

Date: 5 August 2009  
On behalf of: Hardy Underwriting Bermuda Limited (“Hardy” or “the Group”)  
Embargoed until: 0700hrs

## **Hardy Underwriting Bermuda Limited**

### **Interim Results for the half year ended 30 June 2009**

Hardy Underwriting Bermuda Limited (“Hardy” or “the Group”), the specialist insurer, today announced its interim results for the half year ended 30 June 2009.

#### **FINANCIAL HIGHLIGHTS**

- profit before tax and foreign exchange movements £18.7m (2008: £7.3m)
- profit before tax of £7.8m (2008: £8.7m)
- combined ratio before foreign exchange movements 75.7% (2008: 85.0%)
- combined ratio of 87.7% (2008: 83.3%)
- gross written premium up 54% to £149.9m (2008: £97.0m)
- rates on 2009 renewals increased by 6.5% across the portfolio
- net tangible assets of 247.4p per share (year end 2008: 245.4p per share)
- interim dividend of 4p per share (2008: 3.6p per share)

#### **OPERATIONAL HIGHLIGHTS**

- successful fundraising of £40m
- syndicates merged and new business unit structure operating successfully
- opened new office in Bermuda and beginning to underwrite from there
- appointed Paul Bailie as managing director of the Bermuda office, effective 21 September 2009

**Commenting on the Group’s interim results, David Mann, Chairman of Hardy Underwriting Bermuda Limited, said:**

*“Hardy has continued to make good progress towards the realisation of its business objectives despite uncertain conditions following the turmoil in the financial markets.*

*“There are clear signs that recovery is underway in the insurance market and the ratings increases we have witnessed across several of our major classes of business are very encouraging.”*

**Barbara Merry, Hardy’s Chief Executive, added:**

*“The long term trend of underwriting performance is key and the combined ratio before foreign exchange movements of 75.7% again demonstrates the consistency, quality and depth of our expertise. We could not be more fortunate in having a strong, committed team, a robust balance sheet and a fantastic brand.”*

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## HARDY INTERIM REPORT 2009

### CHAIRMAN'S STATEMENT

Hardy has continued to make good progress towards the realisation of its business objectives.

There are clear signs that the insurance market's recovery, which many anticipated would not occur until next year, is under way. The rating increases that we have witnessed across several of our major classes of business in the first half of the year are very encouraging. We continue to believe that the current trend will lead to a more sustainable upturn in the market. In those business areas where we have recently established a strong leadership position - the property classes being a prime example – business is progressing well. For the longer term, we hold a positive view on rating and conditions across all lines of business.

Following the successful fundraising exercise in February, the Group's new office in Bermuda opened for business on schedule. This enabled us to underwrite some of the mid-year US renewals from there, and marked an important milestone in the Group's development. The office will make a significant contribution to performance over time. Paul Bailie, currently a non-executive director, will take up the post of managing director of the Bermuda office from September.

At the half year point, I am pleased to report a profit before tax of £7.8m (2008: £8.7m) and a combined ratio at the interim stage of 87.7% (2008: 83.3%). We are not immune from the continued uncertainty in financial markets and in particular, volatility in major currencies has had a significant adverse impact on our results. The pre-tax result of £18.7m excluding the effect of foreign exchange movements is testimony to our continued focus on underwriting discipline. The combined ratio excluding foreign exchange movements is 75.7% which is better than last year at the half year stage (2008: 85.0% excluding FX). Furthermore, our net tangible assets are intact and growing, despite the short term dilutive effect of the capital raising.

Hardy will pay an interim dividend of 4p per share, equivalent to 30% of the expected overall dividend for the year of 13.3p, which is in line with our commitment to deliver a 10% increase in dividends year on year.

The Group continues to maintain a low risk investment strategy. The difficulty of securing good returns going forward should not be under-estimated and our ability to underwrite profitably will be more important than ever.

Hardy continues to attract top talent to our growing team, enabling the Group to pursue a strategy of exploiting new opportunities for intelligent and targeted growth and to invest further in the future of the business.

On behalf of the Board and shareholders, I record our sincere thanks to the hugely professional Hardy team for their contribution to the Group's performance.

## **OPERATING AND FINANCIAL REVIEW**

### **Chief Executive's Statement**

#### Introduction

The first half of 2009 has again seen progress made against our corporate objectives, principally the focus on profitable growth. Specifically, we are aiming to be proactive about understanding and meeting our clients' needs, to use innovative solutions in developing a diverse portfolio of attractive risks within our agreed risk appetite and to more than double volume and value between 2008 and 2012.

The profit before tax for the half year of £7.8m, the underwriting result of £21.0m and the combined ratio of 87.7% (75.7% excluding foreign exchange movements) demonstrate that we are well on track.

We have already put part of the £40m capital that we raised earlier in the year to use and expect the planned increase in business volumes for 2010 to absorb the remainder.

#### Review of 2009 performance to date

The half year profit before tax of £7.8m (2008: £8.7m) reflects the consistency of the Group's underwriting returns and a modest but stable and positive investment yield of 0.9%.

The long term trend of underwriting performance is our focus and the combined ratio of 87.7% (75.7% excluding foreign exchange movements) demonstrates the consistency, quality and depth of our expertise. The unwinding of the foreign exchange gain accounted for at the year end in respect of non-monetary items, as required by IFRS, has had a detrimental effect on profits for the period which are £18.7m excluding all foreign exchange movements.

Gross written premiums are up 54% to £149.9m, a pleasing improvement on the position for 2008 of £97.0m, with increases being seen right across the portfolio albeit, as predicted, the property lines seeing the most significant changes..

Volumes have certainly been adversely affected in certain lines of business by falling exposure values but any reduction has been more than compensated for by increases in rates and new business flows. The rate increase being experienced for the Hardy portfolio during the first six months of the year looks slightly better than that for the Lloyd's market overall.

The 2009 underwriting year of syndicate 382 is developing well, with positive rating movements and a lack of large or catastrophe claims to date.

The 2007 and 2008 underwriting years are also satisfactory and whilst 2008 was challenging from a rating and loss incidence perspective, meaningful profits are nevertheless being realised.

As for 2006 and all earlier closed years of account, the run-off is, as normal, positive, with a surplus arising from the reassessment of the held reserves at the half year stage. Our reserving at the 2008 year end appeared to reflect accelerated claims trends compared to the market, but market level reserving for some attritional classes is now beginning to catch up.

### Gross Written Premium (£000)

	2002	2003	2004	2005	2006	2007	2008	2009
Year End	49,475	59,176	87,281	111,276	106,066	147,534	172,770	
Half Year	28,229	42,141	51,694	65,577	58,353	88,836	97,048	149,870

### Net Earned Premium (£000)

	2002	2003	2004	2005	2006	2007	2008	2009
Year End	35,486	45,334	68,392	85,465	79,994	108,600	120,799	
Half Year	15,846	20,919	32,041	43,773	44,381	48,932	60,922	86,671

### Combined Ratio

	2002	2003	2004	2005	2006	2007	2008	2009
Year End	82.7%	81.2%	94.3%	92.7%	76.9%	80.5%	77.2%	
Half Year	91.2%	79.8%	80.0%	82.7%	84.4%	79.5%	83.3%	87.7%

### Net Tangible Assets Per Share (pence)

	2002	2003	2004	2005	2006	2007	2008	2009
Year End	142.0	163.7	156.6	163.8	173.1	198.3	245.4	
Half Year	140.0	156.0	185.0	163.9	166.4	181.7	212.8	247.4

Our strategy has not changed in the period and we remain focussed on the key underwriting characteristics which are so crucial to our long term performance:

- a predominantly short tail account
- leading risks so as to influence price
- applying a technical, 'thinking underwriter' approach to rating
- reserving prudently; and
- diversifying where we can develop and demonstrate suitable expertise.

Our diversification to the Bermuda platform is going well: this will enable us to develop our US property portfolio, particularly for property treaty business in the immediate term. The new Bermuda office opened in mid-May and we have underwritten a modest amount of business from Bermuda to date with all support systems and modelling capabilities being provided seamlessly by our London based teams. The technology that we now have available to us has significantly enhanced the success of this venture and it is very gratifying that following our major investment in systems infrastructure, we are now able to reap the rewards. We expect Bermuda-sourced business to be an increasingly significant part of the property treaty portfolio as we move forward.

## Gross written premium (excluding commissions)

	2002	2003	2004	2005	2006	2007	2008	2009
Marine & aviation	45.7	60.2	64.7	65.5	65.1	52.5	49.4	47.9
Non-marine property	0.2	1.7	8.2	7.1	14.9	31.9	31.4	45.0
Specialty lines	0.8	5.9	23.8	23.9	21.7	24.1	33.3	39.4
Property Treaty	7.4	10.4	13.3	13.0	10.7	32.6	53.9	70.5
<b>Total</b>	<b>54.1</b>	<b>78.2</b>	<b>110.0</b>	<b>109.5</b>	<b>112.4</b>	<b>141.1</b>	<b>168.0</b>	<b>202.8</b>

The extent to which the non-marine direct property and more especially, the property treaty portfolio have experienced early benefit from the improved rating environment can be seen clearly from the chart. We expect that the marine and aviation and specialty lines portfolio will also advance over the next 12 months.

### Business unit reviews

The underwriting environment in the first half of 2009 has been very positive both from a rating and a claims perspective. For some classes of business, pricing levels have been slow to improve, but overall the trend is quite definitely upward. This time last year, we had initial expectations for 2009 of further decreases in rates, so against that backdrop, our mood is decidedly optimistic. Our view of the longer term outlook is also encouraging, since we still expect rate improvements to materialise right across the portfolio, even if the speed of change is somewhat slower than we would ideally like for some lines of business.

#### Non-marine property

Head of Business Unit – Patrick Gage

To date, 2009 has been encouraging, with meaningful rate increases in some areas. Catastrophe rates have increased in the US by between 10% and 15% and rates for certain industrial sectors have also moved ahead, notably in mining, energy and heavy industry. Claims activity has generally been low to some extent because the pressures previously created by an overheated commodity market in 2008, exacerbating equipment breakdown and business interruption claims, are not present in 2009.

Market conditions for business with limited or no catastrophe exposure and for less hazardous trades are patchier. Loss affected risks are seeing rate increases whereas the market is far more competitive for 'clean' business. Our direct property account, which focuses on small and medium sized commercial risks emanating from the UK and continental Europe, continues to operate in a highly competitive market and rates remain flat despite underwriting results in general being break even at best.

We have successfully integrated the team underwriting high net worth homeowners' business and expect approximately £10m of premium income from this source in 2009.

#### Marine and aviation

Head of Business Unit – Mervyn Sugden

##### Marine hull

The marine hull market is continuing steadily. Risks with a poor record are experiencing good rate increases although elsewhere, rises are smaller. Nevertheless, we expect to meet our 2009 planned income level, which will be supplemented by a modest amount of income from the marine liabilities account which we are developing.

### Cargo and specie

The cargo and specie account is disappointing from a volume perspective, suffering from a downturn in world trade, and also from a higher incidence of recession-related claims.

### Aviation

On the aviation side, our primary focus remains on the general aviation market, which has experienced three significant helicopter losses already this year, of which we participate on two. We managed to avoid exposure to the Air France and Yemen Air losses. Such losses should lead to a re-rating of that market, but this has not occurred to date, and the airline sector looks set to make an overall loss for the third year in succession. Our involvement here will remain negligible until significant rate changes are seen: these will require the withdrawal or re-pricing of a good deal of the currently available airline capacity.

### Specialty Lines

Head of Business Unit – Adrian Daws

This broad categorisation includes an Accident and Health portfolio which is beginning to achieve its potential, as well as the major lines referred to below. Kidnap and ransom coverages and a variety of schemes continue to be a reliable and profitable source of income.

### Political risks

Faced with volatile conditions, the syndicate has maintained its underwriting focus on writing a short tail trade related account. Though there has been a collapse in the amount of bank generated business coming to the market, a number of our core political risk clients still have access to funding and as a result face considerably less competition than they encountered 12 months ago. We are beginning to see an increase in rates for this area.

### Financial institutions

Market conditions remain difficult. The credit crunch and resulting economic turmoil have caused increased claims activity in this area. The focus on the first party element of the book will protect us from many of these issues, though not all. We are beginning to see good rate increases and intend to maintain the balance within this portfolio, with the vast majority being the first party element, the balance being P.I. with no D&O being offered at all.

### Terrorism

Our terrorism book continues to grow and comprises facultative non-commoditised terrorism risk. The performance of the book remains good despite significant competition and continuing pressure on rates.

### Conveyancing

This account continues to produce strong profits although continuing inactivity in the housing market means growth has slowed.

### Property Treaty

Head of Business Unit – David Carson

Against a global backdrop of continuing financial uncertainty, lack of readily available capital and affordable retrocessional cover, the team has worked hard to maintain and develop the account and provide a leading market service to clients and brokers alike, in an underwriting environment that has become progressively more positive.

Rates remain robust and the first half of the year has seen few catastrophe losses (our largest loss being the “Black Saturday” bushfires in Victoria, Australia in February) and, consequently, the overall loss ratio for the portfolio is low.

Lloyd’s, and Hardy in particular, are seen as very good security and this has resulted in an improved showing of business and resultant new opportunities as clients seek to increase the syndication of risk.

The portfolio is geographically diverse with Japan being the largest single constituent. Rate increases for the April renewals were the largest seen for over 15 years. The Japanese Kyosai book is developing on track and early signs are most promising.

The historical focus on the US has changed with the balance now being 30% US / 70% international, although the opening of our new Bermuda office is likely to enhance the US element over time.

Catastrophe exposures are, necessarily, tightly controlled. Where market conditions have improved significantly, for example in Japan, Australia and the US, we have increased our exposures but we have also reduced exposures in Northern Europe, (other than the UK), and Latin America, where conditions are less favourable.

For absent material insured catastrophes, we expect rating to remain at current levels for the remainder of 2009 and 2010, which should produce good underwriting returns going forward.

### Business and competitive environment

In the Operating and Financial Review included in the 2008 year end annual report, I wrote about the change in market conditions that was in evidence and I commented on the reasons for the change. The principal reasons outlined at that time were associated with loss of capital from the balance sheets of insurance industry participants, (although that phenomenon was by no means unique to insurers and reinsurers) and, at the same time, a loss of income flows because of the high incidence of claims in 2008. We predicted, however, that since the traditional sources of replacement capital from hedge funds and private equity had dried up, there would be no class of 2009 to spoil the market hardening impact of a capital shortage. So far in 2009, this is proving to be accurate.

There has been a modest amount of capital raised from shareholders, particularly in the Lloyd's sector, but in the grand scheme of things, the sums involved will not change the fundamentals of market conditions. The capacity pre-emptions already announced by Lloyd's businesses suggest a meaningful step change in Lloyd's business volume for 2010, but some of these increases are belated changes to cope with exchange rate movements.

The funds raised will, nevertheless, serve to improve further the relative positioning of Lloyd's which is seeing good levels of new business as well as rating increases across the board.

Some market commentators have expressed disappointment that the rating improvements have not been more dramatic and that in fact, the hopes of a rating recovery were overstated. We do not share this disappointment. A spiking of rates would typically only occur after a major event such as the World Trade Centre disaster but this is not the environment that we are currently subject to. The realisation of the impact of loss of capital and the need for focus on underwriting margins is still emerging and given this creeping understanding, it should not be a surprise that the necessary corrections are also taking some time to emerge. What we can see clearly is that the property classes, being those most recently affected by losses and most capital hungry, are progressing very well.

Although the marine and aviation, and specialty lines business units are reflecting more modest improvements, even these modest changes are extremely positive against an original expectation that 2009 would be 10% to 15% down in rating terms. Our key assumption has been that the recovery will be slow to materialise and will be sustained, and this remains our position.

One of the key features of the business environment in which we are operating is the increasing challenge of the regulatory landscape. Of most significance longer term is Solvency II which is expected to enhance capital assessments and risk management capabilities for insurance businesses way beyond the immediate scope of the legislation itself and to influence insurance regulation globally. There is an encouraging amount of the Directive's content which is not new for the UK industry and which can be viewed as good practice or be utilised to commercial advantage. Nevertheless there is a considerable amount of effort and resource necessary to meet the required standards, and we are making good progress, including the recruitment of a risk management professional to help in driving us forward.

We are examining the new guidelines on remuneration which the FSA is progressing for the financial services sector in response to the perceived excess of the bonus and reward culture which is thought to have contributed to risk taking and short termism in financial markets in the lead up to the global crisis. Furthermore, we need to have an eye on the recommendations emerging from the Walker review on remuneration and broader issues of governance and the level of engagement of non-executive directors. It is not entirely clear yet to what extent all of these proposals will apply to the insurance industry but we are reviewing our own arrangements in this context to ensure that we can continue to meet the expectations of the investor community.

#### Current trading and prospects

We are pleased with the rating increases that we have experienced so far.

#### **Analysis of 2009 risks**

	Gross written premiums £m		Increase	Renewal rate change %
	2008	2009		
Marine and aviation	28.2	33.4	5.2	1.4%
Non-marine property	19.1	25.8	6.7	10.7%
Specialty lines	20.4	28.1	7.7	2.1%
Property treaty	29.3	62.6	33.3	10.4%
<b>Total</b>	<b>97.0</b>	<b>149.9</b>	<b>52.9</b>	<b>6.5%</b>

*Values are for 2009 risks, gross of brokerage and commissions, on a like for like currency basis.*

Given a toughening of the reinsurance market, we may finally also see the long awaited uptick in airline rates in the last quarter of the year. It is apparent that for some classes the economic climate is contributing to declining exposure values and therefore lower premium growth. In certain lines and geographies, an unwillingness by assureds to accept increases in rates is driven by poor trading conditions or a lack of loss activity, but it is nevertheless possible in the absence of a strict rating increase to secure an improvement in terms, which reduces exposures or improves the quality of the risk.

With the prospect of lower investment returns for the foreseeable future, underwriting margins must be the focus and so this environment plays to Hardy's natural strength.

Meanwhile, we have been busy as regards potential new business development opportunities which are now being handled largely by our recently appointed head of business development, Tim Griffin, who works very closely with Adrian Walker, Director of Underwriting and the business unit managers.

Following extensive research, entirely in keeping with our 'thinking underwriter' approach, we have identified some new facets of our existing lines of business where we now intend to develop a presence. The most imminent example of this is construction and engineering risks where we are recruiting an individual to lead our capabilities, with a view to contributing to the business plan with effect from 2010 onwards.

A focus of our renewed efforts on business development and initiatives for the future has been enhancing our relationships with our brokers. We are in the process of launching a major project to ensure that the Hardy offering, key messages and strategic positioning of the business is understood and also to reciprocate by ensuring that we appreciate what the brokers need from us. There is also a developing structure to our interaction with brokers which needs to be made on more than one level if it is to be effective for both parties.

We are on track with our plan to double the volume and value of the business between 2008 and 2012 and expect to increase our capacity for 2010 to £300 million to accommodate the ongoing expansion of the existing portfolio and the emerging new areas of interest.

#### Capital and dividends

As a result of a review of our tactical reinsurance buying, we have re-visited our 2009 business plan. The original plan envisaged that more catastrophe retro reinsurance would be purchased which in the event, has not made sense given market pricing levels. The capital raised earlier in the year gave us the flexibility to make that objective choice.

We are currently negotiating the renewal of our LOC banking facility. Indications are that the LOC will be replaced, probably at a higher amount than the current £35m and will almost certainly be denominated in US dollars, which will provide a natural hedge for our US dollar exposures going forward.

All of the capital raised earlier in 2009 will therefore have been put to use by 2010 and any dilution in return on equity will, as a result, have been brief.

As referred to in the Chairman's report, we expect to increase the total dividend for 2009 by 10%, so the total will be 13.3p per share, of which we will pay 30% (4p) as an interim dividend in October 2009.

#### The Board

The composition of the Board will need to be reviewed later in the year. Paul Bailie, one of our Bermuda-based non-executives, has been appointed as managing director of the Bermuda office. Whilst there is no immediate need for further change (because the HUB Board will then include three executives and three non-executives) we will commence the search for a new non-executive shortly with a view to identifying a candidate before the year end.

#### **Conclusion**

This is a very good time for Hardy, both for shareholders and for employees. We have advanced the business significantly in the first six months of 2009. Market conditions are playing into our hands and the property classes in which we have expanded since 2006 are those which are experiencing the best recovery.

The opportunities that are being offered to us and that we are identifying or initiating ourselves seem to be endless and we could not be more fortunate to have a strong, committed team, a robust balance sheet, consistent underwriting performance and a fantastic brand.

## FINANCIAL REVIEW

### Summary of results

The pre-tax profit at the half-year stage of £7.8m (2008: £8.7m) is a strong result given the underwriting environment from which it was generated, being primarily the legacy of the 2008 year with poor rating and high loss levels, both of an attritional and catastrophic nature. The result has again been materially impacted by foreign exchange movements, and we have experienced an inevitable material reversal at the half year stage of much of the gain from which we benefited last year.

Notwithstanding this foreign exchange volatility within our results, underwriting performance is good and the combined ratio excluding foreign exchange effects is 75.7%, compared to 85.0% last year, on which basis, the 2009 half year result is our best ever.

	Half year 2009	Half year 2008	Full year 2008
Gross written premium	149,870	97,048	172,770
Net insurance premium revenue	86,671	60,922	120,799
Total underwriting return	21,036	9,162	8,667
Investment income	3,303	3,265	7,790
Other income	149	93	284
Other charges	(5,771)	(5,184)	(12,363)
Profit before tax and foreign exchange	18,717	7,336	4,378
Foreign exchange (loss)/gain	(10,958)	1,396	18,715
Profit before tax	7,759	8,732	23,093
Annualised post tax return on equity	12.8%	17.4%	22.9%
Basic earnings per share	15.1p	20.9p	55.4p
Net tangible assets per share	247p	213p	245p
Dividend per share	4p	3.6p	12.1p

### Underwriting performance

The increase in gross premium volumes of 54% to £149.9m is attributable to the new lines of business that we have been developing in recent times, the principal examples of which are the Japanese Kyosai portfolio and the high net worth property account, to improved ratings on existing business, particularly the catastrophe exposed property classes and finally to new business flows. Unsurprisingly, the property classes which have been most recently affected by loss, and which are most capital hungry, are those which are advancing first.

Earned premiums are up by 42.3% from £60.9m to £86.7m, reflecting the increasing significance of the property portfolio developed since 2006, which in the main, is less binder driven and has a shorter tail profile. An increase in proportionate reinsurance spend has also had an effect. The tables below analyse the result across business units showing the impact of prior year releases and of the foreign exchange loss.

Six month to 30 June 2009

	Marine and aviation	Specialty lines	Non marine property	Property treaty	Whole account
	£'m	£'m	£'m	£'m	£'m
Gross written premium	33.4	28.1	25.8	62.6	149.9
Net earned premium	27.7	17.3	13.0	28.7	86.7
Current accident year claims	21.2	13.7	4.6	9.3	48.8
PY claims (release)	(2.2)	(4.7)	(2.1)	(1.0)	(10.0)
Net claims incurred	19.0	9.0	2.5	8.3	38.8
Insurance expenses (ex FX)	8.5	7.0	4.2	7.1	26.8
Underwriting result (ex FX)	0.2	1.3	6.3	13.3	21.1
Foreign exchange loss	2.9	2.0	1.7	3.8	10.4
Underwriting result (inc FX)	(2.7)	(0.7)	4.6	9.5	<b>10.7</b>
Claims ratio	68.8%	52.1%	18.9%	28.8%	44.8%
Current accident year	76.5%	79.2%	35.4%	32.4%	56.3%
Expense ratio	41.0%	52.2%	45.5%	38.1%	42.9%
Expense ratio (ex FX)	30.6%	40.8%	32.0%	24.9%	30.9%
Combined ratio	109.8%	104.3%	64.4%	66.9%	87.7%
Combined ratio (ex FX)	99.4%	92.9%	50.9%	53.7%	75.7%

## Six month to 30 June 2008

	Marine and aviation	Specialty lines	Non marine property	Property treaty	Whole account
	£'m	£'m	£'m	£'m	£'m
Gross written premium	28.2	20.4	19.1	29.3	97.0
Net earned premium	23.3	10.5	11.9	15.2	60.9
Current accident year claims	14.3	9.0	8.7	4.4	36.4
PY claims (release)	(2.2)	(3.0)	2.2	(1.8)	(4.8)
Net claims incurred	12.1	6.0	10.9	2.6	31.6
Insurance expenses (ex FX)	6.8	5.7	3.8	3.8	20.2
Underwriting result (ex FX)	4.4	(1.2)	(2.8)	8.8	9.2
Foreign exchange (gain)	(0.5)	(0.2)	(0.2)	(0.1)	(1.0)
Underwriting result (inc FX)	4.9	(1.0)	(2.6)	8.9	<b>10.2</b>
Claims ratio	52.1%	56.8%	91.3%	16.8%	51.8%
Current accident year	62.0%	84.9%	72.6%	28.6%	59.7%
Expense ratio	26.7%	52.8%	30.3%	24.9%	31.5%
Expense ratio (ex FX)	29.5%	54.3%	31.6%	25.3%	33.2%
Combined ratio	78.8%	109.6%	121.6%	41.6%	83.3%
Combined ratio (ex FX)	81.6%	111.1%	122.9%	42.1%	85.0%

Claims incidence has been relatively light in the first half of 2009 as compared to 2008. The conservative reserving approach adopted at the year end to address the high levels of attrition in 2008 have protected Hardy from the need to uplift reserves in the period and once again, a reassessment of earlier year reserves has resulted in releases across the board.

The impact of foreign exchange is material and detrimental, with the biggest effect being experienced by those business units which transact predominantly in US dollars, Euros or Japanese Yen, the movement of which against sterling has been particularly unpredictable and unhelpful.

It is worth re-iterating the reasons for the significant movements as outlined in the 2008 year end accounts.

The accounting convention is to recognise underwriting profit at the average rate of exchange for the period, which was US\$1.50: £1, €1.12: £1 and ¥142.88: £1. The balance sheet is converted at closing rates of exchange for monetary items, which as at 30 June was US\$1.65: £1, €1.17: £1 and ¥158.90: £1. The retranslation of the result for the period recognised at average rates to closing rates is recognised as a foreign exchange loss, rather as part of the underwriting result.

The accounting treatment for non-monetary items under IFRS has a tendency to magnify the impact of movements in foreign exchange rates. This is due to requirements to carry non-monetary items at the foreign exchange rate prevailing at the time of initial recognition without revaluation to the closing exchange rate. There is, therefore, a mismatch between the exchange rates used to convert non-monetary items and monetary items, which generates volatility in the results for the period. The main non-monetary items are unearned premium reserves and deferred acquisition costs.

The combined ratio, excluding foreign exchange movements, is 75.7% compared to 85.0% last year. This is very encouraging and illustrates continued underwriting discipline and superior risk selection against the background of improving rates.

### Insurance expenses

Since insurance expenses include gains and losses arising from changes in foreign exchange rates, there is a material consequential effect on the expense element of the combined ratio as shown in the tables below.

#### Six month to 30 June 2009

	Marine and aviation	Specialty lines	Non marine property	Property treaty	Whole account
	£'m	£'m	£'m	£'m	£'m
Net earned premium	27.7	17.3	13.0	28.7	86.7
Commissions incurred	6.8	5.7	2.8	4.2	19.5
Other insurance expenses	1.6	1.2	1.3	3.2	7.3
Foreign exchange loss	2.9	2.0	1.7	3.8	10.4
Insurance expenses	11.3	8.9	5.8	11.2	37.2
Commission rate	24.7%	32.7%	21.6%	14.7%	22.5%
Other expense ratio	5.9%	8.0%	10.4%	10.2 %	8.4%
Expense ratio (ex FX)	30.6%	40.8%	32.0%	24.9%	30.9%
FX	10.4%	11.4%	13.5%	13.2%	12.0%
Expense ratio	41.0%	52.2%	45.5%	38.1%	42.9%

Excluding the effects of foreign exchange movements, insurance expenses are broadly similar in proportionate terms for 2008 and 2009.

## Six month to 30 June 2008

	Marine and aviation	Specialty lines	Non marine property	Property treaty	Whole account
	£'m	£'m	£'m	£'m	£'m
Net earned premium	23.2	10.5	11.9	15.2	60.9
Commissions incurred	5.0	4.4	2.4	2.0	13.8
Other insurance expenses	1.9	1.3	1.4	1.9	6.4
Foreign exchange loss	(0.6)	(0.2)	(0.2)	(0.1)	(1.0)
Insurance expenses	6.2	5.6	3.6	3.8	19.2
Commission rate	21.4%	42.2%	20.0%	13.1%	22.7%
Other expense ratio	8.1%	12.1%	11.6%	12.2%	10.5%
Expense ratio (ex FX)	29.5%	54.3%	31.6%	25.3%	33.2%
FX	-2.8%	-1.5%	-1.3%	-0.4%	-1.7%
Expense ratio	26.7%	52.8%	30.3%	24.9%	31.5%

Commissions are, as can be seen, highly variable according to class of business and the main contributor to the high levels of commission for the specialty lines business unit are the conveyancing account and the accident and health portfolio.

## Investments

Investment returns contributed £3.3m (2008: £3.3m) to the result for the half year, reflecting a halving of the returns achieved last year, on a pot of investable assets which is considerably larger than before, as a result of the capital raising. The 2009 return also included a profit of just over £1m arising from foreign exchange derivative contracts entered into to hedge foreign exchange risk.

The asset allocation policy remains very conservative, with a preponderance of fixed income securities. Although there is a long term appetite for equities, there has been no return to that market on the grounds of continued material uncertainty for which rewards are inadequate.

The investment return for the period is set out below.

Investment return	Six months to 30 June 2009			Six months to 30 June 2008		
	Average balance	Return	Return	Average balance	Return	Return
	£'000	£'000	%	£'000	£'000	%
Equities			0.0%	3,038	101	3.3%
Fixed income	144,589	1,955	1.4%	106,896	1,628	1.5%
Cash and deposits	99,108	304	0.3%	69,821	1,536	2.2%
	243,697	2,259	0.9%	179,755	3,265	1.8%
FX contracts		1,044				
		<b>3,303</b>				

The allocation over the main asset classes is set out below.

Asset analysis	As at 30 June 2009		As at 30 June 2008	
	£'000	%	£'000	%
Equities				
Fixed income	164,121	62%	113,530	62%
Cash and deposits	100,311	38%	70,168	38%
	264,432	100%	183,698	100%

The fixed income portfolios are analysed by asset type and credit rating below.

As at 30 June 2009	Holding		Credit rating		
	£'000	%	AAA	AA	A
Government	79,692	49%	46%	3%	0%
Government agency	37,662	23%	16%	7%	0%
Supranationals	15,156	9%	9%	0%	0%
Covered	1,512	1%	1%	0%	0%
Corporate	30,099	18%	3%	14%	1%
Fixed income securities	164,121	100%	75%	24%	1%

As at 30 June 2008	Holding		Credit rating		
	£'000	%	AAA	AA	A
Government	71,267	63%	63%		
Government agency	14,814	13%	10%	3%	
Supranationals	12,716	11%	11%		
Covered					
Corporate	14,733	13%	9%	3%	1%
Fixed income securities	113,530	100%	93%	6%	1%

### Other expenses

Other expenses are primarily of a corporate nature and have not been included in the combined ratio.

### Forward-looking information

The forward-looking statements within this business, operational and financial review have been made by the directors in good faith, based on the information available to them at the time of their approval of this review.

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six month period ended 30 June 2009

	Notes	Six months ended 30 June 2009 £'000	Six months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Insurance premium revenue	5	102,849	73,146	153,740
Reinsurance premiums	5	<u>(16,178)</u>	<u>(12,224)</u>	<u>(32,941)</u>
Net insurance premium revenue		86,671	60,922	120,799
Financial income	6	3,303	3,265	7,790
Other operating income	7	<u>149</u>	<u>93</u>	<u>284</u>
<b>Net income</b>		90,123	64,280	128,873
Claims incurred	8	(55,006)	(49,811)	(89,632)
Reinsurers' share of claims incurred	8	<u>16,187</u>	<u>18,259</u>	<u>19,991</u>
<b>Net claims incurred</b>		(38,819)	(31,552)	(69,641)
Expenses incurred in insurance activities	9	(26,816)	(20,208)	(42,491)
Foreign exchange (losses) / gains		(10,958)	1,396	18,715
Other operating expenses		<u>(4,967)</u>	<u>(4,373)</u>	<u>(10,648)</u>
Total operating expenses		(81,560)	(54,737)	(104,065)
<b>Operating profit</b>		8,563	9,543	24,808
Finance charges	10	<u>(804)</u>	<u>(811)</u>	<u>(1,715)</u>
<b>Profit before tax</b>		7,759	8,732	23,093
Income tax expense	11	<u>(1,224)</u>	<u>(1,353)</u>	<u>(3,592)</u>
<b>Profit for the period</b>		<u>6,535</u>	<u>7,379</u>	<u>19,501</u>
Earnings per share (pence)				
Basic	12	15.1	20.9	55.4
Diluted	12	14.6	20.8	53.8

All of the operations relate to continuing activities during the current and previous period.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2009

	Six months ended 30 June 2009	Six months ended 30 June 2008	Year ended 31 December 2008
Profit recognised	6,535	7,379	19,501
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income recognised	<u>6,535</u>	<u>7,379</u>	<u>19,501</u>

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

		As at 30 June 2009	As at 30 June 2008	As at 31 December 2008
	Notes	£'000	£'000	£'000
<b>Assets</b>				
Intangible assets		15,509	15,509	15,509
Property, plant and equipment		2,458	1,656	1,868
Reinsurance assets				
- Reinsurers' share of outstanding claims	20	40,368	44,383	37,167
- Reinsurers' share of unearned premium	20	30,735	14,957	9,687
Deferred acquisition costs		35,112	24,749	24,423
Trade and other receivables		106,717	72,652	83,982
Current income tax assets		7,759	3,253	6,784
Prepayments and accrued income		5,357	4,062	3,204
Investments at fair value	15	164,121	113,530	129,758
Cash and cash equivalents	16	100,311	70,168	105,070
<b>Total assets</b>		<b>508,447</b>	<b>364,919</b>	<b>417,452</b>
<b>Equity</b>				
Share capital	17	10,459	7,152	7,152
Share premium	17	-	-	-
Contributed surplus	17	77,252	42,349	42,349
Other reserves	18	2,604	1,777	2,348
Retained earnings		52,114	39,000	49,880
<b>Total equity</b>		<b>142,429</b>	<b>90,278</b>	<b>101,729</b>
<b>Liabilities</b>				
Financial liabilities – subordinated debt	19	17,687	14,650	20,256
Insurance liabilities				
- Outstanding claims	20	150,831	125,655	146,299
- Unearned premium	20	139,346	97,197	92,325
Deferred income tax liabilities	21	6,550	5,940	8,471
Trade and other payables		43,328	25,605	41,914
Current tax liabilities		8,276	5,594	6,458
<b>Total liabilities</b>		<b>366,018</b>	<b>274,641</b>	<b>315,723</b>
<b>Total equity and liabilities</b>		<b>508,447</b>	<b>364,919</b>	<b>417,452</b>
Net assets per share (£)	22	£2.78	£2.57	£2.90
Net tangible assets per share (£)	22	£2.47	£2.13	£2.45

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six month period ended 30 June 2009

	Note	Share capital £'000	Share premium £'000	Contributed surplus £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2009		7,152	-	42,349	2,348	49,880	101,729
<b>Total comprehensive income for the period</b>							
Profit recognised		-	-	-	-	6,535	6,535
<b>Transactions with owners, recorded directly in equity</b>							
Proceeds of shares issued in relation to share options exercised		16	-	135	-	-	151
Placing and open offer		3,291	-	34,768	-	-	38,059
Share-based payments		-	-	-	696	-	696
Employee Benefit Trust holding		-	-	-	(440)	-	(440)
Dividends	13	-	-	-	-	(4,301)	(4,301)
Balance at 30 June 2009		10,459	-	77,252	2,604	52,114	142,429

For the six month period ended 30 June 2008

	Note	Share capital £'000	Share premium £'000	Contributed surplus £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2008		7,142	42,258	-	1,504	34,304	85,208
<b>Total comprehensive income for the period</b>							
Profit recognised		-	-	-	-	7,379	7,379
<b>Transactions with owners, recorded directly in equity</b>							
Proceeds of shares issued in relation to share options exercised		10	91	-	-	-	101
Share-based payments		-	-	-	421	-	421
Employee Benefit Trust holding		-	-	-	(148)	-	(148)
Transfer on reverse acquisition		-	(42,349)	42,349	-	-	-
Dividends	13	-	-	-	-	(2,683)	(2,683)
Balance at 30 June 2008		7,152	-	42,349	1,777	39,000	90,278

For the year ended 31 December 2008

	Note	Share capital £'000	Share premium £'000	Contributed Surplus £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2008		7,142	42,258	-	1,504	34,304	85,208
<b>Total comprehensive income for the period</b>							
Profit recognised		-	-	-	-	19,501	19,501
<b>Transactions with owners, recorded directly in equity</b>							
Proceeds of shares issued in relation to share options exercised		10	91	-	-	-	101
Share-based payments		-	-	-	992	-	992
Employee Benefit Trust holding		-	-	-	(148)	-	(148)
Transfer on reverse acquisition		-	(42,349)	42,349	-	-	-
Dividends	13	-	-	-	-	(3,925)	(3,925)
Balance at 31 December 2008		7,152	-	42,349	2,348	49,880	101,729

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six month period ended 30 June 2009

	Six months to 30 June 2009 £'000	Six months to 30 June 2008 £'000	Year ended 31 December 2008 £'000
<b>Profit before tax</b>	7,759	8,732	23,093
Depreciation of property, plant and equipment	311	196	455
Interest and equity dividend income	(2,933)	(3,637)	(8,885)
Net unrealised (losses) on investments	(1,114)	(437)	(2,288)
Foreign exchange losses / (gains)	10,957	-	(23,625)
Share-based payments	696	421	992
Finance charges	804	811	1,715
Change in underwriting balances	627	9,914	36,704
(Increase) / decrease in investments	(42,813)	461	4,564
(Increase) in debtors and prepayments	(2,589)	(5,024)	(2,852)
(Decrease) in creditors and accruals	(9,708)	(4,402)	12,955
<b>Cash generated from operations</b>	(38,003)	7,035	42,828
Interest received	2,933	3,580	8,827
Equity dividends received	-	57	58
Income tax paid	(1,812)	(310)	(2,680)
<b>Net cash generated from operating activities</b>	(36,882)	10,362	49,033
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(901)	(203)	(674)
<b>Cash used in investing activities</b>	(901)	(203)	(674)
<b>Cash flows from financing activities</b>			
Dividends paid	(4,301)	(2,683)	(3,925)
Cash received from issue of shares	38,209	101	101
Purchase of own shares	(440)	(148)	(148)
Finance charges	(804)	(811)	(1,715)
<b>Net cash from financing activities</b>	32,664	(3,541)	(5,687)
<b>Net (decrease) / increase in cash and cash equivalents</b>	(5,119)	6,618	42,672
Cash and cash equivalents at 1 January	105,070	63,919	63,919
Effect of exchange rate fluctuations on cash and cash equivalents	360	(369)	(1,521)
<b>Cash and cash equivalents at end of the period</b>	100,311	70,168	105,070

## Notes to the condensed consolidated interim financial statements

### 1 General information

Hardy Underwriting Bermuda Limited is a company domiciled in Bermuda. The condensed consolidated interim financial statements of the Company for the six month period ended 30 June 2009 relate to the Company and its subsidiaries (together referred to as the "Group"). The financial information has been prepared in accordance with Bermudian law. The chairman's statement and operating and financial review accompanying these condensed consolidated interim financial statements form the interim management report for the six months ended 30 June 2009.

These condensed consolidated interim financial statements were approved for issue by the board on 3 August 2009.

### 2 Basis of preparation

The Group condensed consolidated interim financial statements have been prepared in accordance with the Listing Rules issued by the Financial Services Authority. The information presented herein does not include all of the disclosures typically required for full consolidated financial statements. Consequently these financial statements should be read in conjunction with the full consolidated financial statements of Hardy Underwriting Bermuda Limited as at, and for the year ended, 31 December 2008 which are available from the Company's registered office or at [www.hardygroup.co.uk](http://www.hardygroup.co.uk). Except where otherwise indicated, all amounts are presented in Pounds Sterling, rounded to the nearest thousand.

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

Hardy Underwriting Bermuda Limited was incorporated under the laws of Bermuda on 17 October 2007. With effect from 6 February 2008, under a scheme of arrangement involving a share exchange with the members of Hardy Underwriting Group plc, the company became the new holding company of the Hardy group.

Throughout the period from incorporation to 6 February 2008, Hardy Underwriting Bermuda Limited was a shell company with no material revenues or assets and did not constitute a "business" as defined by IFRS3 Business Combinations. Consequently, due to the relative values of both companies, the shareholders of Hardy Underwriting Group plc immediately before the share exchange, in effect acquired 100 per cent of the share capital of Hardy Underwriting Bermuda Limited on completion of the transaction.

In order to appropriately reflect the substance of the transaction outlined above, the new holding company has been accounted for using the reverse acquisition principles outlined in IFRS 3. Consequently Hardy Underwriting Group plc is deemed to be the acquirer for accounting purposes and the legal parent company, Hardy Underwriting Bermuda Limited is treated as a subsidiary whose identifiable assets and liabilities are incorporated into the Group at fair value.

The Group's condensed consolidated interim financial statements are issued in the name of the legal parent Company, Hardy Underwriting Bermuda Limited. However, as a consequence of applying reverse acquisition accounting, the results for the six month period to 30 June 2008 represent a continuation of the consolidated activities of Hardy Underwriting Group plc for the six month period ended 30 June 2008 plus those of Hardy Underwriting Bermuda Limited from 6 February 2008. The condensed consolidated interim balance sheet as at 30 June 2008 reflects the issued share capital and contributed surplus of Hardy Underwriting Bermuda Limited. In accordance with Bermudian law the previously reported share premium reserve is presented as contributed surplus. The comparative earnings per share are not altered by the application guidance of IFRS3.

### **3 Accounting policies**

The accounting policies adopted in preparing these condensed consolidated interim financial statements are those that the Group expects to apply for the year ending 31 December 2009. They are consistent with those followed in the preparation of Hardy Underwriting Bermuda Limited consolidated financial statements as at, and for the year ended 31 December 2008 which were prepared in accordance with International Financial Reporting Standards issued by the IASB and adopted by the European Union. IAS 34 Interim Financial Reporting as adopted by the European Union has been adopted in this report.

The Group has applied revised IAS 1 – Presentation of financial statements and IFRS 8 Operating segments (both which became effective as of 1 January 2009) to both the condensed consolidated interim financial statements for the period ended 30 June 2009 and the comparative period for 30 June 2008 and the full consolidated financial statements for the year ended 31 December 2008. Since the change in both of these accounting policies only impacts presentation aspects there is no impact on the results of the group.

### **4 Segment information**

#### **Business segments**

In 2007 the main business segments used for reporting purposes were aviation, marine and non-marine. For 2008 four separate units were formed under the leadership of business unit managers, these being marine and aviation, specialty lines, non-marine property and property treaty.

The above mentioned operating segments are based upon the different types of insurance risk which include:

#### Marine and aviation

The main areas underwritten in this segment are aviation, cargo and specie and marine.

#### Property treaty

The property treaty segment is predominantly non-proportional property treaty reinsurance with supporting books of pro rata and risk excess of loss, as well as a small crop portfolio.

#### Non-marine property

This segment includes worldwide direct and facultative (“D&F”) property, direct property and high net worth property insurance.

#### Specialty lines

Areas underwritten in this segment include terrorism, financial institutions, political risks, schemes and conveyancing insurance.

Further information about the performance of these segments can be found in the operating and financial review.

The segment results for the six months ended 30 June 2009 are as follows:

	<b>Marine and aviation</b> £'000	<b>Specialty lines</b> £'000	<b>Non- marine property</b> £'000	<b>Property treaty</b> £'000	<b>Total</b> £'000
Gross premium written	33,407	28,096	25,807	62,560	149,870
<b>Net insurance premium revenue</b>	<u>27,740</u>	<u>17,285</u>	<u>12,979</u>	<u>28,667</u>	<u>86,671</u>
Net claims incurred	(19,090)	(9,012)	(2,459)	(8,258)	(38,819)
Expenses incurred in insurance activities	(8,483)	(7,050)	(4,151)	(7,132)	(26,816)
<b>Total operating expenses</b>	<u>(27,573)</u>	<u>(16,062)</u>	<u>(6,610)</u>	<u>(15,390)</u>	<u>(65,635)</u>
Total underwriting return	<u>167</u>	<u>1,223</u>	<u>6,369</u>	<u>13,277</u>	<u>21,036</u>
<b>Other income and expenses:</b>					
Financial income					3,303
Other operating income					149
Foreign exchange loss					(10,958)
Other operating expenses					<u>(4,967)</u>
<b>Operating profit</b>					<u>8,563</u>
Finance charges					<u>(804)</u>
<b>Profit before tax</b>					<u>7,759</u>
Income tax expense					<u>(1,224)</u>
<b>Profit after tax</b>					<u>6,535</u>
Claims ratio (%)	68.8%	52.1%	18.9%	28.8%	44.8%
Expense ratio (%)	<u>30.6%</u>	<u>40.8%</u>	<u>32.0%</u>	<u>24.9%</u>	<u>30.9%</u>
Combined ratio (%)	<u>99.4%</u>	<u>92.9%</u>	<u>50.9%</u>	<u>53.7%</u>	<u>75.7%</u>

The claims ratio is net claims incurred as a percentage of net insurance premium revenue.

The expense ratio is expenses incurred in insurance activities (excluding other operating expenses and foreign exchange) as a percentage of net insurance premium revenue.

The combined ratio is the sum of the claims ratio and expense ratio.

The segment results for the six months ended 30 June 2008 are as follows:

	<b>Marine and aviation</b> £'000	<b>Specialty lines</b> £'000	<b>Non- marine property</b> £'000	<b>Property treaty</b> £'000	<b>Total</b> £'000
Gross premium written	28,202	20,431	19,107	29,308	97,048
<b>Net insurance premium revenue</b>	<u>23,235</u>	<u>10,549</u>	<u>11,946</u>	<u>15,192</u>	<u>60,922</u>
Net claims incurred	(12,107)	(5,993)	(10,906)	(2,546)	(31,552)
Expenses incurred in insurance activities	(6,850)	(5,729)	(3,780)	(3,849)	(20,208)
<b>Total operating expenses</b>	<u>(18,957)</u>	<u>(11,722)</u>	<u>(14,686)</u>	<u>(6,395)</u>	<u>(51,760)</u>
Total underwriting return	<u>4,278</u>	<u>(1,173)</u>	<u>(2,740)</u>	<u>8,797</u>	<u>9,162</u>
<b>Other income and expenses:</b>					
Financial income					3,265
Other operating income					93
Foreign exchange gain					1,396
Other operating expenses					(4,373)
<b>Operating profit</b>					<u>9,543</u>
Finance charges					(81)
<b>Profit before tax</b>					<u>8,732</u>
Income tax expense					(1,353)
<b>Profit after tax</b>					<u>7,379</u>
Claims ratio (%)	52.1%	56.8%	91.3%	16.8%	51.8%
Expense ratio (%)	<u>29.5%</u>	<u>54.3%</u>	<u>31.6%</u>	<u>25.3%</u>	<u>33.2%</u>
Combined ratio (%)	<u>81.6%</u>	<u>111.1%</u>	<u>122.9%</u>	<u>42.1%</u>	<u>85.0%</u>

The segment results for the year ended 31 December 2008 are as follows:

	<b>Marine and aviation</b> £'000	<b>Specialty lines</b> £'000	<b>Non- marine property</b> £'000	<b>Property treaty</b> £'000	<b>Total</b> £'000
Gross premium written	47,866	48,140	26,165	50,599	172,770
<b>Net insurance premium revenue</b>	<u>42,653</u>	<u>28,872</u>	<u>16,298</u>	<u>32,976</u>	<u>120,799</u>
Net claims incurred	(24,466)	(17,674)	(13,033)	(14,468)	(69,641)
Expenses incurred in insurance activities	(14,450)	(12,928)	(6,125)	(8,988)	(42,491)
<b>Total operating expense</b>	<u>(38,916)</u>	<u>(30,602)</u>	<u>(19,158)</u>	<u>(23,456)</u>	<u>(112,132)</u>
Total underwriting return	<u>3,737</u>	<u>(1,730)</u>	<u>(2,860)</u>	<u>9,520</u>	<u>8,667</u>
<b>Other income and expenses:</b>					
Financial income					7,790
Other operating income					284
Foreign exchange gain					18,715
Other operating expenses					(10,648)
<b>Operating profit</b>					<u>24,808</u>
Finance charges					(1,715)
<b>Profit before tax</b>					<u>23,093</u>
Income tax expense					(3,592)
<b>Profit after tax</b>					<u>19,501</u>
Claims ratio (%)	57.4%	61.2%	80.0%	43.9%	57.7%
Expense ratio (%)	<u>33.9%</u>	<u>44.8%</u>	<u>37.6%</u>	<u>27.3%</u>	<u>35.2%</u>
Combined ratio (%)	<u>91.3%</u>	<u>106.0%</u>	<u>117.6%</u>	<u>71.2%</u>	<u>92.9%</u>

## 5 Net insurance premium revenue

	Six months ended 30 June 2009 £'000	Six months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Gross premiums written	149,870	97,048	172,770
Change in gross unearned premiums provision (note 20)	(47,021)	(23,902)	(19,030)
Gross earned premiums	102,849	73,146	153,740
Premiums ceded to reinsurers	(37,225)	(19,182)	(34,630)
Change in ceded unearned premiums provision (note 20)	21,047	6,958	1,689
Ceded earned premiums	(16,178)	(12,224)	(32,941)
Net insurance premium revenue	86,671	60,922	120,799

## 6 Financial income

	Six Months ended 30 June 2009 £'000	Six Months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
<b>Other financial income</b>			
Interest income cash and cash equivalents	304	420	736
Investment income on financial assets designated at fair value through the income statement on initial recognition			
Interest income from fixed income securities	2,629	3,160	8,091
Dividend income	-	57	58
Fair value gains/(losses) on financial assets at fair value through the income statement			
Held for trading (foreign exchange contracts)	1,044	37	(2,459)
Designated upon initial recognition (realised)	158	(90)	337
Designated upon initial recognition (unrealised)	(832)	(319)	1,027
	3,303	3,265	7,790

## 7 Other operating income

	Six Months ended 30 June 2009 £'000	Six Months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Managing agent fee from third party Names	-	2	4
Managing agent profit commission	-	89	230
Other income	149	2	50
	149	93	284

## 8 Net claims incurred

	Six Months ended 30 June 2009 £'000	Six Months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Claims paid	35,917	25,475	71,056
Movement in insurance liabilities (note 20)	19,089	24,336	18,576
Gross claims incurred	55,006	49,811	89,632
Reinsurers' share of claims paid	(9,304)	(4,797)	(20,020)
Reinsurers' share of movement in insurance liabilities (note 20)	(6,883)	(13,462)	29
Reinsurers' share of claims incurred	(16,187)	(18,259)	(19,991)
Net claims paid	26,613	20,678	51,036
Net movement in insurance liabilities (note 20)	12,206	10,874	18,605
Net claims incurred	38,819	31,552	69,641

In keeping with the Group's prudent approach to claims reserving, the current period has benefited from a release of claims reserves established in previous reporting periods. This reassessment of claims reserves has contributed £10.0 million (2008: £4.8 million) to the profit recognised in the period. The release is distributed across business segments, as follows:

	Six Months ended 30 June 2009 £'000	Six Months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Marine and aviation	2,210	2,299	3,378
Specialty lines	4,742	2,961	1,970
Non-marine property	2,073	(2,232)	(1,016)
Property treaty	962	1,805	2,055
Total	9,987	4,833	6,387

## 9 Expenses incurred in insurance activities

	Six Months ended 30 June 2009 £'000	Six Months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Commission expenses payable	30,039	18,458	32,908
Other acquisition costs	2,797	2,534	5,440
Change in deferred acquisition costs	(10,549)	(4,722)	(4,355)
Total acquisition costs	22,287	16,270	33,993
Administrative expenses	4,529	3,938	8,498
Expenses incurred in insurance activities	26,816	20,208	42,491

## 10 Finance charges

	Six Months ended 30 June 2009 £'000	Six Months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Letter of credit charges	315	281	579
Subordinated debt interest	489	530	1,136
	804	811	1,715

## 11 Income tax expense

	Six Months ended 30 June 2009 £'000	Six Months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
<b>Current tax expense</b>			
Current period	3,145	5,246	4,182
Adjustments for prior periods	-	-	772
	<u>3,145</u>	<u>5,246</u>	<u>4,954</u>
<b>Deferred tax</b>			
Origination and reversal of temporary differences (note 21)	(1,921)	(3,893)	(1,362)
	<u>1,224</u>	<u>1,353</u>	<u>3,592</u>

## 12 Earnings per share

### Basic

Basic earnings per share is calculated by dividing the profit after tax by the weighted average number of common shares in issue during the period, excluding common shares purchased by the Group and held as treasury shares.

	Six Months ended 30 June 2009	Six Months ended 30 June 2008	Year ended 31 December 2008
Profit for the period (£'000)	<u>6,535</u>	<u>7,379</u>	<u>19,501</u>
	Thousands	Thousands	Thousands
Issued shares at 1 January	35,760	35,712	35,712
Effect of own shares held	(773)	(500)	(561)
Effect of shares issued in period	8,301	46	46
Weighted average number of common shares in issue during period	<u>43,288</u>	<u>35,258</u>	<u>35,197</u>
Basic earnings per share (pence per share)	15.1p	20.9p	55.4p

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares; being share options and rewards of shares under the Groups share scheme. For 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 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 options. Diluted earnings per share are calculated using the same profits for the year as for basic earnings per share.

	Six Months ended 30 June 2009 Thousands	Six Months ended 30 June 2008 Thousands	Year ended 31 December 2008 Thousands
Weighted average number of common shares in issue during period	43,288	35,258	35,197
Adjusted for share options	1,599	148	1,062
Weighted average number of common shares for diluted earnings per share	<u>44,887</u>	<u>35,406</u>	<u>36,259</u>
Diluted earnings per share (pence per share)	14.6p	20.8p	53.8p

### 13 Dividends per share

	Six Months ended 30 June 2009 £'000	Six Months ended 30 June 2008 £'000	Year ended 31 December 2008 £'000
Final dividend for the year ended 31 December 2008 of 8.5p per share	4,301	-	-
Interim dividend for the year ended 31 December 2008 of 3.6p per share	-	-	1,242
Final dividend for the year ended 31 December 2007 of 7.7p per share	-	2,683	2,683
	<u>4,301</u>	<u>2,683</u>	<u>3,925</u>

The group has declared an interim dividend of 4.0p per share (2008: 3.6p) payable on 16 October 2009.

### 14 Reinsurance assets

	As at 30 June 2009 £'000	As at 30 June 2008 £'000	As at 31 December 2008 £'000
Reinsurers' share of unearned premiums	30,735	14,957	9,687
Reinsurers' share of outstanding claims	41,192	45,428	38,289
Impairment provision	(824)	(1,045)	(1,122)
Reinsurance assets (note 20)	<u>71,103</u>	<u>59,340</u>	<u>46,854</u>

Amounts due from reinsurers in respect of claims already paid by the Group are included in trade and other receivables.

### 15 Investments

	As at 30 June 2009 £'000	As at 30 June 2008 £'000	As at 31 December 2008 £'000
Financial assets at fair value through the income statement Designated upon initial recognition	164,121	113,530	129,758
Financial assets at fair value through the income statement Debt and other fixed income securities	<u>164,121</u>	<u>113,530</u>	<u>129,758</u>

The debt and fixed income securities are all listed on a recognised stock exchange.

Hardy Re Limited ("HRe"), Hardy Underwriting Limited ("HU") and Hardy Names Limited ("HN"), all wholly owned subsidiaries of Hardy Underwriting Bermuda Limited, have entered into Lloyd's Deposit Trust Deeds under the terms of which they have deposited funds (cash and investments) with Lloyd's, as security in respect of their underwriting business at Lloyd's. At the end of April 2008, the assets were transferred to Hardy Re Limited ("HRe"). At 30 June 2009 the total deposited under these Trust Deeds, including cash, amounted to £111,770,776 (2008: £69,621,806) and the relevant investments together with income thereon represent the maximum contingent liability under the Trust Deeds. HRe, HU and HN may, however, incur further liabilities pursuant to their underwriting activities at Lloyd's which would need to be met from their other assets.

In addition, on behalf of HU, the Company has deposited letters of credit with Lloyd's totaling £35 million (2008: £20 million). These letters of credit have been issued by Lloyds Banking Group and Calyon and are secured on the assets of the Group by means of a floating charge. This facility gives the Group access to £35 million to support underwriting on the 2007, 2008 and 2009 years of account.

## 16 Cash and cash equivalents

	As at 30 June 2009 £'000	As at 30 June 2008 £'000	As at 31 December 2008 £'000
Short-term bank deposits	86,143	56,467	82,195
Deposits with credit institutions	14,168	13,701	22,875
	<u>100,311</u>	<u>70,168</u>	<u>105,070</u>

Included in cash and cash equivalents held by the Group are balances totaling £69,484,772 (2008: £46,975,579) which are not available to the Group because they are held within syndicate premium trust funds.

## 17 Share capital, premium and contributed surplus

	Number of shares Thousands	Common shares £'000	Share premium £'000	Contributed Surplus £'000
As at 1 January 2008	35,712	7,142	42,258	-
Issues in relation to share options exercised	48	10	91	-
Transfer on reverse acquisition	-	-	(42,349)	42,349
As at 30 June 2008	<u>35,760</u>	<u>7,152</u>	<u>-</u>	<u>42,349</u>
Issues in relation to share options exercised	-	-	-	-
As at 31 December 2008	<u>35,760</u>	<u>7,152</u>	<u>-</u>	<u>42,349</u>
Issues in relation to share options exercised	76	16	-	135
Issued in relation to placing and open offer	16,456	3,291	-	34,768
As at 30 June 2009	<u>52,292</u>	<u>10,459</u>	<u>-</u>	<u>77,252</u>

The total authorised number of common shares is 75 million (2008: 50 million), with a par value of 20 pence per share. All issued shares are fully paid. On 1 April 2009 the Group raised £38.1 million, net of expenses, by way of a placing and open offer of new common shares at 245 pence per share on the basis of 46 new common shares for every 100 existing common shares.

## 18 Other reserves

	Own shares £'000	Merger reserve £'000	Other reserve £'000	Share- based payments £'000	Total £'000
As at 1 January 2008	(1,561)	2,441	75	549	1,504
Share-based payments	-	-	-	421	421
Employee benefit trust holding	(148)	-	-	-	(148)
As at 30 June 2008	<u>(1,709)</u>	<u>2,441</u>	<u>75</u>	<u>970</u>	<u>1,777</u>
Share-based payments	-	-	-	571	571
Employee benefit trust holding	-	-	-	-	-
As at 31 December 2008	<u>(1,709)</u>	<u>2,441</u>	<u>75</u>	<u>1,541</u>	<u>2,348</u>
Share-based payments	-	-	-	696	696
Employee benefit trust holding	(440)	-	-	-	(440)
As at 30 June 2009	<u>(2,149)</u>	<u>2,441</u>	<u>75</u>	<u>2,237</u>	<u>2,604</u>

The merger reserve relates to the merger of Hardy Underwriting Group plc with Hardy Underwriting Limited on formation of the Group in 1996.

Other reserves were created following the capitalisation of reserves in Hardy (Underwriting Agencies) Limited during 1998.

**19 Financial liabilities – subordinated debt**

	As at 30 June 2009 £'000	As at 30 June 2008 £'000	As at 31 December 2008 £'000
Subordinated debt	17,687	14,650	20,256

The Group issued a \$30m subordinated bond on 19 September 2006. The bond bears a variable interest rate set at three month US dollar LIBOR plus 3.3%. The bond must be redeemed by no later than 15 September 2036 at the principle plus any accrued interest. The Group has the option to redeem all or some of the bond at any time on or after 15 December 2011. The subordinated debt is carried at amortised cost which closely approximates fair value.

**20 Insurance liabilities and reinsurance assets**

	As at 30 June 2009 £'000	As at 30 June 2008 £'000	As at 31 December 2008 £'000
<b>Gross</b>			
Claims reported	101,578	88,908	98,664
Loss adjustment expenses	4,005	2,804	2,818
Claims incurred but not reported	45,248	33,943	44,817
Unearned premiums	139,346	97,197	92,325
<b>Total gross insurance liabilities</b>	<b>290,177</b>	<b>222,852</b>	<b>238,624</b>
<b>Recoverable from reinsurers</b>			
Claims reported	(32,769)	(36,617)	(28,963)
Claims incurred but not reported	(7,599)	(7,766)	(8,204)
Unearned premiums	(30,735)	(14,957)	(9,687)
<b>Total reinsurers' share of insurance liabilities</b>	<b>(71,103)</b>	<b>(59,340)</b>	<b>(46,854)</b>
<b>Net</b>			
Claims reported	68,809	52,291	69,701
Loss adjustment expenses	4,005	2,804	2,818
Claims incurred but not reported	37,649	26,177	36,613
Unearned premiums	108,611	82,240	82,638
<b>Total net insurance liabilities</b>	<b>219,074</b>	<b>163,512</b>	<b>191,770</b>

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

### Movement in outstanding claims reserves

	Gross £'000	Reinsurance £'000	Net £'000
Claims reported	62,986	(25,035)	37,951
Loss adjustment expenses	2,045	-	2,045
Claims incurred but not reported	34,866	(5,205)	29,661
<b>Total as at 1 January 2008</b>	<u>99,897</u>	<u>(30,240)</u>	<u>69,657</u>
Increase in period	24,336	(13,462)	10,874
Net exchange adjustments	1,422	(681)	741
<b>Total as at 30 June 2008</b>	<u>125,655</u>	<u>(44,383)</u>	<u>81,272</u>
Claims reported	88,908	(36,617)	52,291
Loss adjustment expenses	2,804	-	2,804
Claims incurred but not reported	33,943	(7,766)	26,177
<b>Total as at 30 June 2008</b>	<u>125,655</u>	<u>(44,383)</u>	<u>81,272</u>
Increase in year	18,576	29	18,605
Net exchange adjustments	27,826	(6,956)	20,870
<b>Total as at 31 December 2008</b>	<u>146,299</u>	<u>(37,167)</u>	<u>109,132</u>
Claims reported	98,664	(28,963)	69,701
Loss adjustment expenses	2,818	-	2,818
Claims incurred but not reported	44,817	(8,204)	36,613
<b>Total as at 31 December 2008</b>	<u>146,299</u>	<u>(37,167)</u>	<u>109,132</u>
Increase in period	19,089	(6,883)	12,206
Net exchange adjustments	(14,557)	3,682	(10,875)
<b>Total as at 30 June 2009</b>	<u>150,831</u>	<u>(40,368)</u>	<u>110,463</u>
Claims reported	101,578	(32,769)	68,809
Loss adjustment expenses	4,005	-	4,005
Claims incurred but not reported	45,248	(7,599)	37,649
<b>Total as at 30 June 2009</b>	<u>150,831</u>	<u>(40,368)</u>	<u>110,463</u>

### Movement in provision for unearned premiums

	Gross £'000	Reinsurance £'000	Net £'000
As at 1 January 2008	73,294	(7,999)	65,295
Movement during first half 2008	23,903	(6,958)	16,945
<b>As at 30 June 2008</b>	<u>97,197</u>	<u>(14,957)</u>	<u>82,240</u>
Movement during 2008	19,031	(1,688)	17,343
<b>As at 31 December 2008</b>	<u>92,325</u>	<u>(9,687)</u>	<u>82,638</u>
Movement during first half 2009	47,021	(21,048)	25,973
<b>As at 30 June 2009</b>	<u>139,346</u>	<u>(30,735)</u>	<u>108,611</u>

### 21 Deferred income tax liability

	2009 £'000	2008 £'000	2008 £'000
As at 1 January	8,471	9,833	9,833
(Credit) in period	(1,921)	(3,893)	(1,362)
<b>As at 30 June / 31 December</b>	<u>6,550</u>	<u>5,940</u>	<u>8,471</u>

All liabilities relate to the recognition of underwriting profits.

## 22 Net assets per share

Net assets and net tangible assets per share are calculated based on the number of common shares in issue at the period end, excluding common shares purchased by the Group and held as treasury shares.

	As at 30 June 2009 £'000	As at 30 June 2008 £'000	As at 31 December 2008 £'000
Net assets	142,429	90,278	101,729
Intangible assets	(15,509)	(15,509)	(15,509)
Net tangible assets	126,920	74,769	86,220
Issued shares at end of period (number of shares '000s)	52,292	35,760	35,760
Effect of own shares held (number of shares '000s)	(997)	(623)	(623)
Issued shares after adjustment (number of shares '000s)	51,295	35,137	35,137
Net assets per share	£2.78	£2.57	£2.90
Net tangible assets per share	£2.47	£2.13	£2.45

## 23 Risk management

The Group's insurance, financial and other risk management objectives and policies are consistent with that disclosed in note 3 of the full consolidated financial statements for Hardy Underwriting Bermuda Limited as at, and for the period ended 31 December 2008. The principal risks and uncertainties are unchanged and may be summarised as insurance risk, credit risk, market risk and liquidity risk.

## 24 Related parties

Directors of the Company and their immediate relatives control 4.62 per cent of the voting shares of the Company. This excludes the shares held in the Hardy EBT. The company considers that the directors are the key management personnel of the company in the context of the IAS 24 definition.

In addition to salaries, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined contribution pension plan on their behalf. Directors also participated in the Group's share option schemes. Full details of all elements of remuneration payable to the directors are contained in the Directors' Remuneration Report for the period to 31 December 2008. No other transactions took place between the Company and key management personnel

## 25 Seasonality and weather

Certain lines of business written by the Group, in particular the non-marine property and property treaty divisions, are exposed to weather related claims. These accounts are, therefore, exposed to catastrophe losses, some of which have a seasonal bias.

Our reinsurance business has developed a balance of risk around the world, however, there remains a significant concentration of exposure to windstorm activity in the North Atlantic. Whilst the great majority of these risks are underwritten in the first half of the year, the hurricane season is almost entirely in the second half. As a result, there is a potential for greater volatility in expected returns during the second half of the year, although it should be noted that catastrophe losses can occur at any time, in particular from earthquake activity.

The following table shows the Group's claims ratio for the first and second six month period in each full year.

	Six months ended 30 June %	Six months ended 31 December %	Year ended 31 December %
2002	54.3	47.9	50.8
2003	46.9	45.5	46.2
2004	45.2	68.7	57.7
2005	51.6	77.2	64.1
2006	47.8	25.4	37.8
2007	41.7	50.1	46.3
2008	51.8	63.6	57.7

## **DIRECTORS' RESPONSIBILITY STATEMENT**

The directors confirm that the chairman's statement and condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the interim statement includes a fair review of the information required by sections 4.2.7R and 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority, being:

(a) an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) related party transactions that have taken place in the first six months of the current financial year and that have materially affected the consolidated financial position or performance of Hardy Underwriting Bermuda Limited during that period; and any changes in the related party transactions described in the last annual report that could have such a material effect.

The individuals responsible for authorising the responsibility statement on behalf of the Board are the Chief Executive Officer, B J Merry and the Group Finance Director, J D MacDiarmid. The statements were approved for issue on 3 August 2009.

## **INDEPENDENT REVIEW REPORT BY KPMG TO HARDY UNDERWRITING BERMUDA LIMITED**

### **Introduction**

We have been engaged by the company to review the condensed consolidated interim financial statements in the Interim Statement for the six months ended 30 June 2009 which comprises the condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of financial position, condensed consolidated interim statement of changes in equity, condensed consolidated interim statement of cash flows and the related explanatory notes. We have read the other information contained in the Interim Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

### **Directors' responsibilities**

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

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

### **Our responsibility**

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

### **Scope of review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Statement for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

### **KPMG**

Hamilton  
Bermuda

4 August 2009

**Financial calendar**

23 September 2009	Ex-dividend date for interim dividend
25 September 2009	Record date for interim dividend
16 October 2009	Payment of interim dividend
March 2010	Announcement of results for the year ending 31 December 2009
May 2010	Payment of 2009 final dividend
August 2010	Announcement of results for the six months ending 30 June 2010