees payable to the Company's auditor and its associates for other services:		
The audit of subsidiaries pursuant to legislation	**519**	345
Other services pursuant to legislation	**75**	50
All other services*	**75**	93
	931	689
Fees in respect of the defined benefit pension scheme:		
Audit	**12**	12
Total auditors' remuneration expense	**943**	701

*Other fees relate primarily to corporate advisory and financial reporting consulting services. Non-audit services with fees greater than £50,000 must be pre-approved by the Audit Committee which is composed solely of independent Non Executive Directors.

The full audit fee payable for the Syndicate audit has been included above, although an element of this is borne by the third-party participants in the Syndicate.

Fees payable to other external auditors in respect of the Company's subsidiaries in the United States pursuant to legislation during 2008 were £23,000 (2007: £51,000).

13 Net foreign exchange gains/(losses)

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

	2008 £000	2007 £000
Exchange gains recognised in the consolidated income statement	**109,755**	8,401
Exchange gains/(losses) classified as a separate component of equity	**150,582**	(2,869)
Total exchange gains reported for the year	**260,337**	5,532

The above excludes profits or losses on foreign exchange derivative contracts which are included within the investment result and are outlined in note 22.

Overall impact of foreign exchange related items before tax	Note	2008 Economic hedges and intragroup borrowings £000	2008 Other £000	2008 £000	2007 £000
Consolidated income statement					
Derivative losses on foreign exchange contracts included within investment return	7, 22	**(42,540)**	**(10,123)**	**(52,663)**	(1,110)
Net unearned premiums and deferred acquisition costs adjustment†		**–**	**50,525**	**50,525**	14,438
Foreign exchange losses on intragroup borrowings (note 14)		**(8,463)**	**–**	**(8,463)**	–
Other foreign exchange gains/(losses)		**–**	**67,693**	**67,693**	(6,037)
		(8,463)	**118,218**	**109,755**	8,401
Impact of foreign exchange related items in consolidated income statement		**(51,003)**	**108,095**	**57,092**	7,291

†Net unearned premiums and deferred acquisition cost adjustment arises as a result of a foreign exchange mismatch caused by those items being translated only at the historical exchange prevailing at the original transaction date and not retranslated again at the year end rate.

14 Foreign currency items on economic hedges and intragroup borrowings

The Group has highlighted two separate charges on the consolidated income statement to enable readers to obtain a fuller understanding of their impact and that of related amounts recognised directly in other comprehensive income:

	Consolidated income statement 2008 £000	Consolidated statement of comprehensive income 2008 £000	Total impact on equity 2008 £000
Unrealised losses on foreign currency derivative contracts used to manage retranslation risk associated with the net investment in Bermuda and Guernsey insurance operations	**(42,540)**	**–**	**(42,540)**
Retranslation gain on managed net investment in Bermuda and Guernsey insurance operations	**–**	**67,591**	**67,591**
Unrealised translation (losses)/gains on intragroup borrowings	**(12,580)**	**12,580**	**–**
Total (losses)/gains recognised	**(55,120)**	**80,171**	**25,051**

The Group recorded unrealised losses of £42,540,000 before and after tax in respect of US Dollar currency option collar contracts which were contracted in September and October 2008 to serve as informal hedges of part of the Group's net investment in its Bermuda and Guernsey insurance operations. The translated Pound Sterling value of the US Dollar capital held in these operations appreciated significantly during the year generating currency translation gains. The collar contracts acquired enabled the Group to largely protect approximately £47,568,000 of 2008 foreign exchange gains earned up to the dates at which the contracts were effected, at zero initial cost. The US Dollar continued to strengthen subsequent to the purchase of the derivatives generating further translation gains of £67,591,000. The unrealised losses are therefore viewed by the Directors as economically linked to the underlying currency translation gains recognised separately within total comprehensive income. Formal hedge accounting designation was not achievable due to the specific effectiveness requirements of IAS 39.

Foreign exchange losses of £8,463,000 before tax (£12,580,000 after tax) were recorded on certain loan arrangements, denominated in US Dollars, between Group companies. In most cases, as one party to each arrangement has a functional currency other than the US Dollar, foreign exchange losses arise which are not eliminated through the income statement on consolidation. Implicit offsetting gains are reflected instead on retranslation of the counterparty company's closing balance sheet through other comprehensive income and into the Group's currency translation reserve within equity.

15 Intangible assets

	Goodwill £000	Syndicate capacity £000	State authorisation licences £000	Other £000	Total £000
At 1 January 2007					
Cost	8,547	24,505	–	2,970	36,022
Accumulated amortisation and impairment	(2,442)	–	–	(368)	(2,810)
Net book amount	6,105	24,505	–	2,602	33,212
Year ended 31 December 2007					
Opening net book amount	6,105	24,505	–	2,602	33,212
Additions in year on business combinations	–	–	5,083	–	5,083
Other additions	–	–	–	2,500	2,500
Disposal on sale of subsidiary	(39)	–	–	(81)	(120)
Amortisation charges	–	–	–	(223)	(223)
Closing net book amount	6,066	24,505	5,083	4,798	40,452
At 31 December 2007					
Cost	8,496	24,505	5,083	5,361	43,445
Accumulated amortisation and impairment	(2,430)	–	–	(563)	(2,993)
Net book amount	6,066	24,505	5,083	4,798	40,452
Year ended 31 December 2008					
Opening net book amount	**6,066**	**24,505**	**5,083**	**4,798**	**40,452**
Additions in year on business combinations	**1,909**	**–**	**1,225**	**–**	**3,134**
Other additions	**–**	**–**	**–**	**5,230**	**5,230**
Disposal on sale of subsidiary	**–**	**–**	**–**	**–**	**–**
Amortisation charges	**–**	**–**	**–**	**(259)**	**(259)**
Closing net book amount	**7,975**	**24,505**	**6,308**	**9,769**	**48,557**
At 31 December 2008					
Cost	**10,405**	**24,505**	**6,308**	**10,591**	**51,809**
Accumulated amortisation and impairment	**(2,430)**	**–**	**–**	**(822)**	**(3,252)**
Net book amount	**7,975**	**24,505**	**6,308**	**9,769**	**48,557**

15 Intangible assets continued

Goodwill is allocated to the Group's cash generating units ('CGUs') identified according to country of operation and business segment. At 31 December 2008 and 2007 the Group's goodwill net book amount is all attributable to UK based operations. Accumulated amortisation and impairment of goodwill relates to the amortisation charged prior to the Group's adoption of IFRS.

The Group's intangible asset relating to Syndicate capacity has been allocated, for impairment testing purposes, to one individual cash generating unit being the active Lloyd's corporate member entity. The Group has considered the recoverable amount from the active Lloyd's corporate member entity on a value in use basis. This calculation uses cash flow projections based on financial forecasts approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated based on an average level of return and annual growth estimated at 2% (2007: 2%) consistent with the industry long-term average. A pre-tax discount factor of 7% (2007: 7%) has been applied to projected cash flows as part of the exercise. The results of this exercise indicate that the recoverable amount significantly exceeds the intangible's carrying value and would not be sensitive to reasonably possible changes in assumptions. The Group's weighted average cost recognised on the balance sheet is significantly below the average open market price witnessed in the recent Lloyd's of London Syndicate 33 capacity auctions in Autumn 2008.

In 2007 and 2008, the Group recognised intangible assets totalling £6,308,000 relating to insurance authorisation licences for 50 US states acquired in the business combination of ALTOHA Inc. (note 33). This intangible asset has been allocated for impairment testing purposes to one individual cash generating unit being the Group's North American underwriting businesses. The Group has considered the recoverable amount of this cash generating unit on a consistent basis to the active Lloyd's corporate member entity outlined above.

Other intangible additions during 2007 primarily relate to the costs of acquiring rights to customer contractual relationships held previously by AON Limited, the additions during 2008 relate to software licence and development costs.

The amortisation charge for the year includes £nil (2007: £40,000) relating to capitalised software costs and is included in other expenses in the income statement. The net book value of capitalised software costs at 31 December 2008 was £5,230,000 (2007: £nil). There are no charges for impairment during the current or prior financial year.

At 31 December 2008 there were £5,230,000 of assets under construction on which no amortisation has been charged (2007: £nil).

16 Property, plant and equipment

	Land and buildings £000	Leasehold improvements £000	Vehicles £000	Furniture, fittings and equipment and art £000	Total £000
At 1 January 2007					
Cost	2,985	514	679	29,894	34,072
Accumulated depreciation	(120)	(78)	(214)	(19,839)	(20,251)
Net book amount	2,865	436	465	10,055	13,821
Year ended 31 December 2007					
Opening net book amount	2,865	436	465	10,055	13,821
Additions	–	262	260	10,119	10,641
Additions on business combinations	–	99	18	10	127
Disposals	–	–	(31)	(263)	(294)
Depreciation charge	(40)	(132)	(116)	(4,629)	(4,917)
Closing net book amount	2,825	665	596	15,292	19,378
At 31 December 2007					
Cost	2,985	1,044	896	34,978	39,903
Accumulated depreciation	(160)	(379)	(300)	(19,686)	(20,525)
Net book amount	2,825	665	596	15,292	19,378
Year ended 31 December 2008					
Opening net book amount	**2,825**	**665**	**596**	**15,292**	**19,378**
Additions	**–**	**257**	**145**	**4,450**	**4,852**
Additions on business combinations	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**(47)**	**(23)**	**(70)**
Depreciation charge	**(40)**	**(222)**	**(144)**	**(4,917)**	**(5,323)**
Foreign exchange movements	**–**	**254**	**–**	**577**	**831**
Closing net book amount	**2,785**	**954**	**550**	**15,379**	**19,668**
At 31 December 2008					
Cost	**2,985**	**1,700**	**968**	**40,413**	**46,066**
Accumulated depreciation	**(200)**	**(746)**	**(418)**	**(25,034)**	**(26,398)**
Net book amount	**2,785**	**954**	**550**	**15,379**	**19,668**

The Group's land and buildings assets relate to freehold property in the United Kingdom.

Assets with a net book value of £582,000 were held under finance leases (2007: £510,000). The total depreciation charge for the year in respect of assets held under finance leases was £116,000 (2007: £106,000) and is included in other expenses.

At 31 December 2008 there were £3,106,000 of assets under construction, upon which no depreciation has yet been charged (2007: £2,336,000).

17 Investments in associates

Movement in carrying value	**2008 £000**	2007 £000
Year ended 31 December		
At beginning of year	**1,502**	28
Additions during the year	**5,438**	1,393
Share of post-tax profit recognised for the period	**260**	81
At end of year	**7,200**	1,502

17 Investments in associates continued

The Group's interests in its principal associates, all of which are unlisted, were as follows:

	% interest held at 31 December	Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
		100% results			
2008					
Associates incorporated in the UK	**From 25.2% to 49%**	**11,981**	**8,809**	**6,214**	**877**
Associates incorporated in Europe	**25%**	**2,066**	**1,289**	**1,483**	**268**
Total at the end of 2008		**14,047**	**10,098**	**7,697**	**1,145**

	% interest held at 31 December	Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
		100% results			
2007					
Associates incorporated in the UK	From 25.2% to 49%	1,634	758	1,898	290
Associates incorporated in Europe	25%	1,232	1,074	1,064	310
Total at the end of 2007		2,866	1,832	2,962	600

The additions during the current year relate to equity investments made in Senior Wright Indemnity Ltd and Media Insurance Brokers. Cash consideration of £5,438,000 (2007: £1,273,000) was paid.

The equity interests held by the Group in respect of associates do not have quoted market prices and are not traded regularly in any active recognised market. The associates concerned have no material impact on the results or assets of the Group. No impairments were identified during the current or prior financial year under review.

18 Deferred acquisition costs

	2008 Gross £000	2008 Reinsurance £000	2008 Net £000	2007 Gross £000	2007 Reinsurance £000	2007 Net £000
Balance deferred at 1 January	**123,081**	**(5,639)**	**117,442**	117,115	(6,529)	110,586
Acquisition costs incurred in relation to insurance contracts written	**270,126**	**(8,564)**	**261,562**	284,071	(12,645)	271,426
Acquisition costs expensed to the income statement	**(262,077)**	**9,209**	**(252,868)**	(278,105)	13,535	(264,570)
Balance deferred at 31 December	**131,130**	**(4,994)**	**126,136**	123,081	(5,639)	117,442

The deferred amount of insurance contract acquisition costs attributable to reinsurers of £4,994,000 (2007: £5,639,000) is not eligible for offset against the gross balance sheet asset and is included separately within trade and other payables (note 27).

The amounts expected to be recovered before and after one year are estimated as follows:

	2008 £000	2007 £000
Within one year	**126,136**	117,442
After one year	**–**	–
	126,136	117,442

19 Reinsurance assets

	Note	2008 £000	2007 £000
Reinsurers' share of insurance liabilities		**495,251**	283,414
Provision for non-recovery and impairment		**(7,531)**	(3,326)
Reinsurance assets	26	**487,720**	280,088

The amounts expected to be recovered before and after one year, based on historical experience, are estimated as follows:

	2008 £000	2007 £000
Within one year	**238,472**	147,987
After one year	**249,248**	132,101
	487,720	280,088

19 Reinsurance assets continued

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 21). The Group recognised a loss during the year of £4,205,000 (2007: gain of £452,000) in respect of impaired balances.

20 Financial assets and liabilities

Financial assets are measured at their bid price values, with all changes from one accounting period to the next being recorded through the income statement, except in the case of unlisted equity investments, and borrowing instruments that formed part of a designated hedge accounting relationship from 3 January 2007 to 6 May 2008 as provided for by IAS 39.

	Note	2008 Cost £000	2008 Fair value £000	2007 Cost £000	2007 Fair value £000
Debt and fixed income securities		**1,993,551**	**1,928,599**	1,435,373	1,444,532
Equities and shares in unit trusts		**155,399**	**124,864**	135,427	159,421
Deposits with credit institutions		**28,219**	**28,269**	143,852	143,874
Total investments		**2,177,169**	**2,081,732**	1,714,652	1,747,827
Derivative instrument assets	22	**40**	**40**	–	–
Total financial assets carried at fair value		**2,177,209**	**2,081,772**	1,714,652	1,747,827

	Note	2008 Cost £000	2008 Fair value £000	2007 Cost £000	2007 Fair value £000
Borrowings from credit institutions (see below)		**90,278**	**90,278**	91,457	91,764
Derivative instrument liabilities	22	**–**	**53,072**	–	–
Total financial liabilities		**90,278**	**143,350**	91,457	91,764

An analysis of the credit risk and contractual maturity profiles of the Group's debt and fixed income securities is given in notes 3.2(c) and 3.2(d).

The Group's borrowings from credit institutions at 31 December 2008 and 2007 are denominated in US Dollars. The entire amount from December 2007 was repaid during the year and the amount outstanding at 31 December 2008 is all expected to be repaid within one year of the balance sheet date. The movement in fair value of financial liabilities during 2008 includes net principal repayments of £3,508,000, £835,000 of foreign exchange gains recognised directly in equity (see note 13 and below), £2,022,000 foreign exchange losses and £nil of fair value losses (2007: £nil of net principal repayments, £1,400,000 of foreign exchange gains and £302,000 of fair value gains). The amounts recognised as fair value gains and losses are attributable to changes in applicable benchmark interest rates.

The amount of financial liabilities payable on maturity is not materially different to the cost disclosed above.

Included in financial liabilities at 31 December 2007 were foreign currency borrowings from credit institutions totalling US$182,000,000 that were designated as a hedging instrument in a net investment hedge relationship. The hedged item was the first US$182,000,000 of the Group's net investment in its Bermudian and Guernsey subsidiaries.

The hedging relationship commenced on 3 January 2007 and was entirely effective throughout the entire period up until 6 May 2008.

Investments at 31 December are denominated in the following currencies at their fair value:

	2008 £000	2007 £000
Debt and fixed income securities		
Sterling	**293,697**	206,357
US Dollars	**1,378,167**	1,038,412
Euro and other currencies	**256,735**	199,763
	1,928,599	1,444,532
Equities and shares in unit trusts		
Sterling	**55,011**	102,196
US Dollars	**45,611**	51,148
Euro and other currencies	**24,242**	6,077
	124,864	159,421
Deposits with credit institutions		
Sterling	**21,335**	95,541
US Dollars	**6,934**	48,333
Euro and other currencies	**–**	–
	28,269	143,874
Total investments	**2,081,732**	1,747,827

21 Loans and receivables including insurance receivables

	2008 £000	2007 £000
Gross receivables arising from insurance and reinsurance contracts	**441,752**	329,156
Less provision for impairment	**(560)**	(1,392)
Net receivables arising from insurance and reinsurance contracts	**441,192**	327,764
Due from contract holders, brokers, agents and intermediaries	**274,470**	201,157
Due from reinsurance operations	**166,722**	126,607
	441,192	327,764
Prepayments and accrued income	**7,948**	9,562
Other loans and receivables:		
Net profit commission receivable	**11,959**	13,850
Accrued interest	**9,480**	9,003
Share of Syndicate's other debtors' balances	**13,546**	12,705
Other debtors including related party amounts	**10,190**	12,338
Total loans and receivables including insurance receivables	**494,315**	385,222

The amounts expected to be recovered before and after one year are estimated as follows:

	2008 £000	2007 £000
Within one year	**491,529**	381,639
After one year	**2,786**	3,583
	494,315	385,222

There is no significant concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors. The Group has recognised a gain of £832,000 (2007: loss of £517,000) for the impairment of receivables during the year ended 31 December 2008.

22 Derivative financial instruments

The Group entered into both exchange-traded and over the counter derivative contracts for a number of purposes during 2008. The Group had the right and intention to settle all contracts on a net basis. The assets and liabilities of these contracts at 31 December 2008 all mature within one year of the balance sheet date and are detailed below:

Derivative contract assets included on balance sheet	Gross contract notional amount 000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Event linked future contracts	US$80	474	434	**40**

Derivative contract assets included on balance sheet	Gross contract notional amount 000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Foreign exchange option collar contracts	US$600,000	–	42,540	**42,540**
Foreign exchange forward contracts	€68,680	–	10,532	**10,532**
		–	53,072	**53,072**

The Group had no derivative assets or liabilities at 31 December 2007.

22 Derivative financial instruments continued

Foreign exchange option collar contracts

During 2008 the Group's capital benefited from a significant uplift in net asset value due to the appreciation of the US Dollar to Pound Sterling exchange rate which increased the translated values of its net investments in the Bermuda and Guernsey insurance operations. During September and October 2008 the US Dollar fluctuated significantly and in order to protect the majority of the exchange gains earned to date the Group progressively hedged the risk of subsequent US Dollar weakness impacting this capital by entering into a series of currency option collar contracts. These over the counter instruments have no initial purchase cost and consist of covered call and protective put options which essentially protect the Group against material downside movements in US Dollar to Pound Sterling exchange rate whilst at the same time limiting further participation in material US Dollar strengthening beyond an upper cap. The Group made a loss on these contracts of £42,540,000 (2007: £1,842,000) as included in notes 7 and 14. The related exchange gain earned on the retranslation of the portion of underlying net investments concerned was £67,591,000 and is included within the overall gain of £151,179,000 recognised in other comprehensive income (note 13).

Foreign exchange forward contracts

During 2008 the Group entered into a series of conventional over the counter forward contracts in order to secure translation gains made on Euro denominated monetary assets which had been subject to significant appreciation in value since 31 December 2007. The contracts required the Group to forward sell a fixed amount of Euros for Pound Sterling at pre-agreed future exchange rates. The Group made a loss on these forward contracts of £10,123,000 (2007: gain of £732,000) as included in note 7. An opposite exchange gain of £10,163,000 was earned on the retranslation of the underlying assets concerned.

There was no initial purchase cost associated with these instruments.

Event linked future contracts

In June 2008 the Group commenced trading event linked future contracts which are transacted on Chicago Climate Futures Exchange. The contracts have fixed maturity dates and are structured such that cash inflows are binary in nature and are triggered by the occurrence of specific natural events in specific geographical zones which cause pre-determined losses to the insurance industry in excess of a specified amount. The Group itself does not have to suffer losses to receive a payment once the industry loss strike amount on each contract has been reached. Consequently the contracts are not accounted for as insurance contracts in accordance with IFRS 4.

The Group made a gain on event linked future contracts of £45,000 (2007: £nil) as included in note 7.

Interest rate future contracts

In August 2008 the Group commenced short selling a number of Pound Sterling government bond futures and Euro sovereign futures to informally hedge substantially all of the interest rate risk on a specific long portfolio of Sterling and Euro denominated corporate bonds. All positions taken were closed out before maturity using offsetting trades and no closing assets or liabilities existed at 31 December 2008. The contracts are exchange traded. The Group made a loss on these futures contracts of £360,000 (2007: £nil) as included in note 7.

23 Cash and cash equivalents

	2008 £000	2007 £000
Cash at bank and in hand	**353,542**	236,417
Short-term bank deposits	**87,080**	66,325
	440,622	302,742

The Group holds its cash deposits with a well diversified range of banks and financial institutions.

Cash and cash equivalents include amounts of US$17,775,000 (2007: US$14,985,000) held in escrow to settle deferred consideration on acquisitions.

24 Share capital

	31 December 2008		31 December 2007	
Group	Share capital £000	Number of shares	Share capital £000	Number of shares
Issued share capital	**20,067**	**401,330,601**	19,898	397,938,305

The amounts presented in the equity structure of the Group above relate to Hiscox Ltd, the legal parent Company.

24 Share capital continued

Changes in Group share capital and contributed surplus	Ordinary share capital £000	Share premium £000	Contributed surplus £000
At 1 January 2007	19,694	–	442,425
Employee share option scheme – proceeds from shares issued	204	4,955	–
Dividends to owners of the Company	–	–	(43,591)
At 31 December 2007	19,898	4,955	398,834
Employee share option scheme – proceeds from shares issued	**169**	**4,463**	**–**
Dividends to owners of the Company	**–**	**–**	**(46,756)**
At 31 December 2008	**20,067**	**9,418**	**352,078**

In accordance with the reverse acquisition provisions of IFRS 3 Business Combinations, the amount of issued share capital included in the consolidated balance sheet reflects that of Hiscox plc, the Group's former legal parent company, up until the date of the reverse acquisition on 12 December 2006 together with that issued subsequently by Hiscox Ltd, the new legal parent, up until each respective balance sheet date.

Contributed surplus is a distributable reserve and arose on the reverse acquisition of Hiscox plc on 12 December 2006.

Equity structure of Hiscox Ltd	Number of 5p ordinary shares in issue (thousands) 2008	Number of 5p ordinary shares in issue (thousands) 2007
At 1 January	**397,938**	393,916
Employee share option scheme – ordinary shares issued	**3,393**	4,022
At 31 December	**401,331**	397,938

All issued shares are fully paid.

Share options and performance share plan awards
Performance share plan awards are granted to Directors and to senior employees. Up until 2005, share options were also granted. The exercise price of the granted options is equal to the closing mid-market price of the shares on the day before the date of the grant. No exercise price is attached to performance plan awards, although their attainment is conditional on the employee completing three year's service (the vesting period) and the Group achieving targeted levels of returns on equity. Share options are also conditional on the employee completing three years' service (the vesting period) or less under exceptional circumstances (death, disability, retirement or redundancy). The options are exercisable starting three years from the grant date only if the Group achieves its targets of return on equity; the options have a contractual option term of ten years. The Group has no legal or constructive obligation to re-purchase or settle the options in cash.

In accordance with IFRS 2 the Group recognises an expense for the fair value of share option and performance share plan award instruments issued to employees, over their vesting period through the income statement. The expense recognised in the Consolidated Income Statement during the year was £5,269,000 (2007: £5,689,000). This comprises charges of £4,960,000 (2007: £4,352,000) in respect of performance share plan awards and £309,000 (2007: £1,337,000) in respect of share option awards. The Group has applied the principles outlined in the Black-Scholes option pricing model when determining the fair value of each share option instrument and discounted cash flow methodology in respect of performance share plan awards.

The range of principal Group assumptions applied in determining the fair value of share based payment instruments granted during the year under review are:

Assumptions affecting inputs to fair value models	2008	2007
Annual risk free rates of return and discount rates (%)	**3.2-5.6**	5.5
Long-term dividend yield (%)	**4.75**	4.75
Expected life of options (years)	**3.25**	3.25
Implied volatility of share price (%)	**27-30**	26
Weighted average share price (p)	**247.9**	268.5

The weighted average fair value of each share option granted during the year was 60.5p (2007: 67.9p). The weighted average fair value of each performance share plan award granted during the year was 213.4p (2007: 232.8p).

24 Share capital continued

Share options and performance share plan awards continued

Movements in the number of share options during the year and details of the balances outstanding at 31 December 2008 are shown in the Directors' remuneration report.

The implied volatility assumption is based on historical data for periods of between five and ten years immediately preceding grant date.

For options issued after 1 January 2006 the assumptions regarding long-term dividend yield have been aligned to the progressive dividend policy announced during the 2005 Rights Issue.

Additional details on the Group's share option schemes are shown in the Directors' remuneration report accompanying these financial statements.

25 Retained earnings and other reserves

	2008 £000	2007 £000
Currency translation reserve at 31 December	**107,317**	(43,265)
Retained earnings at 31 December	**462,146**	443,882

The currency translation reserve comprises qualifying net investment gains and losses and foreign exchange differences arising from the translation of the financial statements of, and investments in, foreign operations.

28,300,742 ordinary shares of 5p each were purchased by Hiscox Ltd in open market transactions during the current year (2007: 4,365,305) and are held in treasury. In addition, 1,000,000 ordinary shares of 5p each were purchased and held in trust. Retained earnings have been reduced by £65,066,000 being the consideration paid for these transactions. Included within this amount are transaction cost expenses of £125,000 (2007: £23,000) directly related to the purchases.

The highest price paid per share was 260p, the lowest price paid was 191.5p and the average price paid was 221.7p per share. At 31 December 2008 Hiscox Ltd held 32,666,047 shares in treasury. Additional details are shown in note 37 to these financial statements in respect of additional Hiscox Ltd shares held by subsidiaries.

Included within Group retained earnings is an amount of £23,932,000 (2007: £21,578,000), which is not distributable and is held to meet solvency capital requirements to maintain an equalisation provision. The amounts in the equalisation provision are realised when particular entities in the Group have suffered insurance losses in excess of levels set out in the relevant solvency capital regulations.

26 Insurance liabilities and reinsurance assets

	Note	2008 £000	2007 £000
Gross			
Claims reported and loss adjustment expenses		**885,905**	642,252
Claims incurred but not reported		**881,823**	573,635
Unearned premiums		**509,688**	498,000
Total insurance liabilities, gross		**2,277,416**	1,713,887
Recoverable from reinsurers			
Claims reported and loss adjustment expenses		**180,406**	137,868
Claims incurred but not reported		**245,897**	84,804
Unearned premiums		**61,417**	57,416
Total reinsurers' share of insurance liabilities	19	**487,720**	280,088
Net			
Claims reported and loss adjustment expenses		**705,499**	504,384
Claims incurred but not reported		**635,926**	488,831
Unearned premiums		**448,271**	440,584
Total insurance liabilities, net		**1,789,696**	1,433,799

The amounts expected to be recovered and settled before and after one year, based on historical experience, are estimated as follows:

	2008 £000	2007 £000
Within one year	**995,454**	844,570
After one year	**794,242**	589,229
	1,789,696	1,433,799

The gross claims reported, the loss adjustment expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2008 and 2007 are not material.

26 Insurance liabilities and reinsurance assets continued

26.1 Insurance contracts assumptions

(a) Process used to decide on assumptions

The risks associated with insurance contracts and in particular with casualty insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Delays in the notification of claims necessitate the holding of significant reserves for liabilities that may only emerge a number of accounting periods later.

The impact of inflation on ultimate claim estimates is therefore significant. In addition a greater level of risk may be inherent in reserving estimates for newer types of insurance products where there is a lack of past historical development experience.

For all risks, the Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The reserves for outstanding claims are actuarially estimated primarily by using both the Chain Ladder and Bornhuetter-Ferguson methods. There is close communication between the actuaries involved in the estimation process and the Group's underwriters to ensure that, when applying both estimation techniques, both parties are cognisant of all material factors relating to outstanding claims, and allowance is also made for the rating environment.

The Chain Ladder method is adopted for mature classes of business where sufficient claims development data is available in order to produce estimates of the ultimate claims and premiums by actuarial reserving Group and underwriting year or year of account for the managed Syndicate. This methodology produces optimal estimates when a large claims development history is available and the claims development patterns throughout the earliest years are stable.

Where losses in the earliest underwriting years or years of account have yet to fully develop, a 'tail' arises on the reserving data, i.e. a gap between the current stage of development and the fully developed amount. The Chain Ladder methodology is used to calculate average development factors which, by fitting these development factors to a curve, allows an estimate to be made of the potential claims development expected between the current and the fully developed amount, known as a 'tail reserve'. This tail reserve is added to the current reserve position to calculate the total reserve required.

Chain Ladder methods may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain Ladder techniques are less suitable in cases in which the insurer does not have developed claims history data for a particular class of business (e.g. in relation to more recent underwriting years or years of account). In these instances the Group's actuaries make reference to the Bornhuetter-Ferguson method.

The Bornhuetter-Ferguson method is based on the Chain Ladder approach but utilises estimated ultimate loss ratios. This method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

In exceptional cases the required provision is calculated with reference to the actual exposures on individual policies. Adjustments are made within the claims reserving methodologies to remove distortions in the historical claims development patterns from large or isolated claims not expected to re-occur in the future. In addition, the reserves determined for the managed Syndicate are converted to annually accounted figures using earnings patterns that are consistent with those for the underlying Syndicate business.

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

(b) Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The Group analyses actual claims development compared with previous estimates on an accident year basis. This exercise is performed to include the liabilities of Syndicate 33 at the 100% level regardless of the Group's actual level of ownership, which has increased significantly over the last six years. Analysis at the 100% level is required in order to avoid distortions arising from reinsurance to close arrangements which subsequently increase the Group's share of ultimate claims for each accident year three years after the end of that accident year.

The top half of each table, on the following pages, illustrates how estimates of ultimate claim costs for each accident year have changed at successive year ends. The bottom half reconciles cumulative claim costs to the amounts still recognised as liabilities. A reconciliation of the liability at the 100% level to the Group's share, as included in the Group balance sheet, is also shown.

26 Insurance liabilities and reinsurance assets continued
26.1 Insurance contracts assumptions continued
(b) Claims development tables continued

Insurance claims and claims expenses reserves – gross at 100%

Accident year	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	749,648	437,736	493,451	748,759	1,253,261	643,855	864,188	**1,210,449**	**6,401,347**
one year later	727,993	463,447	507,499	831,151	1,387,438	616,072	774,105	**–**	**5,307,705**
two years later	810,021	472,577	477,146	793,273	1,399,169	593,856	–	**–**	**4,546,042**
three years later	836,914	455,747	491,699	749,948	1,378,982	–	–	**–**	**3,913,290**
four years later	881,684	451,206	487,718	753,543	–	–	–	**–**	**2,574,151**
five years later	877,676	423,579	475,401	–	–	–	–	**–**	**1,776,656**
six years later	876,086	419,824	–	–	–	–	–	**–**	**1,295,910**
seven years later	877,941	–	–	–	–	–	–	**–**	**877,941**
Current estimate of cumulative claims	877,941	419,824	475,401	753,543	1,378,982	593,856	774,105	**1,210,449**	**6,484,101**
Cumulative payments to date	(780,967)	(359,868)	(399,294)	(594,416)	(1,114,832)	(409,844)	(384,814)	**(274,981)**	**(4,319,016)**
Liability recognised at 100% level	96,974	59,956	76,107	159,127	264,150	184,012	389,291	**935,468**	**2,165,085**
Liability recognised in respect of prior accident years at 100% level									**109,247**
Total gross liability to external parties at 100% level									**2,274,332**

Reconciliation of 100% disclosures above to Group's share – gross

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	877,941	419,824	475,401	753,543	1,378,982	593,856	774,105	**1,210,449**	**6,484,101**
Less: Attributable to external Names	(218,191)	(86,594)	(106,885)	(174,815)	(346,205)	(123,730)	(150,454)	**(240,694)**	**(1,447,568)**
Group's share of current ultimate claims estimate	659,750	333,230	368,516	578,728	1,032,777	470,126	623,651	**969,755**	**5,036,533**
Cumulative payments to date	(780,967)	(359,868)	(399,294)	(594,416)	(1,114,832)	(409,844)	(384,814)	**(274,981)**	**(4,319,016)**
Less: Attributable to external Names	192,092	71,607	87,967	139,519	282,694	83,531	63,755	**44,032**	**965,197**
Group's share of cumulative payments	(588,875)	(288,261)	(311,327)	(454,897)	(832,138)	(326,313)	(321,059)	**(230,949)**	**(3,353,819)**
Liability for 2001 to 2008 accident years recognised on Group's balance sheet	70,875	44,969	57,189	123,831	200,639	143,813	302,592	**738,806**	**1,682,714**
Liability for accident years before 2001 recognised on Group's balance sheet									**85,014**
Total Group liability to external parties included in balance sheet – gross**									**1,767,728**

Insurance claims and claims expenses reserves – net at 100%

Accident year	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	358,257	296,566	391,129	626,722	731,748	569,946	748,640	**837,864**	**4,560,872**
one year later	403,105	323,581	413,586	685,423	841,506	562,952	680,514	**–**	**3,910,667**
two years later	483,139	335,648	374,738	657,714	839,043	544,493	–	**–**	**3,234,775**
three years later	526,027	306,962	385,991	616,453	811,585	–	–	**–**	**2,647,018**
four years later	513,333	299,838	377,204	617,474	–	–	–	**–**	**1,807,849**
five years later	497,218	283,553	370,818	–	–	–	–	**–**	**1,151,589**
six years later	490,038	277,270	–	–	–	–	–	**–**	**767,308**
seven years later	492,765	–	–	–	–	–	–	**–**	**492,765**
Current estimate of cumulative claims	492,765	277,270	370,818	617,474	811,585	544,493	680,514	**837,864**	**4,632,783**
Cumulative payments to date	(410,138)	(232,148)	(302,448)	(478,701)	(594,658)	(375,785)	(317,957)	**(232,079)**	**(2,943,914)**
Liability recognised at 100% level	82,627	45,122	68,370	138,773	216,927	168,708	362,557	**605,785**	**1,688,869**
Liability recognised in respect of prior accident years at 100% level									**45,329**
Total net liability to external parties at 100% level									**1,734,198**

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2008.
**This represents the claims element of the Group's insurance liabilities.

26 Insurance liabilities and reinsurance assets continued
26.1 Insurance contracts assumptions continued
(b) Claims development tables 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	492,765	277,270	370,818	617,474	811,585	544,493	680,514	**837,864**	**4,632,783**
Less: Attributable to external Names	(116,349)	(54,903)	(82,082)	(143,775)	(195,548)	(114,412)	(133,508)	**(165,857)**	**(1,006,434)**
Group's share of current ultimate claims estimate	376,416	222,367	288,736	473,699	616,037	430,081	547,006	**672,007**	**3,626,349**
Cumulative payments to date	(410,138)	(232,148)	(302,448)	(478,701)	(594,658)	(375,785)	(317,957)	**(232,079)**	**(2,943,914)**
Less: Attributable to external Names	93,966	43,464	64,586	112,341	142,587	77,956	54,658	**34,627**	**624,185**
Group's share of cumulative payments	(316,172)	(188,684)	(237,862)	(366,360)	(452,071)	(297,829)	(263,299)	**(197,452)**	**(2,319,729)**
Liability for 2001 to 2008 accident years recognised on Group's balance sheet	60,244	33,683	50,874	107,339	163,966	132,252	283,707	**474,555**	**1,306,620**
Liability for accident years before 2001 recognised on Group's balance sheet									**34,805**
Total net liability to external parties included in the balance sheet*									**1,341,425**

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

26.2 Movements in insurance claims liabilities and reinsurance claims assets

Year ended 31 December	**2008 Gross £000**	**2008 Reinsurance £000**	**2008 Net £000**	2007 Gross £000	2007 Reinsurance £000	2007 Net £000
Total at beginning of year	**(1,215,887)**	**222,672**	**(993,215)**	(1,128,329)	265,073	(863,256)
Claims and loss adjustment expenses for year	**(698,471)**	**219,091**	**(479,380)**	(498,568)	75,203	(423,365)
Cash paid for claims settled in the year	**549,106**	**(117,582)**	**431,524**	452,235	(131,505)	320,730
Exchange differences and other movements	**(402,476)**	**102,122**	**(300,354)**	(41,225)	13,901	(27,324)
Total at end of year	**(1,767,728)**	**426,303**	**(1,341,425)**	(1,215,887)	222,672	(993,215)
Claims reported and loss adjustment expenses	**(885,905)**	**180,406**	**(705,499)**	(642,252)	137,868	(504,384)
Claims incurred but not reported	**(881,823)**	**245,897**	**(635,926)**	(573,635)	84,804	(488,831)
Total at end of year	**(1,767,728)**	**426,303**	**(1,341,425)**	(1,215,887)	222,672	(993,215)

The insurance claims expense reported in the consolidated income statement is comprised as follows:

Year ended 31 December	**2008 Gross £000**	**2008 Reinsurance £000**	**2008 Net £000**	2007 Gross £000	2007 Reinsurance £000	2007 Net £000
Current year claims and loss adjustment expenses	**(828,940)**	**226,808**	**(602,132)**	(562,223)	78,953	(483,270)
(Under)/over provision in respect of prior year claims and loss adjustment expenses	**130,469**	**(7,717)**	**122,752**	63,655	(3,750)	59,905
Total claims and claims handling expense	**(698,471)**	**219,091**	**(479,380)**	(498,568)	75,203	(423,365)

27 Trade and other payables

	Note	2008 £000	2007 £000
Creditors arising out of direct insurance operations		**35,089**	30,353
Creditors arising out of reinsurance operations		**175,134**	114,317
		210,223	144,670
Obligations under finance leases	36	**439**	457
Share of Syndicate's other creditors' balances		**2,714**	2,681
Social security and other taxes payable		**10,919**	4,067
Other creditors		**9,493**	13,704
		23,565	20,909
Reinsurers' share of deferred acquisition costs	18	**4,994**	5,639
Accruals and deferred income		**58,050**	64,657
Total		**296,832**	235,875

The amounts expected to be settled before and after one year are estimated as follows:		
Within one year	**284,892**	234,828
After one year	**11,940**	1,047
	296,832	235,875

The amounts expected to be settled after one year of the balance sheet date primarily relate to finance leases and the Group's provision of sabbatical leave employee benefits.

28 Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled.

The principle subsidiaries of the Company and the country in which they are incorporated are listed in note 37.

The amounts charged in the consolidated income statement comprise the following:

	Note	2008 £000	2007 £000
Current tax (credit)/expense		**(32,341)**	26,891
Deferred tax expense	29	**66,713**	19,060
		34,372	45,951

The tax expense on the Group's profit before tax differs from the theoretical amount that would arise using the average tax rate applicable to profits of the consolidated companies as follows:

	Note	2008 £000	2007 £000
Profit before tax		**105,180**	237,199
Tax calculated at the standard corporation tax rate applicable in the UK* of 28.5% (2007: 30%)**		**29,976**	71,160
Effects of:			
Expenses not deductible for tax purposes		**(1,259)**	(1,296)
Group entities subject to overseas tax at lower rates		**14,771**	(24,843)
Tax losses for which no deferred tax asset is recognised		**260**	1,092
Other items		**1,480**	(2,064)
Change of deferred tax rate		**(653)**	(1,374)
Prior year tax adjustments		**(10,203)**	3,276
Tax charge for the period		**34,372**	45,951

*The principal charge to current tax arises in respect of the Group's UK subsidiaries.
**The UK corporation tax rate changed from 30% to 28% on 1 April 2008.

29 Deferred tax

	2008 £000	2007 £000
Deferred tax assets	**27,747**	40,153
Deferred tax liabilities	**(96,396)**	(49,904)
Total net deferred tax liability	**(68,649)**	(9,751)

All material tax assets and liabilities relate to the same tax authority.

29 Deferred tax continued

The movement on the total net deferred tax liability is as follows:

	2008 £000	2007 £000
At 1 January	**(9,751)**	(8,467)
Income statement charge	**(66,713)**	(19,060)
Transfer from deferred tax to current tax	**1,445**	19,850
Release from/(charge to) equity	**6,370**	(2,074)
At 31 December	**(68,649)**	(9,751)

The applicable rate for deferred tax from 1 April 2008 is 28%.

(a) Group deferred tax assets analysed by balance sheet headings

At 31 December	2007 £000	Income statement (charge)/credit £000	Transfer to current tax £000	Transfer to equity £000	2008 £000
Tangible assets	1,223	(360)	–	–	**863**
Trade and other payables	15,462	(11,412)	–	–	**4,050**
Retirement benefit obligations	9,476	(9,476)	–	–	**–**
Losses	4,151	1,681	164	–	**5,996**
Intangible assets – Syndicate capacity	–	–	–	4,715	**4,715**
Other items	9,841	627	–	1,655	**12,123**
Total deferred tax assets	40,153	(18,940)	164	6,370	**27,747**

(b) Group deferred tax liabilities analysed by balance sheet headings and Syndicate participation

At 31 December	2007 £000	Income statement (charge)/credit £000	Transfer to current tax £000	Transfer to equity £000	2008 £000
Intangible assets	(352)	405	–	–	**53**
Investment in associated enterprises	(178)	161	–	–	**(17)**
Financial assets	(3,787)	2,865	–	–	**(922)**
Insurance contracts – equalisation provision*	(6,043)	(660)	–	–	**(6,703)**
Other items	–	–	–	–	**–**
	(10,360)	2,771	–	–	**(7,589)**
Open years of account and Section 107 disclaimers	(39,544)	(50,544)	1,281	–	**(88,807)**
Total deferred tax liabilities	(49,904)	(47,773)	1,281	–	**(96,396)**

*The solvency regulations in the UK require certain entities within the Group to establish an equalisation provision, to be utilised against abnormal levels of future losses in certain lines of business. The regulations prescribe that the provision is increased every year by an amount that is calculated as a percentage of net premiums written for those lines of business during the financial year subject to a maximum percentage. The amount of each annual increase is a deductible expense for tax purposes, and the equalisation provision is taxed when released. The entities within the Group that are affected by this requirement continue to prepare their individual financial statements, for statutory filing and tax purposes, in accordance with UK GAAP which permits the recognition of equalisation provisions on the balance sheet. Equalisation provisions are not permitted under IFRS which therefore results in the temporary difference for tax purposes.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. During the period, management revised its assumptions about the recoverability of carried forward unused tax losses to be recognised as deferred tax assets. Management's assessment is that it is now probable that enough taxable profit will be available to allow part of the benefit to be utilised. Part of the balance has therefore now been provided. The Group has not provided for deferred tax assets totalling £7,628,000 (2007: £8,104,000) in relation to losses in overseas companies of £21,230,000 (2007: £23,667,000). This is as a result of the transfer of these subsidiaries to Hiscox Ltd from Hiscox plc. In accordance with IAS 12, all deferred tax assets and liabilities are classified as non-current.

30 Employee retirement benefit obligations

The Company's subsidiary, Hiscox plc, operates a defined benefit pension scheme based on final pensionable salary. The scheme closed to future accrual with effect from 31 December 2006 and active members were offered membership of a defined contribution scheme from 1 January 2007. The funds of the defined benefit scheme are controlled by the trustee and are held separately from those of the Group.

The gross amount recognised in the Group balance sheet in respect of the defined benefit scheme is determined as follows:

	2008 £000	2007 £000
Present value of funded obligations	**101,615**	106,793
Fair value of scheme assets	**(115,166)**	(127,576)
Present value of unfunded obligations	**(13,551)**	(20,783)
Unrecognised net actuarial gains	**9,767**	18,817
Unrecognised surplus deemed irrecoverable	**3,784**	1,966
Gross liability in the balance sheet	**–**	–

As the fair value of scheme assets exceeds the present value of funded obligations and unrecognised net actuarial gains, the scheme reports a surplus. However, the surplus arising on the pension scheme is not recognised on the Group's balance sheet due to uncertainty of recoverability.

The unrecognised net actuarial gains are the net cumulative gains and losses on both the scheme's obligations and underlying assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit actuarial cost method. A formal full actuarial valuation is performed on a triennial basis, most recently at 31 December 2005, and updated at each intervening balance sheet date by the actuaries. The triennial actuarial value at 31 December 2008 is currently being completed. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of AA rated corporate bonds that have terms to maturity that approximate to the terms of the related pension liability.

The scheme assets are invested as follows:

At 31 December	2008 £000	2007 £000
Equities	**43,316**	57,716
Debt and fixed income assets	**71,670**	69,702
Cash	**180**	158
	115,166	127,576

During the prior year under review a series of changes to the scheme's investment mix were executed by Trustees so as to achieve a greater degree of protection against interest rate volatility following the scheme's recent closure. These changes resulted in the majority of the scheme's debt and fixed income assets at 31 December 2007 and 2008 now being held through the ownership of equity units in liability managed credit funds issued by Standard Life Assurance Limited which invest in a broad spread of high quality corporate bonds with derivatives used in controlled conditions to extend durations in some cases.

The amounts recognised in the Group's income statement are as follows:

	Note	2008 £000	2007 £000
Current service cost		**200**	200
Interest cost		**6,135**	6,657
Expected return on scheme assets		**(7,720)**	(7,711)
Net actuarial gain recognised		**(433)**	–
Settlement gain recognised		**–**	(4,913)
Effect of deemed irrecoverability of surplus		**1,818**	1,966
Total included in staff costs	10	**–**	(3,801)

The actual return on scheme assets was a loss of £10,387,000 (2007: positive return of £7,786,000).

The movement in liability recognised in the Group's balance sheet is as follows:

	Note	2008 £000	2007 £000
At beginning of year		**–**	3,801
Total expense charged/(credited) in the income statement of the Group	10	**–**	(3,801)
Contributions paid		**–**	–
At end of year		**–**	–

30 Employee retirement benefit obligations continued

A reconciliation of the fair value of the scheme assets is as follows:

	2008 £000	2007 £000
Opening fair value of scheme assets	**127,576**	133,660
Expected return on scheme assets	**7,720**	7,711
Difference between expected and actual return on scheme assets	**(18,107)**	75
Contributions by the employer	**–**	–
Settlements with scheme members	**–**	(11,687)
Benefits paid	**(2,023)**	(2,183)
Closing fair value of scheme assets	**115,166**	127,576

A reconciliation of the present value of funded obligations of the scheme is as follows:

	2008 £000	2007 £000
Benefit obligation at beginning of year	**106,793**	137,461
Current service cost	**200**	200
Interest cost	**6,135**	6,657
Actuarial gains	**(9,490)**	(18,742)
Benefits paid from scheme	**(2,023)**	(2,183)
Settlements with scheme members	**–**	(16,600)
Closing present value of funded obligations	**101,615**	106,793

A summary of the scheme's recent experience is shown below:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Experience gains/(losses) on scheme liabilities	**–**	2,783	(3,310)	(1,223)	992
Experience gains/(losses) on scheme assets	**(18,107)**	75	6,480	10,764	1,316

Additional memorandum information at the end of the current and previous four accounting periods is presented below:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of funded obligations	**101,615**	106,793	137,461	137,533	99,229
Fair value of scheme assets	**(115,166)**	(127,576)	(133,660)	(101,409)	(65,020)
Present value of unfunded obligations	**(13,551)**	(20,783)	3,801	36,124	34,209
Gross liability recognised on balance sheet	**–**	–	3,801	16,677	34,718

Assumptions regarding future mortality experience are set based on professional advice, published statistics and actual experience.

The average life expectancy in years of a pensioner retiring at age 60 on the balance sheet date is as follows:

	2008 years	2007 years
Male member	**24.5**	24.5
Female member	**27.6**	27.6

The average life expectancy in years of a pensioner retiring at 60, 15 years after the balance sheet date is as follows:

	2008 years	2007 years
Male member	**25.6**	25.6
Female member	**28.6**	28.6

Other principal actuarial assumptions are as follows:

	2008 %	2007 %
Discount rate	**6.70**	5.80
Expected return on scheme assets	**6.90**	6.09
Inflation assumption	**3.00**	3.60
Pension increases	**3.00**	3.60

30 Employee retirement benefit obligations continued

During the year the Group made no contributions to the defined benefit scheme (2007: £nil). The Group has agreed that further additional contributions will be made if necessary but none are currently expected to be made in 2009 given the current level of underlying scheme surplus. 61% of any scheme surplus or deficit calculated is recharged or refunded to Syndicate 33.

The expected return on scheme assets is based on historical data and management's expectations of long-term future returns.

While management believes that the actuarial assumptions are appropriate, any significant changes to those could affect the balance sheet and income statement. Whilst an additional one year of life expectancy for all scheme members might be expected to reduce the present value of unfunded obligations at 31 December 2008 by approximately £3m, the Group considers that the most sensitive and judgmental assumptions are the discount rate and inflation.

The Group has estimated the sensitivity of the net obligation recognised in the consolidated balance sheet to isolated changes in these assumptions at 31 December 2008 as follows:

	Present value of unfunded obligations before change in assumption £000	Present value of unfunded obligations after change £000	(Increase) /decrease in obligation recognised on balance sheet £000
Effect of a change in discount rate			
Use of discount rate of 6.45%	(13,551)	(8,859)	–
Effect of an increase in inflation			
Use of inflation assumption of 3.25%	(13,551)	(11,810)	–

31 Earnings per share

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

Basic

	2008	2007
Profit attributable to the Company's equity holders (£000)	**70,808**	191,248
Weighted average number of ordinary shares (thousands)	**377,506**	395,308
Basic earnings per share (pence per share)	**18.8p**	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.

	2008	2007
Profit attributable to the Company's equity holders (£000)	**70,808**	191,248
Weighted average number of ordinary shares in issue (thousands)	**377,506**	395,308
Adjustments for share options (thousands)	**13,351**	13,530
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**390,857**	408,838
Diluted earnings per share (pence per share)	**18.1p**	46.8p

Diluted earnings per share has been calculated after taking account of 13,003,000 (2007: 13,014,000) options and awards under employee share option and performance plan schemes and 348,000 (2007: 516,000) options under SAYE schemes.

32 Dividends paid to owners of the Company

	2008 £000	2007 £000
Interim dividend for the year ended:		
31 December 2008 of 4.25p (net) per share	**15,615**	–
31 December 2007 of 4.0p (net) per share	**–**	15,868
Final dividend for the year ended:		
31 December 2007 of 8.0p (net) per share	**31,141**	–
31 December 2006 of 7.0p (net) per share	**–**	27,723
	46,756	43,591

32 Dividends paid to owners of the Company continued

A final dividend in respect of 2008 of 8.5p per share, amounting to a total dividend of 12.75p for the year, is to be proposed at the Annual General Meeting on 3 June 2009. These financial statements do not reflect this final dividend as a distribution or liability in accordance with IAS 10 Events after the reporting period.

33 Acquisitions

On 30 September 2008, the Group acquired 100% of the issued share capital of Amershill Limited. Cash consideration of £2,000,000 was paid and goodwill of £1,909,000 was recognised. The fair value of the identifiable net assets acquired was £91,000. The effect on the Group's income statement would have not been materially different if the acquisition had occurred on 1 January 2008.

On 16 August 2007, the Group acquired 100% of the share capital of ALTOHA Inc. in the USA. The total consideration was £29,052,000 which included contingent consideration of £7,530,000. No goodwill arose on acquisition.

Intangible assets of £5,083,000 were initially recognised in respect of the US State authorisation licences held by ALTOHA Inc.'s consolidated operations. During 2008, further cash consideration of £1,225,000 was paid in finalisation of their ultimate purchase value.

34 Disposals

The Group disposed of its Hiscox Select A to J Limited subsidiaries on 3 November 2008. The fair value of the net assets were £nil and a cash payment and loss on disposal of £42,000 was incurred. These entities were all non-trading corporate capital vehicles.

The Group's wholly owned subsidiary, Hiscox Investment Management Limited was sold on 5 December 2007. This business did not constitute a discontinued operation as defined by IFRS 5 Non Current Assets Held for Sale and Discontinued Operations due to its relative insignificance to the Group and the fact that it did not represent a major line of business or operating segment.

35 Contingencies and guarantees

The Group's subsidiaries are like most other insurers, continuously involved in legal proceedings, claims and litigation in the normal course of business. The Group does not believe that such actions will have a material effect on its profit or loss and financial condition.

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance contracts. There are no contingencies associated with the Group's compliance or lack of compliance with these regulations.

The following guarantees have also been issued:
(a) Hiscox Ltd and Hiscox Insurance Company (Bermuda) Limited have entered into a deed of covenant in respect of a subsidiary, Hiscox Dedicated Corporate Member Limited, to meet the subsidiaries' obligations to Lloyd's. The total guarantee given by these companies under this deed of covenant (subject to limited exceptions) amounts to £138,831,798 (2007: £118,831,798). The obligations in respect of this deed of covenant are secured by a fixed and floating charge over certain of the investments and other assets of the Company in favour of Lloyd's. Lloyd's has a right to retain the income on the charged investments in circumstances where it considers there to be a risk that the covenant might need to be called and may be met in full.

(b) During 2008 Hiscox plc negotiated a new Letter of Credit and revolving credit facility with Lloyds TSB Bank, for a total of £350 million which may be drawn as cash (under a revolving credit facility) or Letter of Credit or a combination thereof, providing that the cash portion does not exceed £200 million. In addition, the terms also provide that upon request the facility may be drawn in foreign currency. At 31 December 2008 £137.5 million (2007: £137.5 million on previous facility) was drawn by way of Letter of Credit to support the Funds at Lloyd's requirement and a further US$130 million by way of cash (2007: US$182 million on previous facility repaid in full during the current year).

(c) Hiscox Insurance Company Limited has arranged a Letter of Credit of £50,000 (2007: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's.

(d) The managed syndicate is subject to the New Central Fund annual contribution, which is an annual fee calculated on gross premiums written. This fee was 0.5% for 2008 and 2009. 0.75% was loaned to the central fund for 2007 which was repaid during 2007. No loan exists for 2008 or 2009. In addition to this fee, the Council of Lloyd's has the discretion to call a further contribution of up to 3% of capacity if required.

(e) As Hiscox Insurance Company (Bermuda) Limited is not an admitted insurer or reinsurer in the US, the terms of certain US insurance and reinsurance contracts require Hiscox to provide Letters of Credit or other terms of collateral to clients. On 1 December 2006, Hiscox entered into a Letter of Credit Reimbursement and Pledge Agreement with Citibank for the provision of a Letter of Credit facility in favour of US ceding companies. The agreement was a three year secured facility that allowed Hiscox to request the issuance of up to US$300 million in Letters of Credit. Letters of Credit issued under these facilities are collateralised by pledged cash and cash equivalents of Hiscox Bermuda. Letters of Credit under this facility totalling approximately US$83 million were issued with an effective date of 31 December 2008 (2007: US$38 million).

36 Capital and lease commitments

Capital commitments

The Group's capital expenditure contracted for at the balance sheet date but not yet incurred for property, plant and equipment was £225,000 (2007: £165,000).

Operating lease commitments

The Group acts as both lessee and lessor in relation to various offices in the UK and overseas which are held under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group also has payment obligations in respect of operating leases for certain items of office equipment. Operating lease rental expenses for the year totalled £5,499,000 (2007: £4,691,000). Operating lease rental income for the year totalled £468,000 (2007: £468,000).

The aggregate minimum lease payments required by the Group under non-cancellable operating leases, over the expected lease terms, are as follows:

		2008 £000	2007 £000
No later than one year	Land and buildings	**5,621**	4,705
	Office equipment	**144**	141
Later than one year and no later than five years	Land and buildings	**17,913**	14,032
	Office equipment	**99**	199
Later than five years	Land and buildings	**17,497**	19,714
		41,274	38,791

The total future aggregate minimum lease rentals receivable by the Group as lessor under non-cancellable operating property leases are as follows:

	2008 £000	2007 £000
No later than one year	**468**	468
Later than one year and no later than five years	**1,521**	1,872
Later than five years	**–**	117
	1,989	2,457

Obligations under finance leases

It is the Group's policy to lease certain of its motor vehicles under finance lease arrangements. The leases have a typical term of three years and are on a fixed repayment basis with a final lump sum component at the end of each agreement should the Group decide to acquire ownership of the vehicle. Interest rates are fixed at the contract commencement date. The Group's obligations under leases are secured by the lessors' charges over the leased assets.

Finance lease interest expense for the year totalled £35,000 (2007: £54,000).

The finance lease obligations to which the Group is committed include the following minimum lease payments:

	2008 £000	2007 £000
Current liabilities due for settlement within one year	**246**	246
Non-current liabilities due for settlement after one year and no later than five years	**223**	261
	469	507
Less: future finance lease interest charges	**(30)**	(50)
	439	457

The present value of the minimum lease payments is not materially different to the currently disclosed obligation.

37 Principal subsidiary companies of Hiscox Ltd at 31 December 2008

Company	Nature of business	Country
Hiscox plc*	Holding company	Great Britain
Hiscox Insurance Company Limited	General insurance	Great Britain
Hiscox Insurance Company (Guernsey) Limited*	General insurance	Guernsey
Hiscox Inc.	Underwriting agent	USA (Delaware)
Hiscox Holdings Inc.	Insurance holding company	USA (Delaware)
ALTOHA Inc.	Holding company	USA (Delaware)
American Live Stock Inc.	Underwriting agent	USA (Illinois)
Hiscox Insurance Company Inc.	General insurance	USA (Illinois)
Hiscox ASM Limited	Insurance intermediary	Great Britain
Hiscox Insurance Company (Bermuda) Limited*	General insurance and reinsurance	Bermuda
Hiscox Dedicated Corporate Member Limited	Lloyd’s corporate Name	Great Britain
Hiscox Select Insurance Fund PLC	Insurance holding company	Great Britain
Hiscox Select Holdings Limited	Insurance holding company	Great Britain
Hiscox Holdings Limited**	Insurance holding company	Great Britain
Hiscox Insurance Holdings Limited	Insurance holding company	Great Britain
Hiscox Assurances Services SARL	Underwriting agent	France
Hiscox International Holdings B.V.	Insurance holding company	Netherlands
Hiscox Syndicates Limited	Lloyd’s managing agent	Great Britain
Hiscox Underwriting Ltd	Underwriting agent	Great Britain
Hiscox AG	Underwriting agent	Germany
Hiscox Overseas Holdings B.V.*	Holding company	Netherlands
Hiscox bv	Underwriting agent	Netherlands
Hiscox Connect Limited	Online intermediary	Great Britain
Hiscox Underwriting Group Services Limited	Service company	Great Britain
Hiscox NV	Underwriting agent	Belgium
Hiscox Trustees Limited†	Corporate trustee	Great Britain
Hiscox Pension Trustees Limited	Pension trustee	Great Britain
Hiscox Qualifying Employees Share Ownership Trustees Limited	Share scheme trustee	Great Britain
Amershill Limited	Underwriting agent	Great Britain

*Held directly.
**Hiscox Holdings Limited held 54,560 shares in Hiscox Ltd (2007: 54,560) at 31 December 2008.
†Hiscox Trustees Limited is the trustee of the Hiscox Employee Share Ownership Plan (ESOP). The ESOP owned 132,399 shares in Hiscox Ltd (2007: 132,399) at 31 December 2008. The shares have been purchased by the ESOP for future use in employee share option schemes and are held as own shares. None of these shares are currently under option to employees, nor have any been conditionally gifted to them.

All companies are wholly owned. The proportion of voting rights of subsidiaries held is the same as the proportion of equity shares held.

38 Related-party transactions
Details of the remuneration of the Group’s key personnel are shown in the Directors’ remuneration report on pages 35 to 42. A number of the Group’s key personnel hold insurance contracts with the Group, all of which are on normal commercial terms and are not material in nature.

The following transactions were conducted with related parties during the year.

(a) Syndicate 33 at Lloyd’s
Hiscox Syndicates Limited, a wholly owned subsidiary of the Company, received management fees and profit commissions for providing a range of management services to Syndicate 33 in which Hiscox Dedicated Corporate Member Limited, and in the prior year the corporate member subsidiaries of Hiscox Select Insurance Fund PLC also participated.

	2008 £000	2007 £000
Value of services provided by Hiscox Syndicates Limited to Syndicate 33	**55,947**	41,466
Amounts receivable from Syndicate 33 at 31 December excluding profit commission accrued	**745**	1,402

38 Related-party transactions continued

(b) Transactions with associates

Certain companies within the Group conduct insurance and other business with associates. These transactions arise in the normal course of obtaining insurance business through brokerages, and are based on arm's length arrangements.

	Total 2008 £000	Total 2007 £000
Gross premium income achieved through associates	**20,443**	7,290
Commission expense charged by associates	**4,974**	1,342
Amounts payable to associates at 31 December	**–**	120
Amounts receivable from associates at 31 December	**128**	47

Details of the Group's associates are given in note 17.

(c) Internal reinsurance arrangements

During the current and prior year, there were reinsurance arrangements between Hiscox Dedicated Corporate Member Limited, Hiscox Insurance Company Limited, Hiscox Insurance Company (Guernsey) Limited and Hiscox Insurance Company (Bermuda) Limited.

The related results of these transactions have been eliminated on consolidation.

Five year summary

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Results					
Gross premiums written	**1,147,364**	1,198,949	1,126,164	861,174	816,609
Net premiums written	**930,464**	974,910	975,397	681,236	704,085
Net premiums earned	**953,020**	965,190	888,828	693,299	714,852
Profit before tax	**105,180**	237,199	201,062	70,221	89,522
Profit for the year after tax	**70,808**	191,248	163,846	48,630	63,948
Assets employed					
Intangible assets	**48,557**	40,452	33,212	33,099	29,989
Financial assets carried at fair value	**2,081,772**	1,747,827	1,241,910	1,237,778	980,731
Cash and cash equivalents	**440,622**	302,742	502,871	413,759	119,563
Insurance liabilities and reinsurance assets	**(1,789,696)**	(1,433,799)	(1,291,329)	(1,216,624)	(1,008,032)
Other net assets	**169,771**	167,082	195,421	110,001	246,575
Net assets	**951,026**	824,304	682,085	578,013	368,826
Net asset value per share (p)	**258.1**	209.5	173.2	147.7	125.7
Key statistics					
Basic earnings per share (p)	**18.8**	48.4	41.7	15.6	21.3
Diluted earnings per share (p)	**18.1**	46.8	40.5	15.1	21.0
Combined ratio (%)	**76.1**	84.4	89.1	96.0	92.6
Return on equity (%)	**9.2**	28.8	28.9	12.8	20.6
Dividends per share (p)	**12.75**	12.00	10.00	7.00	5.00
Share price – high* (p)	**361.00**	304.50	280.25	234.50	180.50
Share price – low* (p)	**194.75**	246.75	193.75	152.25	143.50

*Closing mid market prices.

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