HISCOX

Monday 1 March 2010

HISCOX Ltd

Full year results for the year ended 31 December 2009

"An exceptional year"

	2009	2008
Gross premiums written	**£1,435.4m**	£1,147.4m
Net premiums earned	**£1,098.1m**	£928.1m
Profit before tax	**£320.6m**	£105.2m
Profit after tax	**£280.5m**	£70.8m
Earnings per share	**75.2p**	18.8p
Total dividend per share for year	**15.0p**	12.75p
Net asset value per share	**299.2p**	258.1p
Group combined ratio excluding foreign exchange	**82.2%**	91.6%
Group combined ratio	**86.0%**	75.3%
Return on equity	**30.1%**	9.2%

Financial highlights

- Profit before tax £320.6 million (2008: £105.2 million)
- Profit after tax £280.5 million (2008: £70.8 million): 12.5% effective tax rate
- Earnings per share 75.2p (2008: 18.8p)
- Investment return 7.2% (2008: -1.3%)
- Total dividend for the year increased by 17.6% to 15.0p (2008: 12.75p)
- Net assets per share increased by 15.9% to 299.2p (2008: 258.1p)
- Combined ratio of 86.0% (2008: 75.3%) or 82.2% (2008: 91.6%) excluding foreign exchange impact
- Return on equity of 30.1% (2008: 9.2%)

Operational highlights

- Insurance rates broadly stable and still very attractive in Reinsurance.
- Retail and specialty businesses continue to grow.
- Ongoing investment in UK marketing benefits Group.

Robert Hiscox, Chairman of Hiscox Ltd, commented:

"A record profit after continued investment in developing our UK brand and building our US business is a very happy result."

Copies of the Chairman's statement, Chief Executive's report and the Group's financial information as at 31 December 2009 are attached.

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Notes to editors

About Hiscox

Hiscox, the international specialist insurer, is headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). There are three main underwriting parts of the Group - Hiscox London Market, Hiscox UK and Europe and Hiscox International. Hiscox London Market underwrites internationally traded business in the London Market - generally large or complex business which needs to be shared with other insurers or needs the international licences of Lloyd's. Hiscox UK and Hiscox Europe offer a range of specialist insurance for professionals and business customers, as well as high net worth individuals. Hiscox International includes operations in Bermuda, Guernsey and USA. Hiscox Insurance Company Limited, Hiscox Underwriting Ltd, Hiscox Europe Underwriting Ltd and Hiscox Syndicates Limited are authorised and regulated by the Financial Services Authority.

For further information, visit www.hiscox.com.

Chairman’s statement

It is an enormous pleasure to report a gross profit of £320.6 million – three times last year’s profit and considerably higher than the previous record of £237 million in 2007. I know that Mother Nature was kind, but my definition of luck is when preparation meets opportunity, and our catastrophe underwriters did an immense amount of preparation and research to underwrite a carefully controlled exposure which could benefit from a benign catastrophe period, but not hurt us if nature turned vicious. I also believe that the stability of the general insurance industry during the recent banking bubble deserved a reward.

The investments yielded a cracking result.

And our strategy of growing our specialist retail businesses internationally to balance the catastrophe accounts continued apace.

Results

The result for the year ending 31 December was a profit before tax of £320.6 million (2008: £105.2 million) on a gross written premium income of £1,435.4 million (2008: £1,147.4 million). The combined ratio was 86.0% (2008: 75.3%). The combined ratio on a like for like basis excluding foreign exchange distortions was 82.2% (2008: 91.6%). Earnings per share on profits after tax were 75.2p (2008: 18.8p), and net assets per share increased to 299.2p (2008: 258.1p). The return on equity was 30.1% (2008: 9.2%).

Dividend and capital management

The Board proposes to pay a second interim dividend of 10.5p on 29 March 2010 to shareholders on the register on 5 March 2010 in place of a final dividend, making total dividends for the year of 15.0p (2008: 12.75p).

We remain prepared to buy back our shares if the share price drops to an unrealistic level. We are pleased we did not do a rights issue last year but decided to sweat our capital and avoid dilution. This excellent profit has allowed us to pay an increased dividend, added sufficient capital for our current plans, and enabled us to set aside a buffer of capital to maintain appropriate capital ratios in case of reduced investment income in 2010.

The insurance market

In my half year statement in 2007 I wrote that it seemed surreal to be announcing record results when our shares were rated so lowly. There was then a re-rating of the general insurance sector, but suspicion and malaise seems to have crept in again. Commentators seem cynical about our prospects and the insurance industry as a whole is valued at less than book value. Hiscox is rated at a small premium to assets and a ridiculously low multiple of earnings.

I agree that the general insurance industry has been blighted by poor underwriting in the past when investment profits were easier to make and underwriting didn’t seem to matter too much. In my youth insurance companies were described as investment trusts with an expensive habit. But the investment market is now offering slim pickings, so underwriting – our basic trade – matters totally, and there are firm signs that managements appreciate that fact. Reinsurance underwriting is dominated by models which we know are not right, but which impose a discipline and are an indispensable guide. The great attraction of the general insurance business is that everyone has to buy it; in fact, more and more so as governments continue to impose countless regulations, any breach of which can lead to litigation. Demand for our products is continuous; it is up to us to price them properly and to supply products which customers want at that price.

During 2009 we implemented a new marketing campaign to attract our chosen customers and to continue to strengthen the brand. We want people to reach for a Hiscox policy because they trust it to perform better than standard commodity products. We are differentiating ourselves from the herd which will build value for shareholders.

Since I have been at Hiscox we have grown from a premium income of around £3 million to nearly £1.5 billion, and from profits of a few thousand to £300 million. Not in a straight line of either income or profit as the nature of our business is to absorb the unpredictable from others, but I can guarantee you that this business has the determination and talent to continue that profitable growth.

The Hiscox businesses

As usual, I leave it to the CEO, Bronek Masojada, to report in detail the progress of our spreading but very focussed businesses. In brief, our catastrophe reinsurance underwriting in Bermuda and London was extremely profitable which enabled us to continue to invest in our US start-ups and our direct business. Our UK business demonstrated strong profitable growth, Europe had a tough first half but recovered well in the second, and Guernsey was outstanding as usual. We have made a major investment in the US and it was extremely gratifying to see the core Errors and Omissions account, which Ed Donnelly joined in 2006 to build, coming into profit.

To return to the valuation of insurance companies, I can understand that the volatility of earnings from the catastrophe account makes a valuation based on earnings difficult. Conversely, our strategy of building more stable specialist accounts should be valued much more highly if they can demonstrate sustainable earnings which I believe some have and the others will.

In the meantime, we will strive to continue to add to the net assets year-on-year which will inevitably drive the share price up over time.

People

First I must record our sadness at the recent death of our senior independent non-executive director, Sir Mervyn Pedelty. He was a huge asset to our business through his knowledge and business acumen, and his warm and humorous personality made him a real pleasure to work with. Life was more fun and interesting when Sir Mervyn was around.

Our inestimable CEO, Bronek Masojada, leads an excellent team at the top, and the talent stretches throughout the company. Over the years we have steadily been able to attract better talent, and the current frailty of the banks and the political attacks on them will help us by making more talent available. We are acutely aware that we are only as good as the people who work here, and it has been gratifying that our conscious efforts to be an employer of choice for the best people continues to be rewarded. We have great teams throughout the group and I am deeply grateful to them not only for this great profit but for being so inspirational to work with.

Outlook

As I have said, there is more discipline in our industry than at any time in my long career. It is of course not perfect, but the general insurance industry and Lloyd's in particular have performed excellently through the financial chaos of the last few years. I just hope that the regulators and government will appreciate the industry's conservatism and value, and not wound it with some collateral damage from its current bank bashing.

The Hiscox Group has a solid core of profitable businesses which, over the last few years, have enabled us to invest in creating exciting new ventures which will each become core profit earners and bring great value to shareholders. I admire the restless search for new methods of selling our specialist products. The world belongs to the discontented; we will never be satisfied; the profitable growth will continue.

Robert Hiscox
1 March 2010

Chief Executive's report

In 2009 we made a pre tax profit of £320.6 million – the best result in the Group's history. Good underwriting and top-class investment management drove this result, helped by the absence of any major catastrophes. Our record profit has not come by sacrificing the future growth of the Group -- in 2009 we continued to invest in building our brand in the UK and rapidly expanding our US operations.

Our strategy is to establish operations in Europe, the UK and the US that focus on our core specialty products to balance our more volatile business written in London and Bermuda. This strategy works: in 2005 when Hurricanes Katrina, Rita and Wilma drove some of our competitors deep into the red we made a healthy profit thanks to the contribution of our specialty businesses.

The market outlook for 2010 is positive, though with lower expected investment returns and the easing of rates it will probably not be as good a vintage as 2009. We will seek to grow in those specialist areas where margin remains strong and we will maintain our commitment to reinsurance

Group Performance

In 2009 our pre tax profit was £320.6 million (2008: £105.2 million). Gross written premium grew by 25.1% to £1,435.4 million (2008: £1,147.4 million). Part of this growth was driven by exchange rate fluctuations and in constant exchange rate terms our gross written premium grew by 5.6%. Return on equity was 30.1% (2008: 9.2%) and our net asset value increased to 299.2p (2008: 258.1p).

The dividend has been increased to 15.0p (2008: 12.75p). Over the past five years our dividend has risen by 16.5% compounded, and we have returned £114 million, net of a £176 million capital raising, to investors.

I review the individual performance of our business units below:

<u>Hiscox London Market</u>

Hiscox London Market was again the main profit generator in the Group, contributing £179.9 million (2008: £137.0 million). This was achieved through underwriting £663.0 million of business (2008: £545.9 million).

The London Market business is managed through five divisions whose performance is reviewed below:

- **Reinsurance**: Our reinsurance business performed well yet again. Having made a profit in 2008 despite the impact of Hurricane Ike, it is not surprising that it made a very good return in a year largely free of major losses. Our expertise in reinsurance is widely recognised, reflected by the fact that a number of third party capital providers have chosen us to underwrite on their behalf. In 2009 Syndicate 6104 – a syndicate funded entirely by third party capital -- supported us. This support has been extended into 2010. We have a number of similar arrangements with other insurance companies. Overall, reinsurance prices softened in the January renewals, although I believe that in 2010 we will see rates largely similar to or better than those in 2008-- a year in which we achieved a good result despite the impact of Hurricane Ike.
- **Specialty**: This division underwrites a spread of specialist risks: personal accident, bloodstock, kidnap and ransom, terrorism, political risks and aviation war. Good performance across most of these lines was offset by political risk losses, largely due to credit defaults. We took a very cautious approach early in the year in reserving for these claims in view of the continuing fragile state of the global economy. There is a possibility, however, that, as conditions improve, these political risk losses may reduce, which is what we experienced in the last big financial crisis in 1998. In keeping with our belief that you should advance to the sound of gun fire we expect to expand our political risk underwriting this year as client demand and pricing increases due to the turbulent global economic situation.
- **Marine and energy**: This division had a good year. Energy rates rose in 2009 following Hurricane Ike. We were able to take advantage of these rates and better terms to write a larger book of business and have been well rewarded for doing so in 2010.
- **Property**: Our primary focus is on catastrophe exposed property for global companies, homeowners and small businesses. Rates have been under pressure and we expect to reduce the size of this account significantly. In 2010 this reduction will be partially offset by a scheme to underwrite mechanical equipment – a non-cat area which we expect will serve us well.
- **Casualty**: Our London team now focuses on professional indemnity written in Lloyd's and their results exclude the technology and media book which is now accounted for as part of Hiscox USA. We have shrunk as rates have come under pressure and have taken a cautious reserving approach in view of the economic climate. We have, however, had a net benefit from releases on prior underwriting years.

The division saw a change of leadership during the year. Richard Watson got the year off to a great start before moving to the USA to head up our business there. Russell Merrett, who led our Reinsurance business for the last four years, was promoted to lead the division. He has settled into the role well. We took advantage of this management change to focus the division on serving those brokers – large and small – who bring business to London, instead of being distracted by opportunities in other regions. London has recently experienced a renaissance as an insurance market and we see plenty of opportunities to grow our business with London brokers in the years ahead.

Hiscox UK and Hiscox Europe – specialty retail

Our specialist retail businesses in the UK and mainland Europe grew well in 2009. In underwriting terms, the UK had a very good year, while Europe did not.

- **Hiscox UK**: In the UK we saw premium growth of 16.1% to £304.0million (2008: £261.9 million). Growth was particularly strong in fine art due to the acquisition of some global polices insured in London. The professions and specialty commercial business has continued to develop and for the first time it now exceeds the size of the UK focused art and private client business. The UK direct business continued to see strong growth and is near breakeven net of all its marketing costs.

  Our substantial marketing investment over the past four years, masterminded by Steve Langan, has turned Hiscox into a recognised consumer brand in the UK, one known not only for the quality of its products but also for its claims management. Of our household claimants 92% reported that they were either "satisfied" or "very satisfied" with the claims service they received. Our success has also been recognised by brokers. In a 2009 award voted for by independent brokers, we were named Insurance Times' "Commercial Insurer of the Year" for the third year running, and also won the title of "General Insurer of the Year" at the British Insurance Awards.

  We are not resting on our laurels. In 2010, we will seek to grow our direct business further, pushing it into profit. We foresee a tougher claims environment in some sectors as professional firms get blamed for their customer's recession related misfortunes. Prices will have to rise to reflect this.

- **Hiscox Europe**: 2009 was a disappointing year for Europe, in spite of premium growth of 6.8% to €131.6 million (2008 : €123.2 million). Its underwriting performance in 2009 was significantly worse than 2008, due to a series of unconnected large losses. In 2009, after a few poor years, our German operation succeeded in making a profit through a rigorous re-underwriting of its high net worth book and new focus on expanding in commercial lines.

  We have been building a business in Europe for the past decade, but we know that the ROE – the return on effort that is – is below expectations. Pierre-Olivier Desaulle, who we appointed Managing Director of Hiscox Europe during the year, will inject new energy into the operation. As MD of Hiscox France since 2000 he grew it 6 fold and delivered sustainable profits. The European Management Team is focused on repeating this success across the continent.

Hiscox International

Hiscox International comprises our businesses located in Bermuda, Guernsey and the United States of America. The businesses faced quite different challenges in 2009:

- Bermuda had a fantastic year. Its primary focus is property catastrophe insurance. After shrinking its top line in 2008, it responded aggressively to the rebounding rates and grew by 24.2% to $262.9 million (2008: $211.7 million). We also created a healthcare insurance and reinsurance team, who will focus on catastrophic exposures in the medical sector. In addition, we are building a small portfolio of catastrophe bonds issued by insurers and others. As this is an alternative route to assuming catastrophe risk we regard this as an extension of our reinsurance underwriting business and consider it when we look at our aggregate exposure to insurance events. During the year Charles Dupplin assumed leadership of Hiscox Bermuda from Robert Childs, its founding CEO. Robert and a small team went to Bermuda in late 2005. Since then Hiscox Bermuda has underwritten $943 million of premium income, generated significant profits and grown the balance sheet from $500 million (of which $200 million was borrowed) to $1 billion before paying a dividend to the Group at the end of 2009. This is a fantastic achievement and one for which we are all very grateful.

- Hiscox Guernsey had another good year. Its focus is on kidnap and ransom, piracy, fine art and terrorism. Premiums grew considerably, particularly in the piracy sector, due to the increased threat around the Horn of Africa. Our success is a reflection of both our risk appetite and our excellent client service. Our team in Guernsey are able to provide a quote, confirm cover, issue a policy and collect the premium in a few hours. This is a testament to the good cooperation between their underwriting and operations teams. Looking forward we see Guernsey continuing to be the leader for the Group in the kidnap and ransom and piracy areas. The Guernsey fine art book saw a small reduction in size due to the reduction in values of insured works.

- Hiscox USA saw a year of dramatic expansion. We took advantage of the broader financial difficulties in 2008 and set out on an ambitious plan to attract quality staff. We were able to hire seasoned experts in inland marine, property, construction, terrorism, kidnap and ransom and media, among other lines. We also opened new offices in Los Angeles, Boston, Miami, Atlanta and Kansas City, and expanded our existing offices in San Francisco, Chicago, New York City and Armonk. In all we recruited 84 people, pushing our total headcount up to 184 people.

  In order to provide the clarity of focus to accompany our big investment, we created a single US business, merging the New York based London Market activities with our smaller ticket Professional Lines business. Richard Watson has moved to the US to head up the overall business. Ed Donnelly continues as President of our activities and will drive forward our specialist lines and all of our branch offices. Under Ed's leadership our smaller ticket Professional Lines activities reached breakeven in 2008, and we believe that working together, Ed and Richard will build a very successful business.

  We have also worked hard to develop new products for both the surplus lines and the admitted market. In the surplus lines market there is great flexibility in pricing and wording. In the admitted market advance approval of rates, forms and underwriting guidelines is required in each US state before launching a new product. Gaining approval has taken far longer than we had anticipated, but we are making steady progress.

  Although Hiscox US grew its top line to $162.1 million, up 24.6% (2008: $130.1 million), this growth was less than we had budgeted, as the anticipated upturn in the US domestic market did not occur. Our response has been to call a temporary halt to expanding our product range and to focus in 2010 on marketing those products we have already developed. We are confident this is the right way to improve the underlying financial performance of the business.

Investment returns

In 2009 we made a tremendous return on our investments. David Astor, our Chief Investment Officer, steered our portfolio very effectively through the financial crisis and kept his nerve when many others panicked. His courage was rewarded with an outstanding investment income result of £182.8 million, a return of 7.2% on invested assets (2008: -£27.6 million; -1.3%). This was achieved by maintaining a well spread portfolio, comprising corporate bonds, quality mortgage securities, an allocation to risk assets and a safe allocation to cash and Government bonds. Our caution towards complex products helped us to avoid the worst in 2008 and, as our portfolio recovered in 2009 we saw much better returns. We expect interest rates to remain low for at least the next year. With this in mind, we have reduced the duration of our Government bond portfolio but continue to retain a good allocation to credit, mostly through corporate bonds and to some exposure to mortgage and asset backed products. Whatever we do, we do not expect, in a world of 0.5% to 1.0% returns on short term government bonds, to see an investment return this year of the same level that we enjoyed in 2009.

Claims

In 2009 we handled a higher volume of claims than in 2008, reflecting our growing retail business. In addition to this everyday business, the team have also been working harder on recoveries, subrogating against third parties and making a major contribution to Hiscox UK's 'Get Fit' efficiency programme. They have achieved all of this while maintaining very high levels of customer satisfaction. In 2010 we will make a significant investment in upgrading our claims handling systems for the London Market. Hiscox is a supporter of the move to electronic claims, but current systems require multiple data entry. We will be addressing this obvious inefficiency. A source of deep concern to us is the new Lloyd's Claims Transformation Project. We support the move to choice of service provider on more complex claims, but we believe strongly that Lloyd's customers expect a centralised, coordinated approach to enable their non complex, standard claims to be paid speedily and efficiently. We fear the new scheme has the potential to create a damaging free-for-all in claims that threatens to tarnish the Lloyd's brand. We have objected to this aspect of the scheme from inception and we hope that sense will prevail before its final implementation.

Operations and IT

The future efficiency and competitiveness of this business depends on effective IT and efficient operations. Michael Gould, our Group COO, and his team have replaced our 15 year-old London Market system during 2009. During 2010 we will continue to invest in the new system, to make all of the post-implementation tweaks and improvements that our underwriters and operations people have requested. We are also designing and developing a new system for our retail businesses which will be first tested in Guernsey and then implemented across all our retail activities. This will make it easier to roll out new products and drive down our expense ratio. As part of the development process Michael will be driving us to adopt lean processes – applying manufacturing concepts to the operating approach of our business.

Capital management
The financial crisis has graphically illustrated how success in financial services depends on balancing expected return against perceived risk, while holding sufficient capital to protect against disaster. The challenge for outsiders is that while insurers' revenue and capital are very visible, the amount of risk they are taking is not. We have tried to make our risk profile clear to shareholders by publishing our expected losses using Realistic Disaster Scenarios promulgated by Lloyd's and by publishing a 'box plot and whisker' chart on our website and annual report presentation. The 'box plot' chart gives the likely range of possible losses for Hiscox from a major industry events.

The individual catastrophic losses are examined alongside an analysis of all the Group's expected losses, as well as our forecast investment returns and expenses, to arrive at a comprehensive view of our risk profile.

This picture of our risk profile enables us to have a debate on our risk appetite, which is then agreed by the Board. Everyone is aware that if our expected underwriting margins fall or forecast investment returns decrease we are confronted with a choice: either we are forced to take less risk or we need to have more capital.

In 2010 we expect our investment returns are likely to be much lower than in 2009. On the underwriting side we expect prices will remain at attractive levels. Therefore, in order to allow us to continue to take the same risk in 2010 as we did in 2009, we need to hold more capital in the business. This means that in 2010 the level of capital we will hold against our premium income will increase.

We look at this balance of expected return, risk and capital every quarter and make minor course adjustments accordingly. Once a year, ahead of the 1 January renewal season we have a major review of our risk strategy and, if required, make our major course corrections then.

People
Insurance remains a business in which intellectual capital is as important as financial capital as a prerequisite for success. That we were able to reshuffle our senior management in 2009 without having to look outside to fill any of these roles is a testament to the growing strength of our management cadre. This greater strength is what gives me confidence that we will be able to continue to improve our performance as the Group grows and develops.

We have continued to invest in training and development and we are always on the lookout for high quality recruits. In 2009 we relaunched our graduate recruitment programme, and, as a result of the meltdown in other parts of the financial sector, we recruited slightly more graduates than we had expected. The programme is continuing in 2010.

Conclusion and outlook
We are optimistic for the year ahead. 2009 was a great year, combining excellent underwriting profits and investment returns. 2010 may not be as memorable a harvest but has good prospects, despite the continuing fallout from the financial markets crisis and the deepest global recession in living memory. We expect to see modest growth thanks to the expansion of our retail activities in Europe, the UK and the USA and, provided major losses fall within our expectations, we expect to continue to deliver good returns for our shareholders and staff.

Bronek Masojada
1 March 2010

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	**2009 Total £000**	2008 Results excluding foreign currency items on economic hedges and intragroup borrowings £000	2008 Foreign currency items on economic hedges and intragroup borrowings (note 22) £000	2008 Total £000
Income					
Gross premiums written	4	**1,435,401**	1,147,364	-	1,147,364
Outward reinsurance premiums		**(278,378)**	(248,970)	-	(248,970)
Net premiums written	4	**1,157,023**	898,394	-	898,394
Gross premiums earned		**1,363,698**	1,171,511	-	1,171,511
Premiums ceded to reinsurers		**(265,596)**	(243,416)	-	(243,416)
Net premiums earned	4	**1,098,102**	928,095	-	928,095
Investment result – financial assets	7	**182,769**	(27,632)	-	(27,632)
Investment result - derivatives	14	**396**	(10,438)	(42,540)	(52,978)
Other revenues	9	**19,498**	19,858	-	19,858
Revenue		**1,300,765**	909,883	(42,540)	867,343
Expenses					
Claims and claim adjustment expenses, net of reinsurance	17	**(463,218)**	(479,380)	-	(479,380)
Expenses for the acquisition of insurance contracts		**(256,634)**	(227,943)	-	(227,943)
Administration expenses		**(112,627)**	(83,198)	-	(83,198)
Other expenses	9	**(116,939)**	(76,499)	-	(76,499)
Foreign exchange (losses)/gains		**(25,554)**	118,218	(8,463)	109,755
Total expenses		**(974,972)**	(748,802)	(8,463)	(757,265)
Results of operating activities		**325,793**	161,081	(51,003)	110,078
Finance costs		**(5,293)**	(5,158)	-	(5,158)
Share of profit of associates after tax		**118**	260	-	260
Profit before tax		**320,618**	156,183	(51,003)	105,180
Tax expense	19	**(40,121)**	(30,255)	(4,117)	(34,372)
Profit for the year (all attributable to owners of the Company)		**280,497**	125,928	(55,120)	70,808
Earnings per share on profit attributable to owners of the Company					
Basic	20	**75.2p**			18.8p
Diluted	20	**72.3p**			18.1p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009, AFTER TAX

	2009 Total £000	2008 Results excluding foreign currency items on economic hedges and intragroup borrowings £000	2008 Foreign currency items on economic hedges and intragroup borrowings (note 22) £000	2008 Total £000
Profit for the year	**280,497**	125,928	(55,120)	70,808
Other comprehensive income				
Currency translation differences (net of tax of £nil (2008: £nil))	**(69,589)**	71,008	80,171	151,179
Net investment hedge (net of tax of £nil (2008: £(238,000)))	**-**	(597)	-	(597)
Total other comprehensive (loss)/income	**(69,589)**	70,411	80,171	150,582
Total comprehensive income recognised for the year (all attributable to owners of Company)	**210,908**	196,339	25,051	221,390

The presentation of the consolidated income statement for the year ended 31 December 2008 has not been adopted in the current year as the current year amounts are insignificant both to the prior year amounts and the overall result of the Group.

The related notes 1 to 22 are an integral part of this document.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2009

	Note	**2009 £000**	2008 £000
Assets			
Intangible assets		**50,413**	48,557
Property, plant and equipment		**22,244**	19,668
Investments in associates		**7,318**	7,200
Deferred tax		**14,077**	5,996
Deferred acquisition costs		**141,505**	131,130
Financial assets carried at fair value	12	**2,413,300**	2,081,772
Reinsurance assets	11	**420,126**	503,794
Loans and receivables including insurance receivables	13	**488,782**	494,315
Current tax		**-**	26,289
Cash and cash equivalents	16	**259,647**	440,622
Total assets		**3,817,412**	3,759,343
Equity and liabilities			
Shareholders' equity			
Share capital		**20,158**	20,067
Share premium		**11,831**	9,418
Contributed surplus		**303,465**	352,078
Currency translation reserve		**37,728**	107,317
Retained earnings		**748,104**	462,146
Total equity (all attributable to owners of the Company)		**1,121,286**	951,026
Employee retirement benefit obligations		**-**	-
Deferred tax		**69,673**	74,645
Insurance liabilities	17	**2,122,351**	2,277,416
Financial liabilities	12	**138,539**	143,350
Current tax		**26,080**	-
Trade and other payables	18	**339,483**	312,906
Total liabilities		**2,696,126**	2,808,317
Total equity and liabilities		**3,817,412**	3,759,343

The related notes 1 to 22 are an integral part of this document.

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 2008		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		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	21	-	-	(46,756)	-	-	(46,756)
Balance at 31 December 2008		**20,067**	**9,418**	**352,078**	**107,317**	**462,146**	**951,026**
Total recognised comprehensive income/(expense) for the year (all attributable to owners of the Company)		**-**	**-**	**-**	**(69,589)**	**280,497**	**210,908**
Employee share options:							
Equity settled share based payments		**-**	**-**	**-**	**-**	**5,260**	**5,260**
Excess tax benefit on share based payments		**-**	**-**	**-**	**-**	**-**	**-**
Proceeds from shares issued		**91**	**2,413**	**-**	**-**	**-**	**2,504**
Purchase of own shares held in treasury		**-**	**-**	**-**	**-**	**-**	**-**
Purchase of own shares held in trust		**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax		**-**	**-**	**-**	**-**	**201**	**201**
Dividends paid to owners of the Company	21	**-**	**-**	**(48,613)**	**-**	**-**	**(48,613)**
Balance at 31 December 2009		**20,158**	**11,831**	**303,465**	**37,728**	**748,104**	**1,121,286**

The related notes 1 to 22 are an integral part of this document.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £000	2008 £000
Profit before tax	**320,618**	105,180
Adjustments for:		
Interest and equity dividend income	**(78,298)**	(92,227)
Interest expense	**5,293**	5,158
Net fair value (gains)/losses on financial investments and derivatives	**(87,692)**	180,085
Depreciation and amortisation	**6,046**	5,323
Charges in respect of share based payments	**5,260**	5,269
Other non-cash movements	**(975)**	(766)
Effect of exchange rate fluctuations on cash presented separately	**30,844**	(62,086)
Changes in operational assets and liabilities:		
Insurance and reinsurance contracts	**(58,366)**	281,633
Financial assets carried at fair value	**(338,556)**	(284,069)
Financial liabilities carried at fair value	**(52,533)**	-
Other assets and liabilities	**36,560**	(10,474)
Cash flows from operations	**(211,799)**	133,026
Interest received	**74,584**	89,608
Equity dividends received	**3,714**	2,619
Interest paid	**(5,066)**	(5,327)
Current tax paid	**(1,463)**	(18,982)
Net cash flows from operating activities	**(140,030)**	200,944
Cash outflow from the acquisition of subsidiary	**-**	(3,137)
Cash outflow from the sale of subsidiaries	**-**	(42)
Cash outflow from the acquisition of associates	**-**	(5,438)
Cash flows from the purchase of property, plant and equipment	**(8,802)**	(4,521)
Cash flows from the purchase of intangible assets	**(2,911)**	(3,530)
Net cash flows from investing activities	**(11,713)**	(16,668)
Proceeds from the issue of ordinary shares	**2,504**	4,632
Cash flows from the purchase of own shares including those arising on share buy-back programme	**-**	(65,066)
Dividends paid to owners of the Company	**(48,613)**	(46,756)
Net receipts/(repayments) of borrowings	**47,721**	(1,292)
Net cash flows from financing activities	**1,612**	(108,482)
Net (decrease)/increase in cash and cash equivalents	**(150,131)**	75,794
Cash and cash equivalents at 1 January	**440,622**	302,742
Net (decrease)/increase in cash and cash equivalents	**(150,131)**	75,794
Effect of exchange rate fluctuations on cash and cash equivalents	**(30,844)**	62,086
Cash and cash equivalents at 31 December	**259,647**	440,622

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 £31,607,000 (2008: £47,094,000) not available for immediate use by the Group outside of the Lloyd's Syndicate within which they are held.

The related notes 1 to 22 are an integral part of this document.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The financial information set out in this statement is extracted from the Group's consolidated financial statements for the year ended 31 December 2009. The auditors have reported on those 2009 financial statements which include comparative amounts for 2008. Their report was unqualified.

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 1000 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 other comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 22 in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union.

The consolidated financial statements for the year ended 31 December 2009 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 1 March 2010.

2. Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted, for the first time, the following new and amended Standards and Interpretations issued by the IASB and endorsed by the EU as of 1 January 2009

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (Amendment)
- Amendments to IFRS 7 Financial Instruments: Disclosure
- Amendments to IAS 32 Financial Instrument: Presentation and IAS 1 Presentation of Financial Statements- Puttable Financial Instruments and Obligations Arising on liquidation
- Amendments to IAS 23 Borrowing Costs
- Improvements to IFRS

Adoption of the above had no material effect on the financial performance or position of the Group.

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.

During 2009, the IASB intensified their efforts to complete Phase II of the insurance contracts project. There were a number of key decisions made regarding the measurement approaches to be considered for inclusion within the new standard and the IASB are currently deciding on the detailed attributes of each approach. The aim of the IASB is to publish an Exposure Draft in the first half of 2010 and the final standard in 2011. The Group continue to monitor the progress of the project in order to assess any potential impact of the new standard on its results.

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 and financial liabilities at fair value through profit or loss, are measured at fair value. Employee retirement benefit obligations are determined using actuarial analysis.

NOTES TO THE FINANCIAL STATEMENTS

The balance sheet of the Group is presented in order of increasing liquidity. The accounting policies have been applied consistently by all Group entities and to all periods presented, solely for the purpose of producing the consolidated Group financial statements.

The comparative amounts reported herein for the year ended 31 December 2008, are as per those previously reported for that period, but have been adjusted for the reclassification of acquisition costs on the purchase of reinsurance contracts from ‘Outward reinsurance premiums’ to ‘Expenses for the acquisition of insurance contracts’. The effect of the reclassification for the year ended 31 December 2008 is an increase to ‘Outward reinsurance premiums’ of £32,070,000, a decrease in ‘Net premiums earned’ of £24,925,000 and a decrease in ‘Expenses for the acquisition of insurance contracts’ of £24,925,000. The effect on the balance sheet for 31 December 2008 is an increase to ‘Reinsurance assets’ and an increase to ‘Trade and other payables’ of £16,074,000. The presentational adjustment has no impact on the Group’s previously reported profit before tax, shareholders equity or result from operating activities. The Directors’ believe that the amended classification of the expense and commissions provides a more appropriate presentation of their operating nature.

The Group has also reclassified the prior year comparative for deferred tax assets arising from overseas tax jurisdictions from net deferred tax liabilities to deferred tax assets. The reclassification provides a more appropriate presentation due to the increase of the asset. The effect of the reclassification is an increase to deferred tax assets and deferred tax liabilities of £5,996,000. The presentational adjustment has no impact to the Group’s previously reported profit after tax, shareholders equity or results from operating activities.

During the year, following a new management structure for the geographic lines and as a result of new business written through Syndicate 3624, the Group has changed its segmental reporting in order to provide more effective financial reporting for the evaluation of business segments by the chief operating decision maker in order to make decisions about future allocation of resources. The prior year segmental results have been restated accordingly.

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 eight in the prior year, to nine 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 Group has financial assets and cash of over £2.6 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 in place.

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.

The Directors have an 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.

2.3 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. Financial risk

Credit risk

The Group 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2009	**AAA £000**	**AA £000**	**A £000**	**Other / not rated £000**	**Total £000**
Debt and fixed income securities	1,555,636	198,001	256,120	245,980	**2,255,737**
Deposits with credit institutions	62	2,860	8,472	-	**11,394**
Catastrophe bonds	-	-	-	11,310	**11,310**
Derivative financial instruments	-	-	-	1,018	**1,018**
Reinsurance assets	8,120	151,803	230,462	29,741	**420,126**
Cash and cash equivalents	27,456	136,214	93,999	1,978	**259,647**
Total	**1,591,274**	**488,878**	**589,053**	**290,027**	**2,959,232**
Amounts attributable to largest single counterparty	**308,569**	**57,859**	**17,424**	**10,619**	

As at 31 December 2008	AAA £000	AA £000	A £000	Other / not rated £000	Total £000
Debt and fixed income securities	1,471,797	179,416	172,832	104,554	1,928,599
Deposits with credit institutions	4,146	11,800	12,323	-	28,269
Catastrophe bonds	-	-	-	-	-
Derivative financial instruments	-	40	-	-	40
Reinsurance assets	6,926	281,041	189,444	26,383	503,794
Cash and cash equivalents	54,227	330,246	56,010	139	440,622
Total	1,537,096	802,543	430,609	131,076	2,901,324
Amounts attributable to largest single counterparty	415,429	271,991	15,508	8,103	

An analysis of the Group's debt and fixed income securities at 31 December by class is detailed below:

	2009 %	2008 %
Government issued bonds and instruments	**28**	35
Agency and Government supported debt	**28**	17
Asset backed securities	**6**	10
Mortgage backed instruments – Agency	**4**	8
Mortgage backed instruments – Non-Agency	**6**	8
Corporate bonds	**26**	20
Lloyd's and money market deposits	**2**	2

The largest counterparty exposure within AAA rating is with the US Treasury. Catastrophe bonds included within other/non rated are rated BB or above. A significant proportion of 'other/not rated' reinsurance assets at 31 December 2009 and 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.

Liquidity risk

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 frequently 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 :

	Debt and fixed income securities £000	Deposits with credit institutions £000	Catastrophe bonds £000	Derivative financial instruments £000	Cash and cash equivalents £000	2009 Total £000	2008 Total £000
Less than one year	463,526	7,877	1,878	1,018	259,647	**733,946**	665,770
Between one and two years	710,347	3,517	5,836	-	-	**719,700**	593,371
Between two and five years	668,602	-	3,596	-	-	**672,198**	669,819
Over five years	359,094	-	-	-	-	**359,094**	407,273
Other non-dated instruments	54,168	-	-	-	-	**54,168**	61,297
Total	2,255,737	11,394	11,310	1,018	259,647	**2,539,106**	2,397,530

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

4. Operating segments

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

During the year, following a new management structure for the geographic lines and as a result of new business written through Syndicate 3624, the Group has changed its segmental reporting in order to provide more effective financial reporting for the evaluation of business segments by the chief operating decision maker in order to make decisions about future allocation of resources. Accordingly, the 2008 segmental comparatives have been restated in order to enable comparison of results by the user.

The Group's four operating segments are:

London Market comprises the results of Syndicate 33, excluding the results of fine art, UK regional events coverage and non US household business which is included within the results of UK and Europe. In addition, it excludes the larger TMT business which is allocated to the International segment and an element of kidnap and ransom and terrorism included in UK and Europe.

UK and Europe comprises the results of Hiscox Insurance Company Limited, the results of Syndicate 33's fine art, UK regional events coverage and non US household business, together with the income and expenses arising from the Group's retail agency activities in the UK and in continental Europe. It excludes the results of the larger retail TMT business written by Hiscox Insurance Company Limited. It also includes an element of kidnap and ransom and terrorism written in Syndicate 33.

International comprises the results of Hiscox Insurance Company (Guernsey) Limited, Hiscox Insurance Company (Bermuda) Limited, Syndicate 3624, Hiscox Inc. and Hiscox Insurance Company Inc.. It also includes the results of the larger TMT business written by Hiscox Insurance Company Limited and Syndicate 33.

Corporate Centre comprises the investment return, finance costs and administrative costs associated with Group management activities. Corporate Centre also includes the majority of foreign currency items on economic hedges and intragroup borrowings. These relate to certain foreign currency items on economic hedges and intragroup borrowings, further details of which are given at note 22. 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, which is consistent with the information used by the chief operating decision maker when evaluating the results of the Group. Performance is measured based on each reportable segments profit before tax.

NOTES TO THE FINANCIAL STATEMENTS

a) Profit before tax by segment

Year ended 31 December 2009

	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	**663,034**	**420,982**	**351,385**	**-**	**1,435,401**
Net premiums written	**483,611**	**391,461**	**281,951**	**-**	**1,157,023**
Net premiums earned	**453,281**	**367,326**	**277,495**	**-**	**1,098,102**
Investment result - financial assets*	**80,901**	**34,935**	**57,765**	**9,168**	**182,769**
Investment result - derivatives	**(1,192)**	**1,967**	**(83)**	**(296)**	**396**
Other revenues	**12,841**	**3,955**	**2,700**	**2**	**19,498**
Revenue	**545,831**	**408,183**	**337,877**	**8,874**	**1,300,765**
Claims and claim adjustment expenses, net of reinsurance	**(175,823)**	**(195,967)**	**(91,428)**	**-**	**(463,218)**
Expenses for the acquisition of insurance contracts	**(101,518)**	**(87,393)**	**(67,723)**	**-**	**(256,634)**
Administration expenses	**(25,794)**	**(56,057)**	**(29,531)**	**(1,245)**	**(112,627)**
Other expenses	**(26,384)**	**(41,136)**	**(31,597)**	**(17,822)**	**(116,939)**
Foreign exchange (losses)/gains	**(35,800)**	**(7,065)**	**6,989**	**10,322**	**(25,554)**
Total expenses	**(365,319)**	**(387,618)**	**(213,290)**	**(8,745)**	**(974,972)**
Results of operating activities	**180,512**	**20,565**	**124,587**	**129**	**325,793**
Finance costs	**(616)**	**(20)**	**(407)**	**(4,250)**	**(5,293)**
Share of profit of associates after tax	**-**	**-**	**-**	**118**	**118**
Profit before tax	**179,896**	**20,545**	**124,180**	**(4,003)**	**320,618**

*Includes interest received of £74,584,000

NOTES TO THE FINANCIAL STATEMENTS

					Year ended 31 December 2008 Restated
	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	545,930	357,095	244,339	-	1,147,364
Net premiums written	363,112	329,117	206,165	-	898,394
Net premiums earned	427,770	303,363	196,962	-	928,095
Investment result – financial assets*	(5,463)	(11,928)	(8,443)	(1,798)	(27,632)
Investment result - derivatives	-	(10,483)	-	(42,495)	(52,978)
Other revenues	15,606	2,929	1,323	-	19,858
Revenue	437,913	283,881	189,842	(44,293)	867,343
Claims and claim adjustment expenses, net of reinsurance	(261,875)	(130,723)	(86,782)	-	(479,380)
Expenses for the acquisition of insurance contracts	(108,346)	(74,582)	(45,015)	-	(227,943)
Administration expenses	(19,622)	(46,250)	(17,326)	-	(83,198)
Other expenses	(19,149)	(33,042)	(14,112)	(10,196)	(76,499)
Foreign exchange gains/(losses)	108,345	32,507	(22,100)	(8,997)	109,755
Total expenses	(300,647)	(252,090)	(185,335)	(19,193)	(757,265)
Results of operating activities	137,266	31,791	4,507	(63,486)	110,078
Finance costs	(273)	(35)	(186)	(4,664)	(5,158)
Share of profit of associate after tax	-	-	-	260	260
Profit before tax	136,993	31,756	4,321	(67,890)	105,180

*Includes interest received of £89,608,000

b) 100% operating results by segment

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 there from.

Year ended 31 December 2009

	London Market £000	**UK and Europe £000**	**International £000**	**Corporate Centre £000**	**Total £000**
Gross premiums written	**914,072**	**440,064**	**359,297**	**-**	**1,713,433**
Net premiums written	**666,692**	**408,037**	**287,589**	**-**	**1,362,318**
Net premiums earned	**624,755**	**382,417**	**287,524**	**-**	**1,294,696**
Investment result – financial assets	**111,446**	**36,428**	**59,297**	**9,168**	**216,339**
Investment result - derivatives	**(1,643)**	**1,967**	**(83)**	**(296)**	**(55)**
Other revenues	**-**	**2,716**	**677**	**2**	**3,395**
Claims and claim adjustment expenses, net of reinsurance	**(242,422)**	**(204,330)**	**(94,873)**	**-**	**(541,625)**
Expenses for the acquisition of insurance contracts	**(139,923)**	**(92,562)**	**(69,185)**	**-**	**(301,670)**
Administration expenses	**(34,196)**	**(56,812)**	**(30,427)**	**(1,245)**	**(122,680)**
Other expenses	**(26,858)**	**(41,136)**	**(31,613)**	**(17,822)**	**(117,429)**
Foreign exchange (losses)/gains	**(48,912)**	**(6,951)**	**6,678**	**10,322**	**(38,863)**
Results of operating activities	**242,247**	**21,737**	**127,995**	**129**	**392,108**

Year ended 31 December 2008
Restated

	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	752,593	374,254	262,893	-	1,389,740
Net premiums written	500,585	344,342	219,560	-	1,064,487
Net premiums earned	589,446	317,868	207,552	-	1,114,866
Investment result – financial assets	(7,525)	(11,960)	(8,567)	(1,798)	(29,850)
Investment result - derivatives	-	(10,483)	-	(42,495)	(52,978)
Other revenues	23	2,929	35	-	2,987
Claims and claim adjustment expenses, net of reinsurance	(360,919)	(133,983)	(92,600)	-	(587,502)
Expenses for the acquisition of insurance contracts	(149,755)	(79,357)	(46,599)	-	(275,711)
Administration expenses	(26,905)	(46,964)	(18,391)	-	(92,260)
Other expenses	(19,531)	(33,042)	(13,589)	(10,196)	(76,358)
Foreign exchange gains/(losses)	169,393	34,152	(21,971)	(8,997)	172,577
Results of operating activities	194,227	39,160	5,870	(63,486)	175,771

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.

100 % Ratio analysis **Year ended 31 December 2009**

	London Market	UK and Europe	International	Corporate Centre	Total
Claims ratio (%)	**38.8**	**53.4**	**33.0**	**-**	**41.8**
Expense ratio (%)	**32.2**	**49.9**	**45.6**	**-**	**40.4**
Combined ratio excluding foreign exchange impact (%)	**71.0**	**103.3**	**78.6**	**-**	**82.2**
Foreign exchange impact (%)	**7.8**	**1.8**	**(2.3)**	**-**	**3.8**
Combined ratio (%)	**78.8**	**105.1**	**76.3**	**-**	**86.0**
Combined ratio excluding non monetary foreign exchange impact (%)	**71.5**	**103.9**	**76.3**	**-**	**81.7**

Year ended 31 December 2008 Restated

	London Market	UK and Europe	International	Corporate Centre	Total
Claims ratio (%)	61.2	42.2	44.6	-	52.7
Expense ratio (%)	33.3	50.1	37.9	-	38.9
Combined ratio excluding foreign exchange impact (%)	94.5	92.3	82.5	-	91.6
Foreign exchange impact (%)	(28.7)	(10.7)	10.6	-	(16.3)
Combined ratio (%)	65.8	81.6	93.1	-	75.3
Combined ratio excluding non monetary foreign exchange impact (%)	73.2	82.4	93.1	-	80.0

The impacts on profit before tax of a 1% change in each component of the segmental combined ratios are:

	Year to 31 December 2009				Year ended 31 December 2008 Restated			
	London Market £000	**UK and Europe £000**	**International £000**	**Corporate Centre £000**	London Market £000	UK and Europe £000	International £000	Corporate Centre £000
At 100% level								
1% change in claims or expense ratio	**6,248**	**3,824**	**2,875**	**-**	5,894	3,179	2,076	-
At Group level								
1% change in claims or expense ratio	**4,533**	**3,673**	**2,775**	**-**	4,278	3,034	1,970	-

5. Net asset value per share

	2009 Net asset value (total equity) £000	**2009 NAV per share p**	2008 Net asset value (total equity) £000	2008 NAV per share p
Net asset value	**1,121,286**	**299.2**	951,026	258.1
Net tangible asset value	**1,070,873**	**285.7**	902,469	244.9

The net asset value per share is based on 374,819,025 shares (2008: 368,477,595), being the adjusted number of shares in issue at 31 December. Net tangible assets comprise total equity excluding intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

6. Return on equity

	2009 £000	2008 £000
Profit for the year (all attributable to owners of the Company)	**280,497**	70,808
Opening shareholders' equity	**951,026**	824,304
Adjusted for the time weighted impact of capital distribution and issuance of shares	**(20,429)**	(55,700)
Adjusted opening shareholders' equity	**930,597**	768,604
Annualised return on equity (%)	**30.1**	9.2

7. Investment result

The total result for the Group before taxation comprises :

	2009 £000	2008 £000
Investment income including interest receivable	**75,740**	94,678
Net realised gains on financial investment at fair value through profit or loss	**19,733**	4,743
Net fair value gains/(losses) on financial investment at fair value through profit or loss	**87,296**	(127,053)
Investment result – financial assets	**182,769**	(27,632)
Fair value gains/(losses) on derivative instruments and borrowings (note 14)	**396**	(52,978)
Total result	**183,165**	(80,610)

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, based on monthly asset values, was:

	2009 %	2008 %
Sterling	**4.2**	(0.1)
US Dollar	**8.5**	(2.5)
Other	**6.5**	0.4

(ii) Investment return

Year ended 31 December 2009

	London Market £000	%	UK and Europe £000	%	International £000	%	Corporate Centre £000	%	Total £000	%
Debt and fixed income securities	**80,616**	**8.0**	**19,212**	**5.9**	**48,887**	**9.2**	**4,239**	**3.8**	**152,954**	**7.7**
Equities and shares in unit trusts	**-**	**-**	**14,769**	**28.5**	**7,668**	**17.5**	**3,923**	**12.3**	**26,360**	**20.7**
Deposits with credit institutions/cash and cash equivalents	**285**	**0.7**	**954**	**1.4**	**1,210**	**0.4**	**1,006**	**3.3**	**3,455**	**0.8**
	80,901	**7.7**	**34,935**	**7.8**	**57,765**	**6.8**	**9,168**	**5.2**	**182,769**	**7.2**

	Year ended 31 December 2008 Restated									
	London Market		UK and Europe		International		Corporate Centre		Total	
	£000	%	£000	%	£000	%	£000	%	£000	%
Debt and fixed income securities	(7,966)	(0.9)	7,374	3.4	(7,819)	(2.2)	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
	(5,463)	(0.6)	(11,928)	(3.0)	(8,443)	(1.5)	(1,798)	(1.1)	(27,632)	(1.3)

9. Other revenues and expenses

	2009 £000	2008 £000
Agency related income	**6,651**	5,324
Profit commission	**12,248**	14,382
Other underwriting income – catastrophe bonds	**410**	-
Other income	**189**	152
Other revenues	**19,498**	19,858
Managing agency expenses	**33,051**	19,513
Overseas underwriting agency expenses	**47,943**	28,787
Connect agency expenses	**11,795**	13,343
Investment expenses	**2,690**	1,899
Other Group expenses including central overheads	**21,460**	12,957
Other expenses	**116,939**	76,499

10. Net foreign exchange (losses)/gains

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

	2009 £000	2008 £000
Exchange (losses)/gains recognised in the consolidated income statement	**(25,554)**	109,755
Exchange (losses)/gains classified as a separate component of equity	**(69,589)**	150,582
Overall impact of foreign exchange related items on net assets	**(95,143)**	260,337

The above excludes profits or losses on foreign exchange derivative contracts which are included within the investment result and are outlined in note 14.

Net unearned premiums and deferred acquisition costs are treated as non monetary items in accordance with IFRS. As a result, a foreign exchange mismatch arises caused by these items being earned at historical rates of exchange prevailing at the original transaction date whereby resulting claims are retranslated at the end of each period. The impact of this mismatch on the income statement is shown below.

	2009 £000	2008 £000
Opening balance sheet impact of non retranslation of non monetary items	**50,525**	14,438
(Loss)/gain included within profit representing the non retranslation of non monetary items	**(53,732)**	36,087
Closing balance sheet impact of non retranslation of non monetary items	**(3,207)**	50,525

NOTES TO THE FINANCIAL STATEMENTS

11. Reinsurance assets

	2009 £000	2008 £000
Reinsurers' share of insurance liabilities	**425,572**	511,325
Provision for non-recovery and impairment	**(5,446)**	(7,531)
Reinsurance assets (note 17)	**420,126**	503,794

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 13). The Group recognised a gain during the year of £2,085,000 (2008: loss of £4,205,000) in respect of impaired balances.

12. 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.

	2009 £000	2008 £000
Debt and fixed income securities	**2,255,737**	1,928,599
Equities and shares in unit trusts	**133,841**	124,864
Deposits with credit institutions	**11,394**	28,269
Total investments	**2,400,972**	2,081,732
Catastrophe bonds	**11,310**	-
Derivative financial instruments (note 14)	**1,018**	40
Total financial assets carried at fair value	**2,413,300**	2,081,772

	2009 £000	2008 £000
Borrowings from credit institutions carried at amortised cost	**138,000**	90,278
Derivative financial instruments	**539**	53,072
Total financial liabilities	**138,539**	143,350

The fair value of borrowings from credit institutions is not considered to be significantly different from the amortised cost value.

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

	2009 %	2008 %
Sterling	**24.2**	17.8
US Dollars	**67.1**	68.7
Euro and other currencies	**8.7**	13.5

NOTES TO THE FINANCIAL STATEMENTS

13. Loans and receivables including insurance receivables

	2009 £000	2008 £000
Gross receivables arising from insurance and reinsurance contracts	**413,449**	441,752
Provision for impairment	**(955)**	(560)
Net receivables arising from insurance and reinsurance contracts	**412,494**	441,192
Due from contract holders, brokers, agents and intermediaries	**270,593**	274,470
Due from reinsurance operations	**141,901**	166,722
	412,494	441,192
Prepayments and accrued income	**10,020**	7,948
Other loans and receivables:		
Net profit commission receivable	**17,758**	11,959
Accrued interest	**12,227**	9,480
Share of Syndicate's other debtors balances	**20,273**	13,546
Other debtors including related party amounts	**16,010**	10,190
Total loans and receivables including insurance receivables	**488,782**	494,315

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 loss of £395,000 (2008: gain of £832,000) for the impairment of receivables during the year ended 31 December 2009.

14. Derivative financial instruments

The Group entered into both exchange-traded and over the counter derivative contracts for a number of purposes during 2009. The Group had the right and intention to settle each contract on a net basis. The assets and liabilities of these contracts at 31 December 2009 all mature within one year of the balance sheet date and are detailed below:

31 December 2009

Derivative financial instrument 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 forward contracts	50,105	180	7	**173**
Interest rate futures contracts	21,288	906	61	**845**
Total	**71,393**	**1,086**	**68**	**1,018**

Derivative financial instrument liabilities included on balance sheet	Gross contract notional amount US$000	Fair value of assets £000	Fair value of liabilities £000	**Net balance sheet position £000**
Event linked future contracts	**2,400**	**18**	**557**	**539**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

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

Derivative financial instrument liabilities 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
Total		-	53,072	53,072

Foreign exchange forward contracts
During the current and prior year the Group entered into a series of conventional over the counter forward contracts in order to secure translation gains made on Euro, US Dollar and other non Pound Sterling denominated monetary assets. The contracts require the Group to forward sell a fixed amount of the relevant currency for Pound Sterling at pre-agreed future exchange rates. The Group made a gain on these forward contracts of £769,000 (2008: loss of £10,123,000) as included in note 7. The opposite exchange loss is included within financial investments.

There was no initial purchase cost associated with these instruments.

Interest rate future contracts

During the year the Group continued short selling a number of government bond futures and sovereign futures denominated in a range of currencies to informally hedge substantially all of the interest rate risk on specific long portfolios of the matching currencies denominated corporate bonds. All contracts are exchange traded and the Group made a loss on these futures contracts of £78,000 (2008: £360,000) as included in note 7.

Event linked future contracts
In June 2008, the Group commenced trading event linked future contracts which are transacted on the 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 loss on event linked future contracts of £609,000 (2008: gain of £45,000) as included in note 7.

Foreign exchange option collar contracts
During the fourth quarter of 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 had no initial purchase cost and consisted 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. These contracts settled in 2009 and the Group realised a gain of £314,000 (2008: loss of £42,540,000) as included in notes 7 and 22. The related exchange loss earned on the retranslation of the portion of underlying net investments concerned was £5,207,000 and is included within the overall loss of £69,589,000 recognised in other comprehensive income (note 10).

15. Fair value measurements

In accordance with the Amendments to IFRS 7 *Financial Instruments: Disclosures* the fair value of financial instruments based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value is provided below.

As at 31 December 2009 **Financial assets**	Level 1 £000	Level 2 £000	Level 3 £000	**Total** **£000**
Debt and fixed income securities	627,702	1,628,035	-	**2,255,737**
Equities and share in unit trusts	162	129,419	4,260	**133,841**
Deposits with credit institutions	11,394	-	-	**11,394**
Catastrophe bonds	-	11,310	-	**11,310**
Derivative financial instruments	-	1,018	-	**1,018**
Total	**639,258**	**1,769,782**	**4,260**	**2,413,300**
Financial liabilities				
Derivative financial instruments	**-**	**539**	**-**	**539**

As at 31 December 2008 Financial assets	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 share in unit trusts	2,043	122,282	539	124,864
Deposits with credit institutions	22,392	-	5,877	28,269
Catastrophe bonds	-	-	-	-
Derivative financial instruments	-	-	40	40
Total	629,657	1,445,659	6,456	2,081,772
Financial liabilities				
Derivative financial instruments	-	53,072	-	53,072

The levels of the fair value hierarchy are defined by the standard as follows:

Level 1 – fair values measured using quoted prices (unadjusted) in active markets for identical instruments,
Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data,
Level 3 - fair values measured using valuation techniques for which significant inputs are not based on market observable data.

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

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

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

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

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

Level 3 contains investments in a limited partnership and unquoted equity securities which have limited observable inputs on which to measure fair value. In the prior year, investments in a mutual fund were included within Level 3 as redemptions from the fund were suspended. The fund was redeemed in full in 2009. Unquoted equities are carried at cost which is deemed to be comparable to fair value. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant and no further analysis has been performed.

Derivative instruments included within level 3 in the prior year represented event linked future contracts which are transacted on the Chicago Climate Futures Exchange. During the current year, the classification of these instruments was reviewed and they have been transferred into Level 2 as the valuation of the derivatives is based on observable inputs used by the exchange to determine fair value.

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

During the year, there were no transfers made between Level 1 and Level 2 of the fair value hierarchy.

The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy:

31 December 2009	**Equities and shares in unit trusts £000**	**Deposits with credit institutions £000**	**Derivative financial instruments £000**	**Total £000**
Balance at 1 January	539	5,877	40	6,456
Total gains or losses through profit or loss*	245	-	-	245
Purchases	3,353	-	-	3,353
Issues	123	-	-	123
Settlements	-	(5,877)	-	(5,877)
Transfers into Level 2	-	-	(40)	(40)
Closing balance	**4,260**	**-**	**-**	**4,260**

31 December 2008	Equities and shares in unit trusts £000	Deposits with credit institutions £000	Derivative financial instruments £000	Total £000
Balance at 1 January	-	-	-	-
Total gains or losses through profit or loss*	-	-	-	-
Purchases	539	-	40	579
Transfers into Level 3	-	5,877	-	5,877
Settlements	-	-	-	-
Closing balance	539	5,877	40	6,456

*Total gains/(losses) are included within the investment result in the income statement

16. Cash and cash equivalents

	2009 £000	2008 £000
Cash at bank and in hand	**166,780**	353,542
Short-term bank deposits	**92,867**	87,080
	259,647	440,622

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

Cash and cash equivalents include amounts of US$334,000 (2008: US$17,775,000) held in escrow to settle deferred consideration on acquisitions.

17. Insurance liabilities and reinsurance assets

	2009 £000	2008 £000
Gross		
Claims reported and loss adjustment expenses	**800,307**	885,905
Claims incurred but not reported	**749,016**	881,823
Unearned premiums	**573,028**	509,688
Total insurance liabilities, gross	**2,122,351**	2,277,416
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	**173,987**	180,406
Claims incurred but not reported	**154,903**	245,897
Unearned premiums	**91,236**	77,491
Total reinsurers' share of insurance liabilities	**420,126**	503,794
Net		
Claims reported and loss adjustment expenses	**626,320**	705,499
Claims incurred but not reported	**594,113**	635,926
Unearned premiums	**481,792**	432,197
Total insurance liabilities, net	**1,702,225**	1,773,622

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 2009 and 2008 are not material.

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 seven 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 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 balance sheet, is also shown.

NOTES TO THE FINANCIAL STATEMENTS

Insurance claims and claims expenses reserves – gross at 100% level

Accident year	2001	2002	2003	2004	2005	2006	2007	2008	**2009**	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	**£000**
Estimate of ultimate claims costs as adjusted for foreign exchange*:										
at end of accident year	687,619	407,142	456,946	688,408	1,147,193	595,682	798,296	1,105,836	**849,316**	**6,736,438**
one year later	667,957	431,162	468,733	762,649	1,268,711	569,356	715,890	941,165	**-**	**5,825,623**
two years later	740,854	439,171	440,712	727,804	1,270,977	548,523	679,971	-	**-**	**4,848,012**
three years later	764,878	423,316	453,703	687,872	1,252,857	517,992	-	-	**-**	**4,100,618**
four years later	807,184	419,019	448,878	690,802	1,246,928	-	-	-	**-**	**3,612,811**
five years later	803,540	394,730	438,322	673,061	-	-	-	-	**-**	**2,309,653**
six years later	801,393	390,836	433,836	-	-	-	-	-	**-**	**1,626,065**
seven years later	799,815	392,092	-	-	-	-	-	-	**-**	**1,191,907**
eight years later	805,284	-	-	-	-	-	-	-	**-**	**805,284**
Current estimate of cumulative claims	805,284	392,092	433,836	673,061	1,246,928	517,992	679,971	941,165	**849,316**	**6,539,645**
Cumulative payments to date	(700,222)	(342,993)	(381,214)	(579,121)	(1,089,428)	(425,122)	(464,969)	(507,312)	**(178,036)**	**(4,668,417)**
Liability recognised at 100% level	**105,062**	**49,099**	**52,622**	**93,940**	**157,500**	**92,870**	**215,002**	**433,853**	**671,280**	**1,871,228**
Liability recognised in respect of prior accident years at 100% level										**95,065**
Total gross liability to external parties at 100% level										**1,966,293**

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2009.

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

Accident year	2001	2002	2003	2004	2005	2006	2007	2008	**2009**	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	**£000**
Current estimate of cumulative claims	805,284	392,092	433,836	673,061	1,246,928	517,992	679,971	941,165	**849,316**	**6,539,645**
Less:Attributable to external Names	(198,488)	(79,763)	(96,473)	(153,764)	(311,634)	(107,151)	(129,670)	(182,655)	**(149,469)**	**(1,409,067)**
Group's share of current ultimate claims estimate	606,796	312,329	337,363	519,297	935,294	410,841	550,301	758,510	**699,847**	**5,130,578**
Cumulative payments to date	(700,222)	(342,993)	(381,214)	(579,121)	(1,089,428)	(425,122)	(464,969)	(507,312)	**(178,036)**	**(4,668,417)**
Less:Attributable to external Names	169,966	67,275	83,332	134,861	274,605	86,974	83,412	89,268	**23,319**	**1,013,012**
Group's share of cumulative payments	(530,256)	(275,718)	(297,882)	(444,260)	(814,823)	(338,148)	(381,557)	(418,044)	**(154,717)**	**(3,655,405)**
Liability for 2001 to 2009 accident years recognised on Group's balance sheet	76,540	36,611	39,481	75,037	120,471	72,693	168,744	340,466	**545,130**	**1,475,173**
Liability for accident years before 2001 recognised on Group's balance sheet										**74,150**
Total Group liability to external parties included in balance sheet – gross**										**1,549,323**

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

NOTES TO THE FINANCIAL STATEMENTS

Insurance claims and claims expenses reserves – net at 100% level

Accident year	2001	2002	2003	2004	2005	2006	2007	2008	**2009**	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	**£000**
Estimate of ultimate claims costs as adjusted for foreign exchange*:										
at end of accident year	332,353	274,882	360,173	575,992	678,058	528,238	691,257	768,934	686,588	**4,896,475**
one year later	373,821	299,911	379,825	628,824	778,298	520,805	629,054	687,294	-	**4,297,832**
two years later	445,270	310,031	346,071	603,964	768,654	503,643	609,807	-	-	**3,587,440**
three years later	484,110	286,691	357,087	566,162	743,791	460,391	-	-	-	**2,898,232**
four years later	473,028	280,039	348,250	567,034	733,182	-	-	-	-	**2,401,533**
five years later	458,392	265,680	343,189	552,954	-	-	-	-	-	**1,620,215**
six years later	452,230	259,680	339,738	-	-	-	-	-	-	**1,051,648**
seven years later	454,670	265,416	-	-	-	-	-	-	-	**720,086**
eight years later	452,892	-	-	-	-	-	-	-	-	**452,892**
Current estimate of cumulative claims	452,892	265,416	339,738	552,954	733,182	460,391	609,807	687,294	686,588	**4,788,262**
Cumulative payments to date	(391,233)	(216,919)	(290,986)	(467,304)	(605,267)	(374,184)	(387,771)	(397,569)	(154,283)	**(3,285,516)**
Liability recognised at 100% level	61,659	48,497	48,752	85,650	127,915	86,207	222,036	289,725	532,305	**1,502,746**
Liability recognised in respect of prior accident years at 100% level										**42,040**
Total net liability to external parties at 100% level										**1,544,786**

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2009.

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

Accident year	2001	2002	2003	2004	2005	2006	2007	2008	**2009**	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	**£000**
Current estimate of cumulative claims	**452,892**	**265,416**	**339,738**	**552,954**	**733,182**	**460,391**	**609,807**	**687,294**	**686,588**	**4,788,262**
Less:Attributable to external Names	**(105,631)**	**(52,130)**	**(74,278)**	**(126,704)**	**(175,504)**	**(95,039)**	**(117,227)**	**(130,913)**	**(117,174)**	**(994,600)**
Group's share of current ultimate claims estimate	**347,261**	**213,286**	**265,460**	**426,250**	**557,678**	**365,352**	**492,580**	**556,381**	**569,414**	**3,793,662**
Cumulative payments to date	**(391,233)**	**(216,919)**	**(290,986)**	**(467,304)**	**(605,267)**	**(374,184)**	**(387,771)**	**(397,569)**	**(154,283)**	**(3,285,516)**
Less:Attributable to external Names	**88,950**	**39,665**	**61,805**	**109,032**	**144,904**	**76,539**	**72,739**	**65,647**	**20,906**	**680,187**
Group's share of cumulative payments	**(302,283)**	**(177,254)**	**(229,181)**	**(358,272)**	**(460,363)**	**(297,645)**	**(315,032)**	**(331,922)**	**(133,377)**	**(2,605,329)**
Liability for 2001 to 2009 accident years recognised on Group's balance sheet	**44,978**	**36,032**	**36,279**	**67,978**	**97,315**	**67,707**	**177,548**	**224,459**	**436,037**	**1,188,333**
Liability for accident years before 2001 recognised on Group's balance sheet										**32,100**
Total Group liability to external parties included in balance sheet – net**										**1,220,433**

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

NOTES TO THE FINANCIAL STATEMENTS

Movement in insurance claims liabilities and reinsurance claims assets

			2009			2008
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Year ended 31 December	**£000**	**£000**	**£000**	£000	£000	£000
Total at beginning of year	**(1,767,728)**	**426,303**	**(1,341,425)**	(1,215,887)	222,672	(993,215)
Claims and loss adjustment expenses for the year	**(508,238)**	**45,020**	**(463,218)**	(698,471)	219,091	(479,380)
Cash paid for claims settled in the year	**571,689**	**(110,924)**	**460,765**	549,106	(117,582)	431,524
Exchange differences and other movements	**154,954**	**(31,509)**	**123,445**	(402,476)	102,122	(300,354)
Total at end of year	**(1,549,323)**	**328,890**	**(1,220,433)**	(1,767,728)	426,303	(1,341,425)
Claims reported and loss adjustment expenses	**(800,307)**	**173,987**	**(626,320)**	(885,905)	180,406	(705,499)
Claims incurred but not reported	**(749,016)**	**154,903**	**(594,113)**	(881,823)	245,897	(635,926)
Total at end of year	**(1,549,323)**	**328,890**	**(1,220,433)**	(1,767,728)	426,303	(1,341,425)

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

			2009			2008
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Year ended 31 December	**£000**	**£000**	**£000**	£000	£000	£000
Current year claims and loss adjustment expenses	**(725,132)**	**122,538**	**(602,594)**	(828,940)	226,808	(602,132)
(Under)/over provision in respect of prior year claims and loss adjustment expenses	**216,894**	**(77,518)**	**139,376**	130,469	(7,717)	122,752
Total claims and claims handling expense	**(508,238)**	**45,020**	**(463,218)**	(698,471)	219,091	(479,380)

18. Trade and other payables

	2009 **£000**	2008 £000
Creditors arising out of direct insurance operations	**45,476**	35,089
Creditors arising out of reinsurance operations	**157,514**	175,134
	202,990	210,223
Obligations under finance leases	**393**	439
Share of Syndicate’s other creditors’ balances	**316**	2,714
Social security and other taxes payable	**15,424**	10,919
Other creditors	**20,448**	9,493
	36,581	23,565
Reinsurers’ share of deferred acquisition costs	**17,584**	21,068
Accruals and deferred income	**82,328**	58,050
Total	**339,483**	312,906

19. Tax expense

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

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

	2009	2008
	£000	£000
Current tax expense/(credit)	**53,375**	(32,341)
Deferred tax (credit)/ expense	**(13,254)**	66,713
Total tax expense	**40,121**	34,372

20. Earnings per share

Basic

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

	2009	2008
Profit attributable to the Company's equity holders (£000)	**280,497**	70,808
Weighted average number of ordinary shares (thousands)	**372,848**	377,506
Basic earnings per share (pence per share)	**75.2p**	18.8p

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. 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.

	2009	2008
Profit attributable to Company's equity holders (£000)	**280,497**	70,808
Weighted average number of ordinary shares in issue (thousands)	**372,848**	377,506
Adjustments for share options (thousands)	**14,966**	13,351
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**387,814**	390,857
Diluted earnings per share (pence per share)	**72.3p**	18.1p

Diluted earnings per share has been calculated after taking account of 14,345,744 (2008: 13,003,000) options and awards under employee share option and performance plan schemes and 619,870 (2008: 348,000) options under SAYE schemes.

21. Dividends paid to owners of the Company

	2009	2008
	£000	£000
Interim dividend for the year ended :		
- 31 December 2009 of 4.5p (net) per share	**16,834**	-
- 31 December 2008 of 4.25p (net) per share	**-**	15,615
Final dividend for the year ended :		
- 31 December 2008 of 8.5p (net) per share	**31,779**	-
- 31 December 2007 of 8.0p (net) per share	**-**	31,141
	48,613	46,756

A second interim dividend in respect of 2009 of 10.5p per share, amounting to a total dividend of 15.0p for the year, was approved by the Board of directors on 25 February 2010. These financial statements do not reflect this dividend as a distribution or liability in accordance with IAS 10 Events after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

22. Foreign currency items on economic hedges and intragroup borrowings

In the prior year, the Group separately 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. The current year comparatives are not significant and as such this presentation has not been applied to the consolidated income statement for the year ended 31 December 2009. The current year comparatives are shown below :

Impact as at 31 December 2009

	Consolidated income statement 2009 £000	**Consolidated other comprehensive income 2009 £000**	**Total economic impact 2009 £000**
Realised gains on foreign currency derivative contracts used to manage retranslation risk associated with the net investment in Bermuda and Guernsey insurance operations	314	-	**314**
Retranslation loss on managed net investment in Bermuda and Guernsey insurance operations	-	(5,207)	**(5,207)**
Unrealised translation (losses) / gains on intragroup borrowings	(4,362)	4,362	**-**
Total losses recognised	(4,048)	(845)	**(4,893)**

Impact as at 31 December 2008

	Consolidated income statement 2008 £000	Consolidated other comprehensive income 2008 £000	Total economic impact 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

Foreign exchange losses of £6,058,000 before tax (£4,362,000 after tax) (2008: £8,463,000 and £12,580,000 respectively) 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.

In the prior year the Group entered into 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 (note 14). The contracts expired in January 2009 and a gain of £314,000 was recognised for the year ended 31 December 2009. Formal hedge accounting designation was not achievable due to the specific effectiveness requirements of IAS 39.

The Group did not enter into any new economic hedging derivative contracts during the current year.

Note:

The Annual Report and Accounts for 2009 will be available to shareholders no later than 19 March 2010. Copies of the Report may be obtained by writing to the Company Secretary, Hiscox Ltd, Wessex House, 45 Reid Street, Hamilton HM12, Bermuda.