

Date: 5 August 2010
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 2010

Hardy Underwriting Bermuda Limited (LSE: HDU), the specialist insurer and reinsurer, today announces the interim results for the half year ended 30 June 2010. The highlights are:

FINANCIAL

- Gross written premium of £155.9m (2009: £149.9m)
- Net tangible assets of 257p per share (2009: 247p per share)
- Interim dividend of 4.4p per share (2009: 4.0p per share)
- Profit before tax of £0.8m (2009: £7.8m)
- Combined ratio of 101.7% (2009: 71.4%)
- Basic earnings per share of 3.8p (2009: 15.1p)

OPERATIONAL

- Appointment of Richard Lim Ngak Kwan to head up the proposed new underwriting venture in Asia
- New non executive directors appointed: Fiona Luck and Anthony Taylor
- HAIM joint venture in the Middle East now an established name
- Construction account progressing well with good growth potential
- Bermuda underwriting platform expanded to include direct and facultative property risks

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

"Despite the significant catastrophe activity, we are able to report a modest pre-tax profit at the half year stage. The Hardy principles of technical rating expertise, prudent reserving and cycle management remain as strong and important as ever. We have an able and highly motivated team in place and are committed to delivering the growth that is needed to maximise the potential of Hardy for the benefit of all of our stakeholders."

Barbara Merry, Hardy's Chief Executive, added:

"The resilience of the Hardy business model is evidenced by the fact that, in such testing times, we have reported a profit and have increased net tangible assets."

"There is a renewed energy within the team to take Hardy to the next level, retaining our traditional values but incorporating the additional skills necessary to attract and retain good quality business. Our long term track record reinforces our conviction and confidence about the business going forward."

For further enquiries, please contact:

Hardy Underwriting Bermuda Limited
Barbara Merry, Chief Executive
Jamie MacDiarmid, Finance Director

www.hardygroup.co.uk
Tel: (020) 7626 0382

Redleaf Communications
Emma Kane/Alicia Jennings/Adam Leviton

Tel: 020 7566 6741
hardy@redleafpr.com

CHAIRMAN'S STATEMENT

For the insurance industry as a whole, the first half of the year has been dominated by a string of catastrophe events. The international bias of our growing property insurance and reinsurance accounts mean that we are not surprised to have a significant involvement in the catastrophic earthquake that struck the Maule region of Chile in February and also in the losses arising from the Australian hailstorms.

Our increased appetite for catastrophe business has been deliberate and whilst we will continue to adjust the book and purchase strategic reinsurances, we believe that the long term profitability of this product is proven. A key part of our strategy is to grow the traditional classes of business along with the newer non-marine classes that we have added in recent years. These classes are important, both in their own right and in the balance that they provide against aggregations of catastrophe exposures. We remain focused on existing core lines but we will add to these where we see a clear potential for profit.

In almost all areas, the market has failed to harden as we would have liked, but the underlying performance of our non-catastrophe accounts has nevertheless been strong and this has meant that despite the significant catastrophe loss activity, we are able to report a modest pre-tax profit of £0.8m (2009: £7.8m) at the half year stage. In line with our stated policy, the interim dividend will be increased to 4.4p per share.

The soft market continues to challenge the business, but there is scope to build on our existing accounts, in particular through our recent overseas initiatives. Our joint venture in the Middle East is now established and whilst we remain cautious during the soft market, we are well positioned to increase our involvement in selected lines.

Singapore has similar opportunities. We have appointed Richard Lim to lead the development there and are now in the process of gaining the necessary regulatory approvals and establishing the infrastructure to facilitate our long term aims. There is currently a surplus of local capacity but the economies in the Asia Pacific region are developing rapidly and we believe that profitable opportunities are less likely to leave these markets as time goes on.

The Hardy principles of technical rating expertise, prudent reserving and cycle management remain as strong and important as ever. We have an able and highly motivated team in place, enhanced by our new non-executives, Fiona Luck and Anthony Taylor, and we are committed to delivering the selective growth that is needed to maximise the potential of Hardy for the benefit of all of our stakeholders.

David Mann
Chairman

OPERATING AND FINANCIAL REVIEW

Chief Executive's Statement

Introduction

The first half of 2010 has been challenging from a number of perspectives: two material early losses within our property treaty portfolio, a weakening rating environment and low investment returns.

The profit before tax for the period of £0.8m is significantly lower than last year (£7.8m). Fortunately, our diversification strategy has proved its worth, since the profits emerging from other business lines have been sufficient in the first two quarters to mitigate significantly the impact of the natural catastrophes.

The resilience of the Hardy business model is evidenced by the fact that, in such testing times, we have reported a profit and increased net tangible assets.

Review of 2010 performance to date

The half year result takes account of the significant cost of the Chilean earthquake and hailstorms in Australia, both in the first quarter of the year.

The original published loss estimate for Chile was a range of \$40m to \$60m gross from the property treaty book with a \$7.5m gross loss estimate for direct and facultative (D&F) risks. We are gradually acquiring more data regarding this event, although there are still a number of clients who have yet to quantify their loss. For now, therefore, we are maintaining the estimated loss range for the treaty portfolio, but we believe that the overall trend indicates that the loss should fall closer to the lower end of that range.

The Australian losses were generated from the aggregation of two hailstorms, in Melbourne and Perth. Our original gross loss estimate of A\$34.6m is unchanged. Whilst we have deliberately developed an international rather than purely US focused account, our share of the loss in Australia is large in comparison to our peers and we have considered it appropriate to adjust our underwriting in this region accordingly.

Our property treaty portfolio is atypical for the Lloyd's market being 70% international risks and 30% US risks. Consequently we do not represent a market tracker and it is possible for us to have material losses when others may not (and vice versa).

The half year has benefited from excellent performance from the non-catastrophe exposed business, all of which has performed better than expected and improved from the same stage last year.

With the backdrop of an unremarkable investment return (as a consequence of our conservative policy), we have crystallised some exchange gains, principally due to judicious sales of US dollars and Japanese Yen.

Given the Hardy focus on profit over volume, the weakening rating environment has inevitably slowed down growth in premiums. The 4% (2009: 41%) increase in gross written premium from £149.9m in 2009 to £155.9m in 2010 reflects that underwriting discipline has not been compromised.

The underlying years of account have contributed to this result as follows:

- 2010 is looking marginal as a result of bearing a share of the catastrophe losses but should produce a modest profit
- 2009 is progressing satisfactorily on all fronts but profits will be held back by the natural catastrophe losses
- 2008 is settling well and the profit estimate for the year has improved during the last quarter by more than 25%
- all previous years are running off well, and the routine reassessment of reserves has resulted in a surplus emerging overall whilst maintaining our traditional levels of prudence.

We have continued to implement our growth and diversification strategy in the period and while growth has been thwarted somewhat by disappointing market conditions, we have instead invested time and effort on developing opportunities which will bring longer term rewards. Of particular note in this context is the planned opening of our Singapore office later this year with Richard Lim, a well respected local property underwriter, to spearhead our efforts. Our office in Bermuda is building its footprint on a measured basis and we have recently begun to underwrite direct and facultative property risks there, in addition to US property treaty risks. Our joint venture in Bahrain is now firmly established and is well placed to take up opportunities in the property and construction sector.

BUSINESS UNIT REVIEWS

The rating environment has been challenging in the first half of 2010, with all areas of the business experiencing over capacity and competition. The rating table below illustrates the position for the 2010 year of account up to and including 1 July 2010.

Premiums to 1 July 2010

Marine & Aviation	41.9	43.4	1.5	-0.4%
Non-marine property	38.5	47.6	9.1	-2.5%
Specialty Lines	37.6	39.1	1.5	-1.5%
Property Treaty	90.5	92.6	2.1	-5.0%
Total	208.5	222.7	14.2	-3.0%

***Premiums are gross of brokerage and at constant (31.12.09) exchange rates**

The overall business plan volume forecast for 2010 has been revised down to £307.8m from £323.9m, inclusive of brokerage and commission, reflecting our continued underwriting discipline. The marine and aviation business unit is operating under particularly difficult trading conditions, as described below.

Marine and aviation Head of Business Unit – Mervyn Sugden

Aviation

The airline sector seems to be the most over-capitalised of all the markets which Hardy participates in and notwithstanding a run of large losses, the rating environment is poor. Current global airline premium levels are below average claims levels experienced over the last three years. With a strong focus on technical pricing, Hardy finds it very difficult to underwrite airline risks at present and accordingly, airline income is negligible. Syndicate's 382's general aviation portfolio is also under extreme rating pressure and volume has therefore been sacrificed. Forecast income for 2010 from the aviation account has correspondingly been reduced from £17m to £10m.

Marine hull

Rating levels have remained relatively stable but volumes are falling below forecast levels as a result of reducing vessel values. The focus continues on smaller vessels, such as fishing fleets, tugs and barges, where the statistics show that our performance is better than the Lloyd's market average. There is, however, a pleasing amount of new business flow.

Cargo & Specie

Volumes and rating are broadly steady, although this account is also affected by the downturn in world trade. With little exposure to the aggressively rated multi-national accounts, syndicate 382 underwrites a very well spread account. Claims experience has been mixed, particularly where risks are recession-exposed but this has prompted us to re-underwrite the account, helping to improve the quality of the portfolio overall.

Non-marine property
Head of Business Unit – Patrick Gage

Direct and facultative property

Both the US and international markets are experiencing downward pressure on rates and even catastrophe exposed business has not escaped the general trend. Syndicate 382's volumes are broadly on track and the underwriters have worked hard at minimising rate reductions and seeking out new opportunities. While the overall market picture is very mixed from a claims perspective, Hardy's own portfolio is performing satisfactorily and looks set to achieve better loss ratios than originally forecast for all the open years.

Much of the growth in this portfolio for 2010 has been achieved through the introduction of a construction and engineering account. We are extremely pleased with the progress made in establishing this account and in accessing business on a global basis.

Direct property

Hardy also has a portfolio of smaller value property risks, both of a commercial and residential nature which are sourced through binding authorities. The account has a UK focus but includes some European business and an element of high net worth property which was introduced for the first time in 2009. Barring this latter account, where rate rises were achieved earlier in the year, the remainder of the account is flat from a rating perspective.

Property treaty
Head of Business Unit – David Carson

US and International Catastrophe Excess of loss

Rates across the catastrophe excess of loss spectrum remain robust by reference to benchmarks but reductions are evident, other than where accounts are in payback.

The lack of US catastrophe activity last year has prompted rate reductions there and the international book seems to be perennially under attack. Our own portfolio, with its greater focus on international risks, has perhaps seen less of a rate reduction than most, since our exposures in loss affected areas such as Chile and Australia are at least now being rewarded with rate rises. Volumes are correspondingly stable.

In the US, we have deliberately reduced our wind exposure in the light of weakening rates. In Florida, in particular, we remain concerned about the long term financial viability of a number of companies and have reduced our exposures accordingly.

Risk excess and proportional treaty business

These accounts all continue to perform well and while there is pressure on rating, this is not so significant as to affect our willingness to participate. The Kyosai book continues to provide good opportunities for growth.

Specialty lines
Head of Business Unit – Adrian Daws

Financial institutions

The increases in rating levels which were experienced in 2009 have not been sustained which, given general economic uncertainty and recent claims experience, seems somewhat illogical. The principal cause of downward pressure has been the arrival of new entrants with significant capacity to deploy. Hardy has declined a far greater proportion of risks in this area than previously, due partly to pricing but also to broadening of policy wordings to an extent which we find unacceptable. As a result, we have reduced our original business plan income targets for this account.

Political risks

By contrast, the political risks account is likely to expand this year on the back of good rate increases, driven by trade credit losses which we have avoided.

Terrorism

This is another area where rates are under pressure, largely due to over capacity following a prolonged period of good results. This may change following the terrorism loss in Bangkok, in which Hardy has only minimal involvement.

Schemes business

The specialty lines account includes a number of schemes, key amongst which are facilities for accident and health risks and for mobile phones. These have provided steady profitable growth without the volatility of certain other classes.

Business environment

The general business environment continues to be driven by uncertainties about the future growth prospects of most economies and about the fundamental fragility of others.

We had expected that the global economic crisis and the depletion of balance sheets, as a result of the need to write off impaired assets, would be so significant that there would be a capital crunch which would ultimately benefit our industry. We did not foresee the significant levels of government support and quantitative easing that would prevent too much financial pain from being inflicted and would allow virtual 'business as usual'. In the event, loss experience, particularly catastrophe loss experience, during 2009 was noticeable by its absence and industry surplus levels have been enhanced further. The industry is awash with capital and, in addition, we can see globally that there remain billions of dollars looking for a home. In the scheme of things, insurance has not performed badly throughout the financial crisis and yields are attractive compared to the alternatives. There must then be a worry that insurance will continue to attract yet more capital. This is not good news for the rating environment.

This scenario leads me to conclude that we are looking at a new reality which is that we cannot rely on the nirvana of a hard market to achieve our growth vision. This is not growth in real terms anyway and is usually short-lived. Instead, we need to assume, for the purposes of planning and delivering our strategy, that there will be flat or weakening market conditions and that we need to respond accordingly. This isn't to say that I think we will never see another hard market, it is just that I believe that, other than localised pockets of improvements in response to specific losses, we will not witness the kind of capital crunch which will create improved conditions across the board: events at the level currently being experienced are just not costly enough globally, given availability of capital, to produce radical market change. This is not a depressing conclusion. In fact, it is helpful. It clarifies a potential variable in the planning process and intensifies the need for focus on a pipeline of opportunities which will secure Hardy's growth for the future.

The other principal feature of the business environment which warrants some mention is that associated with regulation and particularly Solvency II, which progressively takes up more management time and requires more resource from across the business. We are persuaded by the longer term benefits of some of the approaches to business planning, risk management and capital modelling promoted by the Directive. This is an area of enormous concern for the industry, however, and I can only think that there may be many businesses across Europe which simply will not cope. There may accordingly be some considerable scope for dislocation and consolidation. Perhaps that is the intention. I suspect that businesses at Lloyd's are collectively a good way up the learning curve but there is no room for complacency, because the effort required to see this through is quite simply gargantuan.

Current trading prospects

The rating table produced earlier in this report illustrated the general weakness in market trading conditions, but I have been emphasising that this makes it all the more necessary for Hardy to focus on its core strengths as well as continuing to develop a pipeline of opportunities to achieve its growth vision.

To recap, we have set about significantly growing volume and value over the period from 2008 to 2012 which we think is vital to the creation of a more robust business base and to the delivery of increased returns to shareholders. The key features of the strategy are:

- a diversified growth model
- organic growth as a preference
- active development of new niches where we already have complementary expertise and of new geographies where we do more of what we know, both of which reduce execution risk
- a focus on underwriting, technical expertise and pricing skill
- predominantly, but not exclusively, focussing on short tail risks and
- recognising our size, using the Lloyd's platform to ensure optimum capital efficiency.

Going forward, we intend to push ahead and we expect further growth from new initiatives in 2011.

The most significant of these will be the opening of the Singapore office, scheduled for the last quarter of 2010, which we expect to use as a hub for the development of our business in the Asia Pacific region. We propose initially to underwrite treaty risks utilising the local knowledge of our key recruit, Richard Lim, but we also have an interest in other lines of business, hoping to exploit the somewhat more favourable economic conditions in the region as regards general trade volumes. For construction and engineering risks specifically, we expect to be able to enhance our footprint more globally, especially with the recent recruitment of a further specialist underwriter who will join us shortly. We have also recruited a US and International property specialist who will arrive within the next few months. These initiatives will progress the growth of our non-marine property business unit. Together with a number of further developments in the specialty lines area, they will serve to bring about a rebalancing of the four business units to enhance our capital utilisation.

Overall, we are satisfied with our progress and current trading, particularly the strong underlying performance of the business. We believe that our strategy for growth and creation of shareholder value remains valid and we will pursue this through developing our core lines as well as through a number of new opportunities.

Capital and dividends

Our growth in recent times has been above the levels which are capable of being supported by trading profits, particularly given the time lag in generating those profits, and accordingly, last year we raised further funds from shareholders. I am pleased to say that these funds have been fully utilised in support of current underwriting levels. Historically, we have had a mixture of our own assets and letters of credit as regulatory underwriting capital. The willingness to retreat from poorly priced business is a cornerstone of Hardy's strategy. Gearing is a logical consequence of this underwriting approach and enables the letter of credit facility to be switched off when not needed.

In support of the 2011 business plan, we are not expecting to increase our reliance on a letter of credit, albeit that we currently have an unutilised facility. Instead, we will be able to utilise retained capital.

Our approach to capital management embraces our dividend policy and we have emphasised that, barring an event which sucks significant amounts of cash out of the business, we would maintain a progressive dividend growth policy. Accordingly, the Board announces its intention to make an interim dividend payment in September of 4.4p per share.

Conclusion

As well as presenting many challenges to the business, 2010 has also seen some exciting progress both in the embedding of new business and in the emergence of further opportunities. We have re-examined our growth vision and our strategies for achieving this and whilst we will always make adjustments along the way, we firmly believe that we are travelling in the right direction. There is a renewed energy within the team to take Hardy to the next level, retaining our traditional values but incorporating the additional skills necessary to attract and retain good quality business.

Our long term track record reinforces our conviction and confidence about the business going forward.

FINANCIAL REVIEW

Summary of results

The Chile and Australia losses have had the effect of reducing the pre tax profit for the half year from £7.8m in 2009 to £0.8m in 2010. Absent these losses the underlying performance of all business units has been good. The current year performance has also benefited from positive run off experience from prior accident years.

Foreign exchange movements have again been a significant item for the current period, resulting in an overall gain of £8.0m compared to a loss of £10.9m for 2009.

Investment returns have been modest, following the defensive positioning of the portfolio.

	Half year 2010 £'000	Half year 2009 £'000	Full year 2009 £'000
Gross premium written	155,907	149,870	241,996
Net insurance premium revenue	97,838	86,671	176,630
Total underwriting return	(2,755)	21,036	34,346
Investment income	1,635	3,303	5,648
Other income	91	149	297
Other charges	(5,043)	(4,967)	(11,956)
Finance charges	(1,201)	(804)	(1,594)
(Loss)/profit before tax and foreign exchange	(7,273)	18,717	26,741
Foreign exchange gain / (loss)	8,047	(10,958)	(6,641)
Profit before tax	774	7,759	20,100
Annualised post tax return on equity	2.6%	12.8%	13.4%
Basic earnings per share	3.8p	15.1p	36.8p
Dividend per share	4.4p	4.0p	13.3p

Underwriting performance

Growth in gross premium written has been limited in the first half of the year to 4%, in light of difficult market conditions. Underwriting discipline has been maintained, leading to a reduction in the marine and aviation and specialty lines business units at the half year stage. Development of the property treaty and the non marine property business units has gone to plan.

The marine and aviation business unit has performed well in the year to date, with a combined ratio of 65%. The current period has also benefited from a significant release of previously booked reserves following favourable claims development.

The performance of the specialty lines business unit has also been strong, with low claims activity and a positive run off of reserves.

The non-marine property business unit has performed reasonably well, although the result has been depleted by an estimated loss of £5m from Chile in the international direct and facultative account ("D&F").

The property treaty business unit has borne the brunt of the Chile and Australia losses. The balance of the business unit has performed well, with a claims ratio for the current period of 34%. A reserve release of £4.1m has also helped mitigate some of the catastrophe losses in the period.

The total cost of the Chile and Australia losses taken together is £30m which account for an increase in the combined ratio of 30.2%. In addition, the expense ratio has increased from 30.1% to 39.6%. The largest element of this increase is higher than average commission levels for several of the new lines of business that have been developed during 2009 and 2010.

Overall the 2010 half year result has benefited from a release of previously held claims reserves of £12.9m. This is in keeping with the group's consistent approach to setting claims reserves. The release in 2010 represents 10% of brought forward net claims reserves and has had the effect of reducing the claims ratio for the period by 13%.

The prior year release for 2009 at the half year stage was £10.0m, which represented 9% of brought forward net claims reserves and 11% of net earned premium for the period.

Six months to 30 June 2010

	Marine and aviation	Specialty lines	Non marine property	Property treaty	Reportable segments	FX (UEP)	Group
Gross written premium	30,534	27,519	30,354	67,500	155,907		155,907
Net insurance premium revenues	25,733	29,147	18,828	25,529	99,237	(1,399)	97,838
Current accident year	(14,450)	(12,325)	(13,971)	(33,728)	(74,474)		(74,474)
Prior period claims	6,023	2,175	547	4,110	12,855		12,855
Net claims incurred	(8,427)	(10,150)	(13,424)	(29,618)	(61,619)		(61,619)
Commission incurred	(6,935)	(10,037)	(5,170)	(6,977)	(29,119)	299	(28,820)
Other insurance expenses	(1,277)	(2,518)	(2,637)	(3,722)	(10,154)		(10,153)
	(16,639)	(22,705)	(21,231)	(40,317)	(100,892)	299	(100,592)
Underwriting result	9,094	6,442	(2,403)	(14,788)	(1,655)	(1,100)	(2,754)
Current accident year claims ratio	56.2%	42.3%	74.2%	132.1%	75.0%		
Claims ratio	32.7%	34.8%	71.3%	116.0%	62.1%		
Expense ratio	31.9%	43.1%	41.5%	41.9%	39.6%		
Combined ratio	64.6%	77.9%	112.8%	157.9%	101.7%		

Six months to 30 June 2009

	Marine and aviation	Specialty lines	Non marine property	Property treaty	Reportable segments	FX (UEP)	Group
Gross written premium	33,407	28,096	25,807	62,560	149,870		149,870
Net insurance premium revenues	30,363	18,714	14,159	30,691	93,927	(7,256)	86,671
Current accident year	(21,301)	(13,754)	(4,532)	(9,220)	(48,806)		(48,806)
Prior period claims	2,210	4,742	2,073	962	9,987		9,987
Net claims incurred	(19,090)	(9,012)	(2,459)	(8,258)	(38,819)		(38,819)
Commission incurred	(7,414)	(6,114)	(3,007)	(4,444)	(20,980)	1,445	(19,534)
Other insurance expenses	(1,626)	(1,390)	(1,353)	(2,913)	(7,281)		(7,282)
	(28,131)	(16,516)	(6,819)	(15,614)	(67,080)	1,445	(65,635)
Underwriting result	2,233	2,198	7,339	15,076	26,846	(5,811)	21,036
Current accident year claims ratio	70.2%	73.5%	32.0%	30.0%	52.0%		
Claims ratio	62.9%	48.2%	17.4%	26.9%	41.3%		
Expense ratio	29.8%	40.1%	30.8%	24.0%	30.1%		
Combined ratio	92.7%	88.3%	48.2%	50.9%	71.4%		

Foreign exchange

The Group's result for the half year has benefitted from a gain on foreign exchange of £8.0m. This includes a gain of £5.5m with respect to differences in the retranslation of monetary assets and liabilities which are denominated in non sterling currencies. The balance of the foreign exchange gain of £2.5m relates to non-monetary items, which are carried at historic rates.

The element of the foreign exchange loss on non-monetary items relating to the translation of the income statement at average exchange rates is reclassified to premium and insurance expenses and this can be seen in the segmental analysis of the results shown in the above tables.

Investment performance

Investment returns contributed £1.6m (2009: £3.3m) to the result for the year, reflecting a significant reduction in the returns achieved as compare to last year. 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 significant proportion of low risk fixed income securities.

The investment return for the period is set out below.

	Six months to 30 June 2010			Six months to 30 June 2009		
	Average balance £'000	Return £'000	Return %	Average balance £'000	Return £'000	Return %
Fixed income	180,224	1,187	0.7%	144,589	1,955	1.4%
Cash and deposits	115,405	448	0.4%	99,108	304	0.3%
	<u>295,629</u>	<u>1,635</u>	<u>0.6%</u>	<u>243,697</u>	<u>2,259</u>	<u>0.9%</u>
FV gain / (loss) on fx contracts		-		1,044		
		<u><u>1,635</u></u>		<u><u>3,303</u></u>		

Taxation

A tax credit of £1.2m has been recognised in the period which reflects the distribution of underwriting profits, investment and other income and expenses across the entities within the group. Where losses have been recognised in group companies that are based in the UK, a tax asset has been established which will be offset against future taxable profits.

Financial investments and cash

The Group adopts a conservative investment strategy, which limits exposure by asset class, credit quality and issuer. The application of this policy has meant that throughout the period all assets are either held in fixed income securities, money market investments or deposits. All assets are short dated, highly liquid and have a high credit rating.

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

	As at 30 June 2010		As at 30 June 2009		As at 31 Dec 2009	
	£'000	%	£'000	%	£'000	%
Fixed income	173,786	59%	164,121	62%	192,365	66%
Cash and deposits	122,852	41%	100,311	38%	98,254	34%
	<u>296,638</u>	<u>100%</u>	<u>264,432</u>	<u>100%</u>	<u>290,619</u>	<u>100%</u>

The weighting of cash and deposits have been kept relatively high as a defensive measure against expected future interest rate increases.

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

As at 30 June 2010	Holding		Credit rating		
	£'000	%	AAA	AA	A
Government	74,937	43%	43%	1%	0%
Government agency	27,017	16%	10%	5%	1%
Supranationals	12,257	7%	6%	0%	0%
Corporate	59,575	34%	10%	18%	6%
Fixed income securities	<u>173,786</u>	<u>100%</u>	<u>69%</u>	<u>24%</u>	<u>7%</u>

As at 31 December 2009	Holding		Credit rating		
	£'000	%	AAA	AA	A
Government	109,419	57%	57%	0%	0%
Government agency	29,311	15%	9%	5%	1%
Supranationals	11,302	6%	6%	0%	0%
Corporate	42,334	22%	5%	15%	2%
Fixed income securities	<u>192,365</u>	<u>100%</u>	<u>77%</u>	<u>20%</u>	<u>3%</u>

Given the asset allocation strategy, the main element of risk in the portfolio is interest rate volatility. This risk is managed through the use of short duration benchmarks. The actual durations for the fixed income portfolios were:

	31 June 2010 Years	31 December 2009 Years
Sterling	0.53	0.71
Euro	0.66	0.83
US dollar	0.70	0.89

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 2010

	Notes	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Insurance premium revenue	5	128,543	102,849	221,504
Reinsurance premiums	5	(30,705)	(16,178)	(44,874)
Net insurance premium revenue		97,838	86,671	176,630
Financial income	6	1,635	3,303	5,648
Other operating income		91	149	297
Net income		99,564	90,123	182,575
Claims incurred	7	(100,172)	(55,006)	(110,146)
Reinsurers' share of claims incurred	7	38,553	16,187	26,957
Net claims incurred		(61,619)	(38,819)	(83,189)
Expenses incurred in insurance activities	8	(38,974)	(26,816)	(59,095)
Foreign exchange gains / (losses)	10	8,047	(10,958)	(6,641)
Other operating expenses		(5,043)	(4,967)	(11,956)
Total operating expenses		(97,589)	(81,560)	(160,881)
Operating profit		1,975	8,563	21,694
Finance charges	9	(1,201)	(804)	(1,594)
Profit before tax		774	7,759	20,100
Comprises:				
Underlying (loss) / profit *		(718)	19,561	30,484
Notional adjustment for foreign exchange movements on non- monetary items	10	1,492	(11,802)	(10,384)
Income tax credit / (expense)	11	1,199	(1,224)	(2,677)
Profit for the period		1,973	6,535	17,423
Earnings per share (pence)				
Basic	12	3.8	15.1	36.8
Diluted	12	3.7	14.6	35.6

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

*Underlying profit or loss comprises profit or loss before tax with non-monetary items translated at closing foreign exchange rates.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended 30 June 2010

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
Profit recognised	1,973	6,535	17,423
Other comprehensive income	-	-	-
Total comprehensive income recognised	1,973	6,535	17,423

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	As at 30 June 2010 £'000	As at 30 June 2009 £'000	As at 31 December 2009 £'000
Assets				
Intangible assets		15,509	15,509	15,509
Property, plant and equipment		2,876	2,458	3,075
Reinsurance assets				
- Reinsurers' share of outstanding claims	20	73,394	40,368	45,755
- Reinsurers' share of unearned premium	20	31,994	30,735	18,371
Deferred acquisition costs		32,555	35,112	29,544
Trade and other receivables		120,430	106,717	88,219
Current income tax assets		5,304	-	1,313
Prepayments and accrued income		6,665	5,357	4,366
Investments at fair value	15	173,786	164,121	192,365
Cash and cash equivalents	16	122,852	100,311	98,254
Total assets		585,365	500,688	496,771
Equity				
Share capital	17	10,553	10,459	10,464
Contributed surplus	17	77,306	77,252	77,295
Other reserves	18	2,873	2,604	3,357
Retained earnings		58,220	52,114	60,975
Total equity		148,952	142,429	152,091
Liabilities				
Financial liabilities – subordinated debt	19	19,476	17,687	18,136
Insurance liabilities				
- Outstanding claims	20	223,958	150,831	166,737
- Unearned premium	20	140,181	139,346	112,817
Deferred income tax liabilities	21	8,373	6,550	9,960
Trade and other payables		44,425	43,328	37,030
Current tax liabilities		-	517	-
Total liabilities		436,413	358,259	344,680
Total equity and liabilities		585,365	500,688	496,771
Net assets per share (£)	22	£2.87	£2.78	£2.96
Net tangible assets per share (£)	22	£2.57	£2.47	£2.66

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six month period ended 30 June 2010

	Note	Common shares £'000	Contributed surplus £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2010		10,464	77,295	3,357	60,975	152,091
Total comprehensive income for the period						
Profit recognised		-	-	-	1,973	1,973
Transactions with owners, recorded directly in equity						
Proceeds of shares issued in relation to share options exercised		1	11	-	-	12
Shares issued at par value to the employee benefit trust		88	-	-	-	88
Share-based payments		-	-	946	-	946
Employee Benefit Trust holding		-	-	(1,430)	-	(1,430)
Dividends	13	-	-	-	(4,728)	(4,728)
Balance at 30 June 2010		10,553	77,306	2,873	58,220	148,952

For the six month period ended 30 June 2009

	Note	Common shares £'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
Total comprehensive income for the period						
Profit recognised		-	-	-	6,535	6,535
Transactions with owners, recorded directly in equity						
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 year ended 31 December 2009

	Common shares £'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
Total comprehensive income for the period					
Profit recognised	-	-	-	17,423	17,423
Transactions with owners, recorded directly in equity					
Proceeds of shares issued in relation to share options exercised	21	178	-	-	199
Placing and open offer	3,291	34,768	-	-	38,059
Share-based payments	-	-	1,587	-	1,587
Employee Benefit Trust holding	-	-	(578)	-	(578)
Dividends	13	-	-	(6,328)	(6,328)
Balance at 31 December 2009	<u>10,464</u>	<u>77,295</u>	<u>3,357</u>	<u>60,975</u>	<u>152,091</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six month period ended 30 June 2010

	Six months to 30 June 2010	Six months to 30 June 2009	Year ended 31 December 2009
	£'000	£'000	£'000
Profit before tax	774	7,759	20,100
Depreciation of property, plant and equipment	539	311	809
Interest and equity dividend income	(2,986)	(2,933)	(6,072)
Net unrealised (losses) on investments	(356)	(1,114)	1,412
Foreign exchange (gains) / losses	(8,047)	10,957	6,641
Share-based payments	945	696	1,587
Finance charges	1,201	804	1,594
Change in underwriting balances	19,279	627	15,486
Decrease / (increase) in investments	21,382	(42,813)	(71,299)
(Increase) in debtors and prepayments	(4,473)	(2,589)	(2,018)
(Decrease) in creditors and accruals	(5,986)	(9,708)	(6,203)
Interest received	2,986	2,933	6,072
Income tax paid	(1,334)	(1,812)	(4,965)
Net cash generated / (utilised) from operating activities	23,924	(36,882)	(36,856)
Cash flows from investing activities			
Purchase of property, plant and equipment	(340)	(901)	(2,078)
Cash used in investing activities	(340)	(901)	(2,078)
Cash flows from financing activities			
Dividends paid	(4,728)	(4,301)	(6,328)
Cash received from issue of shares	100	38,209	38,259
Purchase of own shares	(1,430)	(440)	(578)
Finance charges	(1,201)	(804)	(1,594)
Net cash from financing activities	(7,259)	32,664	29,759
Net increase / (Decrease) in cash and cash equivalents	16,325	(5,119)	(9,175)
Cash and cash equivalents at beginning of year	98,254	105,070	105,070
Effect of exchange rate fluctuations on cash and cash equivalents	8,273	360	2,359
Cash and cash equivalents at end of the period	122,852	100,311	98,254

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 2010 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 2010.

These condensed consolidated interim financial statements were approved for issue by the board on 5 August 2010.

2 Basis of preparation

The Group condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules issued by the UK 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 2009 which are available from the Company's registered office or at www.hardygroup.bm. 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 2009. The report of the independent auditors was not qualified. The amounts presented for the 30 June 2010 and 30 June 2009 period are unaudited.

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 2010. 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 2009 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.

There have been no amendments to accounting policies as a result of new standards or interpretations that have become effective during 2010.

4 Segment information

Business segments

The main 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.

The segment results for the six months ended 30 June 2010 are as follows:

	Marine and aviation	Specialty lines	Non- marine property	Property treaty	Total reportable segments	Effects of foreign exchange on non- monetary items	Other foreign exchange	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premium written	30,534	27,519	30,354	67,500	155,907	-	-	155,907
Net insurance premium revenue	25,733	29,147	18,828	25,529	99,237	(1,399)	-	97,838
Net claims incurred	(8,427)	(10,150)	(13,424)	(29,618)	(61,619)	-	-	(61,619)
Expenses incurred in insurance activities	(8,212)	(12,555)	(7,807)	(10,699)	(39,273)	299	-	(38,974)
Total operating expenses	(16,639)	(22,705)	(21,231)	(40,317)	(100,892)	299	-	(100,593)
Underwriting return before foreign exchange	9,094	6,442	(2,403)	(14,788)	(1,655)	(1,100)	-	(2,755)
Foreign exchange gains					-	2,592	5,455	8,047
Underwriting return after foreign exchange					(1,655)	1,492	5,455	5,292
Financial income								1,635
Other operating income								91
Other operating expenses								(5,043)
Operating profit								1,975
Finance charges								(1,201)
Profit before tax								774
Taxation credit								1,199
Profit after tax								1,973
Claims ratio (%)	32.7%	34.8%	71.3%	116.0%	62.1%			
Expense ratio (%)	31.9%	43.1%	41.5%	41.9%	39.6%			
Combined ratio (%)	64.6%	77.9%	112.8%	157.9%	101.7%			

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

	Marine and aviation	Specialty lines	Non- marine property	Property treaty	Total reportable segments	Effects of foreign exchange on non- monetary items	Other foreign exchange	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premium written	33,407	28,096	25,807	62,560	149,870	-	-	149,870
Net insurance premium revenue	30,363	18,714	14,159	30,691	93,927	(7,256)	-	86,671
Net claims incurred	(19,090)	(9,012)	(2,459)	(8,258)	(38,819)	-	-	(38,819)
Expenses incurred in insurance activities	(9,040)	(7,504)	(4,360)	(7,357)	(28,261)	1,445	-	(26,816)
Total operating expenses	(28,130)	(16,516)	(6,819)	(15,615)	(67,080)	1,445	-	(65,635)
Underwriting return before foreign exchange	2,233	2,198	7,340	15,076	26,847	(5,811)	-	21,036
Foreign exchange losses					-	(5,991)	(4,967)	(10,958)
Underwriting return after foreign exchange					26,847	(11,802)	(4,967)	10,078
Financial income								3,303
Other operating income								149
Other operating expenses								(4,967)
Operating profit								8,563
Finance charges								(804)
Profit before tax								7,759
Taxation charge								(1,224)
Profit after tax								6,535
Claims ratio (%)	62.9%	48.2%	17.4%	26.9%	41.3%			
Expense ratio (%)	29.8%	40.1%	30.8%	24.0%	30.1%			
Combined ratio (%)	92.7%	88.3%	48.2%	50.9%	71.4%			

The segment results for the year ended 31 December 2009 are as follows:

	Marine and aviation	Specialty lines	Non-marine property	Property treaty	Total reportable segments	Effects of foreign exchange on non-monetary items	Other foreign exchange	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premium written	63,858	40,737	52,970	84,431	241,996	-	-	241,996
Net insurance premium revenue	61,820	33,968	37,468	51,050	184,306	(7,676)		176,630
Net claims incurred	(38,795)	(16,541)	(9,926)	(17,927)	(83,189)	-	-	(83,189)
Expenses incurred in insurance activities	(20,776)	(10,449)	(13,065)	(16,462)	(60,752)	1,657	-	(59,095)
Total operating expenses	(59,571)	(26,990)	(22,991)	(34,389)	(143,941)	1,657	-	(142,284)
Underwriting return before foreign exchange	2,249	6,978	14,477	16,661	40,365	(6,019)	-	34,346
Foreign exchange losses						(4,365)	(2,276)	(6,641)
Underwriting return after foreign exchange					40,365	(10,384)	(2,276)	27,705
Financial income								5,648
Other operating income								297
Other operating expenses								(11,956)
Operating profit								21,694
Finance charges								(1,594)
Profit before tax								20,100
Taxation charge								(2,677)
Profit after tax								17,423
Claims ratio (%)	62.8%	48.7%	26.5%	35.1%	45.1%			
Expense ratio (%)	33.6%	30.8%	34.9%	32.2%	33.0%			
Combined ratio (%)	96.4%	79.5%	61.4%	67.3%	78.1%			

5 Net insurance premium revenue

	Six months ended	Six months ended	Year ended
	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Gross premiums written	155,907	149,870	241,996
Change in gross unearned premiums provision (note 20)	(27,364)	(47,021)	(20,492)
Gross earned premiums	128,543	102,849	221,504
Premiums ceded to reinsurers	(44,327)	(37,225)	(53,558)
Change in ceded unearned premiums provision (note 20)	13,622	21,047	8,684
Ceded earned premiums	(30,705)	(16,178)	(44,874)
Net insurance premium revenue	97,838	86,671	176,630

6 Financial income

	Six Months ended	Six Months ended	Year ended
	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Other financial income			
Interest income cash and cash equivalents	447	304	635
Investment income on financial assets designated at fair value through the income statement on initial recognition			
Interest income from fixed income securities	2,539	2,629	5,437
Fair value gains/(losses) on financial assets at fair value through the income statement			
Held for trading (foreign exchange contracts)	-	1,044	1,044
Designated upon initial recognition (realised)	(995)	158	(194)
Designated upon initial recognition (unrealised)	(356)	(832)	(1,274)
	1,635	3,303	5,648

7 Net claims incurred

	Six Months ended 30 June 2010 £'000	Six Months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Claims paid	48,132	35,917	78,873
Movement in insurance liabilities (note 20)	52,040	19,089	31,273
Gross claims incurred	100,172	55,006	110,146
Reinsurers' share of claims paid	(12,533)	(9,304)	(15,776)
Reinsurers' share of movement in insurance liabilities (note 20)	(26,020)	(6,883)	(11,181)
Reinsurers' share of claims incurred	(38,553)	(16,187)	(26,957)
Net claims paid	35,599	26,613	63,097
Net movement in insurance liabilities (note 20)	26,020	12,206	20,092
Net claims incurred	61,619	38,819	83,189

The current period has benefited from a release of claims reserves established in previous reporting periods.

This reassessment of claims reserves has contributed £12.8 million (2009: £10.0 million) to the profit recognised in the period. The release is distributed across business segments, as follows:

	Six Months ended 30 June 2010 £'000	Six Months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Marine and aviation	6,023	2,210	567
Specialty lines	2,175	4,742	2,311
Non-marine property	547	2,073	5,056
Property treaty	4,110	962	1,816
Total	12,855	9,987	9,750

8 Expenses incurred in insurance activities

	Six Months ended 30 June 2010 £'000	Six Months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Commission expenses payable	31,748	30,039	48,090
Other acquisition costs	3,934	2,797	6,160
Change in deferred acquisition costs	(3,011)	(10,549)	(4,980)
Total acquisition costs	32,671	22,287	49,270
Administrative expenses	6,303	4,529	9,825
Expenses incurred in insurance activities	38,974	26,816	59,095

9 Finance charges

	Six Months ended 30 June 2010 £'000	Six Months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Letter of credit charges	835	315	731
Subordinated debt interest	366	489	863
	1,201	804	1,594

10 Foreign exchange movements

Foreign exchange gains and losses result from the translation of the balance sheet to closing rates and the income statement to average exchange rates. International Accounting Standard 21: The Effects of Changes in Foreign Exchange Rates, however, requires that non-monetary items remain at historic rates. The Group's only non-monetary assets and liabilities denominated in foreign currencies are unearned premiums and deferred acquisition costs ("UEP" and "DAC").

This IFRS accounting treatment creates a mismatch in foreign exchange rates used, the financial effects of which are shown in the table below:

	Six Months ended 30 June 2010 £'000	Six Months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Foreign exchange gains / (losses) arising from:			
Translation of balance sheet and income statement	5,455	(4,967)	(2,276)
Maintaining UEP and DAC items in the balance sheet at historic rates	1,492	(11,802)	(10,384)
Maintaining UEP and DAC items in the income statement at historic rates	1,100	5,811	6,019
	8,047	(10,958)	(6,641)
Effects of foreign exchange on non-monetary items:			
UEP and DAC items at historic rates	75,632	73,499	64,902
UEP and DAC items at closing rates	76,589	71,546	64,367
Valuation difference in closing balance sheet	957	(1,953)	(535)
Valuation difference in opening balance sheet	535	(9,849)	(9,849)
	1,492	(11,802)	(10,384)

11 Income tax expense

	Six Months ended 30 June 2010 £'000	Six Months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Current tax expense			
Current period	388	3,145	1,643
Adjustments for prior periods	-	-	(455)
	388	3,145	1,188
Deferred tax (credit) / expense			
Origination and reversal of temporary differences (note 21)	(1,587)	(1,921)	1,489
	(1,199)	1,224	2,677

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 2010	Six Months ended 30 June 2009	Year ended 31 December 2009
Profit for the period (£'000)	1,973	6,535	17,423
	Thousands	Thousands	Thousands
Issued shares at 1 January	52,318	35,760	35,760
Effect of own shares held	(1,148)	(773)	(823)
Effect of shares issued in period	277	8,301	12,457
Weighted average number of common shares in issue during period	51,447	43,288	47,394
Basic earnings per share (pence per share)	3.8p	15.1p	36.8p

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 awards 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 2010 Thousands	Six Months ended 30 June 2009 Thousands	Year ended 31 December 2009 Thousands
Weighted average number of common shares in issue during period	51,447	43,288	47,394
Adjusted for share options	2,241	1,599	1,596
Weighted average number of common shares for diluted earnings per share	53,688	44,887	48,990
Diluted earnings per share (pence per share)	3.7p	14.6p	35.6p

13 Dividends per share

	Six Months ended 30 June 2010 £'000	Six Months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Second interim dividend for the year ended 31 December 2009 of 9.3p per share	4,728	-	-
Interim dividend for the year ended 31 December 2009 of 4.0p per share	-	-	2,027
Final dividend for the year ended 31 December 2008 of 8.5p per share	-	4,301	4,301
	4,728	4,301	6,328

The group has declared an interim dividend of 4.4p per share (2009: 4.0p) payable on 30 September 2010.

14 Reinsurance assets

	As at 30 June 2010 £'000	As at 30 June 2009 £'000	As at 31 December 2009 £'000
Reinsurers' share of unearned premiums	31,994	30,735	18,371
Reinsurers' share of outstanding claims	75,250	41,192	46,800
Impairment provision	(1,856)	(824)	(1,045)
Reinsurance assets (note 20)	105,388	71,103	64,126

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 2010 £'000	As at 30 June 2009 £'000	As at 31 December 2009 £'000
Financial assets at fair value through the income statement			
Designated upon initial recognition	173,786	164,121	192,365
Financial assets at fair value through the income statement			
Debt and other fixed income securities	173,786	164,121	192,365

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 30 June 2010 the total deposited under these Trust Deeds, including cash, amounted to £135,935,789 (2009: £111,770,776) 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 US\$50m (2009: £35m). These letters of credit have been issued by Lloyds TSB Bank, Calyon and Barclays Bank and are secured on the assets of the Group. This facility gives the Group access to US\$82m to support underwriting on the 2009, 2010 and 2011 years of account.

Fair value measurement

The table below summarises the fair value hierarchy for the group in accordance with revised IFRS 7 – Financial Instruments: Disclosures. The standard was adopted for the first time for the period ending 31 December 2009 therefore no comparative data is required for the period ending 30 June 2009.

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

Level 1 – fair values measured using quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date.

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 group measures the fair value of its financial assets based on prices provided by investment managers who obtain market data from independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for holdings 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.

Included within Level 1 of the hierarchy are Government bonds and Treasury bills, which are measured using quoted prices.

Level 2 of the hierarchy includes Government agencies, Supranationals and Corporate securities. The fair values 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 manager with the investment custodian and the valuation used by external parties to derive fair value.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
As at 31 December 2009				
Financial assets:				
Debt and fixed income	51,727	140,638	-	192,365
As at 30 June 2010				
Financial assets:				
Debt and fixed income	19,942	153,844	-	173,786

16 Cash and cash equivalents

	As at 30 June 2010 £'000	As at 30 June 2009 £'000	As at 31 December 2009 £'000
Short-term bank deposits	96,184	86,143	93,001
Deposits with credit institutions	26,668	14,168	5,253
	122,852	100,311	98,254

Included in cash and cash equivalents held by the Group are balances totaling £90,084,508 (2009: £69,484,772) which are not available to the Group because they are held within syndicate premium trust funds.

17 Common shares and contributed surplus

	Number of shares Thousands	Common shares £'000	Contributed surplus £'000
As at 1 January 2009	35,760	7,152	42,349
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>77,252</u>
Issues in relation to share options exercised	26	5	43
As at 31 December 2009	<u>52,318</u>	<u>10,464</u>	<u>77,295</u>
Issues in relation to share options exercised	5	1	11
Shares issued at par value to the employee benefit trust	442	88	-
As at 30 June 2010	<u>52,765</u>	<u>10,553</u>	<u>77,306</u>

The total authorised number of common shares is 75 million (2009: 75 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 reserv e £'000	Share- based payments £'000	Total £'000
As at 1 January 2009	(1,709)	2,441	75	1,541	2,348
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>
Share-based payments	-	-	-	891	891
Employee benefit trust holding	(138)	-	-	-	(138)
As at 31 December 2009	<u>(2,287)</u>	<u>2,441</u>	<u>75</u>	<u>3,128</u>	<u>3,357</u>
Share-based payments	-	-	-	946	946
Employee benefit trust holding	(1,430)	-	-	-	(1,430)
As at 30 June 2010	<u>(3,717)</u>	<u>2,441</u>	<u>75</u>	<u>4,074</u>	<u>2,873</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 2010 £'000	As at 30 June 2009 £'000	As at 31 December 2009 £'000
Subordinated debt	19,476	17,687	18,136

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 2010 £'000	As at 30 June 2009 £'000	As at 31 December 2009 £'000
Gross			
Claims reported	134,031	101,578	107,628
Loss adjustment expenses	5,017	4,005	4,001
Claims incurred but not reported	84,910	45,248	55,108
Unearned premiums	140,181	139,346	112,817
Total gross insurance liabilities	364,139	290,177	279,554
Recoverable from reinsurers			
Claims reported	(44,004)	(32,769)	(33,772)
Claims incurred but not reported	(29,390)	(7,599)	(11,983)
Unearned premiums	(31,994)	(30,735)	(18,371)
Total reinsurers' share of insurance liabilities	(105,388)	(71,103)	(64,126)
Net			
Claims reported	90,027	68,809	73,856
Loss adjustment expenses	5,017	4,005	4,001
Claims incurred but not reported	55,520	37,649	43,125
Unearned premiums	108,187	108,611	94,446
Total net insurance liabilities	258,751	219,074	215,428

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	98,664	(28,963)	69,701
Loss adjustment expenses	2,818	-	2,818
Claims incurred but not reported	44,817	(8,204)	36,613
Total as at 1 January 2009	<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)
Total as at 30 June 2009	<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
Total as at 30 June 2009	<u>150,831</u>	<u>(40,368)</u>	<u>110,463</u>
Increase in year	31,273	(11,181)	20,092
Net exchange adjustments	(10,835)	2,593	(8,242)
Total as at 31 December 2009	<u>166,737</u>	<u>(45,755)</u>	<u>120,982</u>
Claims reported	107,628	(33,772)	73,856
Loss adjustment expenses	4,001	-	4,001
Claims incurred but not reported	55,108	(11,983)	43,125
Total as at 31 December 2009	<u>166,737</u>	<u>(45,755)</u>	<u>120,982</u>
Increase in period	52,040	(26,020)	26,020
Net exchange adjustments	5,181	(1,619)	3,562
Total as at 30 June 2010	<u>223,958</u>	<u>(73,394)</u>	<u>150,564</u>
Claims reported	134,031	(44,004)	90,027
Loss adjustment expenses	5,017	-	5,017
Claims incurred but not reported	84,910	(29,390)	55,520
Total as at 30 June 2010	<u>223,958</u>	<u>(73,394)</u>	<u>150,564</u>

Movement in provision for unearned premiums

	Gross £'000	Reinsurance £'000	Net £'000
As at 1 January 2009	92,325	(9,687)	82,638
Movement during first half 2009	47,021	(21,048)	25,973
As at 30 June 2009	<u>139,346</u>	<u>(30,735)</u>	<u>108,611</u>
Movement during 2009	20,492	(8,684)	11,808
As at 31 December 2009	<u>112,817</u>	<u>(18,371)</u>	<u>94,446</u>
Movement during first half 2010	27,364	(13,623)	13,741
As at 30 June 2010	<u>140,181</u>	<u>(31,994)</u>	<u>108,187</u>

21 Deferred income tax liability

	2010 £'000	2009 £'000	2009 £'000
As at 1 January	9,960	8,471	8,471
(Credit) / debit in period	(1,587)	(1,921)	1,489
As at 30 June / 31 December	8,373	6,550	9,960

The above liability is calculated using the prevailing tax rate of 28%. The Finance (No 2) Act 2010 included confirmation of the reduction in the UK corporation tax from 28% to 27% effective from 1 April 2011.

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 2010 £'000	As at 30 June 2009 £'000	As at 31 December 2009 £'000
Net assets	148,952	142,429	152,091
Intangible assets	(15,509)	(15,509)	(15,509)
Net tangible assets	133,443	126,920	136,582
Issued shares at end of period (number of shares '000s)	52,764	52,292	52,318
Effect of own shares held (number of shares '000s)	(938)	(997)	(1,001)
Issued shares after adjustment (number of shares '000s)	51,826	51,295	51,317
Net assets per share	£2.87	£2.78	£2.96
Net tangible assets per share	£2.57	£2.47	£2.66

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 2009. 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 5.4 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 2009. 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
2009	41.3	49.1	45.1

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 5 August 2010.

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 2010 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 2010 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

5 August 2010

Financial calendar

1 September 2010	Ex-dividend date for interim dividend
3 September 2010	Record date for interim dividend
30 September 2010	Payment of interim dividend
March 2011	Announcement of results for the year ending 31 December 2010
May 2011	Payment of 2010 final dividend
August 2011	Announcement of results for the six months ending 30 June 2011