



HISCOX HOLDINGS LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2011

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HISCOX HOLDINGS LIMITED - ANNUAL REPORT AND ACCOUNTS 2011

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COMPANY INFORMATION

Directors

Robert Ralph Scrymgeour Hiscox (Chairman)
Robert Simon Childs
Bronislaw Edmund Masojada
Stuart John Bridges

Secretary

Maria Rita Buxton-Smith (resigned 11 August 2011)
John Keith Taylor (appointed 13 December 2011)

Registered Office

1 Great St Helen's
London
EC3A 6HX

Registered number

02203521

Tax Advisors

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

Auditors

KPMG Audit Plc
15 Canada Square
Canary Wharf
London
E14 5GL

Bankers

Lloyds Banking Group plc
113-116 Leadenhall Street
London
EC3A 4AX

DIRECTORS' REPORT

The directors present their annual report and financial statements for the year ended 31 December 2011

Principal activity and business review

The Company is a holding company for Lloyd's underwriting agency interests, the Group's US operations and for a UK insurance intermediary

The profit for the year after taxation was £31,208,000 (2010 £20,550,000). An interim dividend was declared and paid during the year of £30,000,000 (2010 £20,000,000). The directors do not recommend a final dividend (2010 £nil) leaving a profit of £1,208,000 to be transferred to the Company's reserves (2010 profit of £550,000).

In June 2011, there was a recapitalisation of intercompany positions between Hiscox Holdings Inc, the holding company of the US operating entities, and Hiscox Underwriting Group Services Ltd of £93,205,000. The capital used in the transaction was used to repay the intercompany positions arising between the US operating entities and Hiscox Underwriting Group Services Ltd and Hiscox plc.

The Company's holding company, Hiscox plc, acquired share capital in the Company, who then increased its investment in Hiscox Holdings Inc. The Company also offset the loan from Hiscox Holdings Inc with the investment in Hiscox Holdings Inc.

Principal risks and uncertainties

The Company's primary source of income is generated from dividends from subsidiaries and interest amounts on loans to subsidiaries.

The balance sheet contained US Dollar assets in 2010 and during 2011, to which the Company is exposed to fluctuations in currency. The Company is exposed to currency fluctuations through its overseas assets. Further analysis is provided in note 3. As at 31 December 2011, the Company is exposed to Euro liability fluctuation.

The Company is financed by the equity investment from its parent together with retained earnings. It has no debt finance and therefore has no interest rate risk exposure in relation to borrowings.

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate and after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. The Company's cash resources are managed on a Group basis. Working capital forecasts have been prepared for the Group up to 31 December 2015, which demonstrate that the Group has sufficient resources to continue in operational existence for the foreseeable future.

Directors

The names of the directors of the Company during the period of this report are listed on page 1 of these accounts. Maria Rita Buxton-Smith resigned as secretary on 11 August 2011 and John Keith Taylor was appointed as secretary on 13 December 2011.

The directors have no interests in the shares of the Company, nor in any shares of any other Group company other than in the ultimate holding company. The interests of the directors in the ultimate holding company, who are also directors of the ultimate holding company, are shown in the consolidated financial statements of Hiscox Ltd.

Directors' responsibility statement in respect of the Directors Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

DIRECTORS REPORT *continued*

Directors' responsibility statement in respect of the Directors Report and the Financial Statements *continued*

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

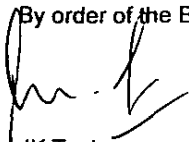
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the Board



JK Taylor
Secretary
1 Great St Helen's
London, EC3A 6HX

23 May 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HISCOX HOLDINGS LIMITED

We have audited the financial statements of Hiscox Holdings Limited for the year ended 31st December 2011 set out on pages 5 to 15

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 2 and 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31st December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square, Canary Wharf
London E13 5GL

23 May 2012

INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Income			
Interest income	4	58	182
Income from shares in subsidiary undertakings		30,000	20,000
Total income		30,058	20,182
Expenses			
Administration expenses	5	(743)	(6)
Foreign exchange gains	6	194	589
Total expenses		(549)	583
Profit before tax		29,509	20,765
Tax credit/(expense)	13	1,699	(215)
Profit for the year (all attributable to owners of the Company)		31,208	20,550

The Company did not recognise any other comprehensive income in the current or prior year

The notes on pages 9 to 15 are an integral part of these financial statements

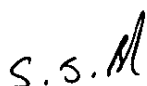
BALANCE SHEET

At 31 December 2011

	Note	2011 £000	2010 £000
Assets			
Investment in associate	8	-	761
Investment in subsidiary undertakings	9	156,358	20,325
Financial assets	10	52	52
Loans and receivables	11	1,829	24,426
Current tax		122	-
Total assets		158,361	45,564
Equity and liabilities			
Shareholders' equity			
Share capital	12	358	358
Share premium		93,452	257
Retained earnings		6,066	4,858
Total equity (all attributable to owners of the Company)		99,876	5,473
Trade and other payables	14	58,485	40,091
Total liabilities		58,485	40,091
Total equity and liabilities		158,361	45,564

The notes on pages 9 to 15 are an integral part of these financial statements

The financial statements were approved by the Board of Directors on 23 May 2012 and signed on its behalf by



Stuart John Bridges
Director

Hiscox Holdings Limited
Registration no 02203521

STATEMENT OF CHANGES IN EQUITY

	Note	Share Capital £000	Share Premium £000	Retained Earnings £000	Total £000
Balance at 1 January 2010		358	257	4,308	4,923
Profit for the year		-	-	20,550	20,550
Dividends paid to owners of the Company	15	-	-	(20,000)	(20,000)
Balance at 31 December 2010		358	257	4,858	5,473
Profit for the year		-	-	31,208	31,208
Dividends paid to owners of the Company	15	-	-	(30,000)	(30,000)
Investment in the Company		-	93,195	-	93,195
Balance at 31 December 2011		358	93,452	6,066	99,876

The notes on pages 9 to 15 are an integral part of these financial statements

CASH FLOW STATEMENT

For the year ended 31 December 2011

	2011 £000	2010 £000
Profit before tax	29,509	20,765
Changes in operational assets and liabilities	42,600	(765)
Net cash flows from operating activities	72,109	20,000
Cash outflow from acquisition of subsidiary	(136,033)	-
Cash inflow from sell of associate	729	-
Net cash flows from investing activities	(135,304)	-
Proceeds from the issue of ordinary shares	93,195	-
Dividends paid to owners of the company	(30,000)	(20,000)
Net cash flows from financing activities	63,195	-
Net decrease in cash and cash equivalents	-	-
Cash and cash equivalents at 1 January	-	-
Net decrease in cash and cash equivalents	-	-
Cash and cash equivalents at 31 December	-	-

The Company holds minimal cash and cash equivalents and its cash resources are managed centrally by an entity related by virtue of common ownership. All transactions are settled via intercompany balances and as such, the movement in these balances are classified as changes in operational assets and liabilities. Dividends to equity shareholders are also settled centrally.

The notes on pages 9 to 15 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Hiscox Holdings Limited (the Company) is a company registered in England and Wales under the Companies Act 2006. The address of the registered office is provided on the company information page and the nature of the Company's operations and principal activities are included within the report of the Directors. All operations are continuing.

2 Significant accounting policies**2.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB), as adopted by the European Union (EU) and in accordance with the provisions of the Companies Act 2006.

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

The Company is exempt from preparing consolidated financial statements by virtue of the Companies Act 2006, as its ultimate parent Company prepares publicly available consolidated financial statements that are deemed to satisfy the equivalence requirement of section 401 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking only and not about its group.

2.2 Basis of preparation

The financial statements are prepared on a going concern basis which the directors believe to be appropriate and after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. The Company's cash resources are managed on a Group basis. Working capital forecasts have been prepared for the Group up to 31 December 2015, which demonstrate that the Group has sufficient resources to continue in operational existence for the foreseeable future.

IAS 24 Related Party Disclosure (Amendment) is effective for annual periods beginning on or after 1 January 2011. The amendment clarifies the definition of a related party in order to simplify the identification of such relationships and to eliminate inconsistencies in application.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements.

IFRS 9 Financial Instruments is due to be effective from 1 January 2015. The standard contains two primary measurement categories for financial assets of amortised cost and fair value. Financial assets are classified in to one of these two categories on initial recognition. A financial asset is measured at amortised cost if the following conditions are met: it is held where the objective is to hold the asset in order to collect contractual cash flows, and, its contractual terms give rise on specified dates to cash flows that are solely payment of principal and interest on the principal outstanding. All other financial assets are to be classified at fair value.

2.3 Investment in associates and subsidiary undertakings

Investment in associates and subsidiary undertakings are stated at cost less provision for impairment in value.

2.4 Financial assets including loans and receivables

The Company has classified other financial assets as a) financial assets and b) loans and receivables. The financial asset relates to a holding of shares in the ultimate company, Hiscox Ltd, and is carried at cost. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables are carried at amortised cost less any provision for impairment in value.

2.5 Impairment of assets

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

(a) Financial assets and investments in subsidiaries and associates

Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:

NOTES TO THE FINANCIAL STATEMENTS *continued*

2 5 Impairment of assets *continued*

- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability,
- the likelihood of accelerated obsolescence arising from the development of new technologies and products, and
- the continuing operations of the group undertaking

(b) Impairment loss

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

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

2 6 Revenue

Revenue predominantly comprises dividend income from subsidiary undertakings and is recognised when approved by the shareholders of the related undertaking.

2 7 Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2 8 Foreign currency

The functional currency of the Company is Pound Sterling. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges. Non-monetary items carried at historical cost are translated in the balance sheet at the exchange rate prevailing on the original transaction date. Non-monetary items measured at fair value are translated using the exchange rate ruling when the fair value was determined.

2 9 Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the dividend is approved.

2 10 Use of critical estimates

The preparation of Financial Statements requires the use of significant estimates, judgements and assumptions. The Directors consider the accounting policies for determining the carrying value of intangible assets and the determination of current and deferred tax assets and liabilities as being most critical to an understanding of the Company's result and position.

Determining the carrying value of investments in subsidiary undertakings is subject to judgement. The Directors review the recoverability of the asset based on the expected future benefits including related future cash flows. Should it be considered that the asset will not generate sufficient present valued future benefits for the Company, the asset will be deemed impaired.

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

NOTES TO THE FINANCIAL STATEMENTS *continued***3 Management of risk****Overview of risk**

The Company is part of the Hiscox Group whose Board has developed a governance framework and set Group-wide risk management policies and procedures which cover specific areas such as risk identification, risk management and mitigation, and risk reporting. The overall appetite for accepting and managing varying classes of risk is defined by the Group's Board. The main risks that the Company is exposed to are credit risk, liquidity risk and currency risk.

3.1 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in solvency or be unable to pay amounts in full when due. The key area where the Company is exposed to credit risk is in relation to its loan to a fellow Group Company.

3.2 Liquidity risk

Exposure to liquidity risk is considered to be minimal in the company with all receivables and payables due from or to Group companies.

3.3 Currency risk

The profile of the Company's assets and liabilities, categorised by currency at their translated carrying amount, at 31 December was as follows:

As at 31 December 2011.

	Sterling £000	US Dollar £000	Euro £000	Total £000
Investment in associates	-	-	-	-
Investment in subsidiary undertakings	9,062	125,999	21,297	156,358
Financial assets	52	-	-	52
Loans and receivables	1,829	-	-	1,829
Current tax	122	-	-	122
Total assets	11,065	125,999	21,297	158,361
Trade and other payables	38,466	-	20,019	58,485
Total liabilities	38,466	-	20,019	58,485

As at 31 December 2010

	Sterling £000	US Dollar £000	Euro £000	Total £000
Investment in associates	761	-	-	761
Investment in subsidiary undertakings	6,461	13,464	400	20,325
Financial assets	52	-	-	52
Loans and receivables	1,837	22,589	-	24,426
Total assets	9,111	36,053	400	45,564
Trade and other payables	40,091	-	-	40,091
Total liabilities	40,091	-	-	40,091

Sensitivity analysis

The estimated impact of a 10% strengthening or weakening of the US Dollar against the Pound Sterling occurring on total equity and profit before tax is shown below. This analysis assumes all other variables remain constant and that the underlying valuation of assets in their base currency is unchanged.

	Effect on equity 2011 £000	Effect on profit before tax 2011 £000	Effect on equity 2010 £000	Effect on profit before tax 2010 £000
Strengthening of US Dollar	(1,635)	(2,224)	1,807	2,510
Weakening of US Dollar	1,338	1,820	(1,813)	(2,118)

NOTES TO THE FINANCIAL STATEMENTS *continued***4 Interest income**

Interest income of £58,000 (2010 £182,000) was generated from a US Dollar loan between the Company and one of its subsidiaries. This loan was repaid during the current year.

5 Administration expenses

	2011 £000	2010 £000
Auditors' remuneration – audit of these financial statements	2	3
Loan interest payable	697	-
Loss on sale of associate	33	-
Other expenses	11	3
Total administration expenses	743	6

The Company does not employ any staff and no staff costs have been recharged to the company for the year.

Audit fees are payable to the Company's external auditor, KPMG Audit Plc, its member firms and its associates (exclusive of VAT) and are entirely for the audit of the financial statements, all other fees paid to the auditor and their associates are disclosed on the Hiscox Ltd financial statements (note 11).

The loan interest payable is on the loan incurred with Hiscox International Holdings BV.

6. Foreign exchange gains

	2011 £000	2010 £000
Exchange gains	194	589

Foreign exchange gains and losses arise as a result of revaluation of the loan to Hiscox Holdings Inc, a company related by virtue of common ownership. The loan was repaid during the year. Loan interest is payable to another Group entity, HIBHV, which is payable in Euros.

7 Directors remuneration

All the executive directors of the Company are employed by Hiscox Underwriting Group Services Limited. During the year the Company was not charged (2010 £nil) for the services of directors of the Company. The remuneration charge for the highest paid director was £nil (2010 £nil). Retirement benefits were paid for two directors (2010 one). During the year contributions were made into a defined contribution pension scheme for two directors (2010 three). Four (2010 four) directors are members of a defined benefit scheme that closed to future accrual with effect from 31 December 2006. Three (2010 three) directors exercised options and/or performance share plan awards in the ultimate parent company, Hiscox Ltd, during the period, the aggregate gain being £638,000 (2010 £2,112,000). The benefits are not received for services to this Company.

8 Investment in associates

	2011 £000	2010 £000
Movement in carrying value		
At 1 January	761	761
Disposal of associates	(761)	-
At 31 December	-	761

On 23 March 2011, the Company sold its holding in Plexstar Insurance Services Ltd, resulting in a loss of £33,000. Further consideration is due to be received during 2012, estimated to be £200,000.

9 Investment in subsidiary undertakings

	2011 £000	2010 £000
Cost		
At 1 January	20,325	20,325
Additions during the year – Hiscox Holdings Inc	115,135	-
Additions during the year – Hiscox International Holdings BV	20,898	-
At 31 December	156,358	20,325

During the year, the company increased its investment in Hiscox Holdings Inc after the recapitalisation of intercompany positions. The increase in Hiscox International Holdings B V was after the restructuring of the European Agencies in Hiscox International Holdings B V. A full listing of the Company's investment in subsidiary undertakings is given in note 16.

10. Financial assets

The financial asset represents the holding of 54,560 shares in the ultimate parent company, Hiscox Ltd. The Company holds these shares at cost.

NOTES TO THE FINANCIAL STATEMENTS *continued***11. Loans and receivables**

	2011 £000	2010 £000
Amounts due from related parties	1,795	24,392
Other debtors	34	34
Total loans and receivables	1,829	24,426
	2011 £000	2010 £000
The amounts expected to be recovered before and after one year are estimated as follows		
Within one year	1,829	24,426
After one year	-	-
Amounts due from Group undertakings are repayable on demand however, repayment has not been requested		

12 Share capital

	2011		2010	
	Number of shares	£000	Number of shares	£000
Authorised				
US Dollar deferred shares of US\$0.01 each	3,100,000	20	3,100,000	20
Ordinary shares of 10p each	10,000,000	1,000	10,000,000	1,000
	13,100,000	1,020	13,100,000	1,020
Called up, allotted and fully paid shares of £1 each				
US Dollar deferred shares of US\$0.01 each	2,584,874	17	2,584,874	17
Ordinary shares of 10p each	3,408,000	341	3,408,000	341
	5,992,874	358	5,992,874	358

The Dollar deferred shares have no voting rights. The Dollar deferred shareholders are not entitled to receive any dividends. On liquidation the Dollar deferred shareholder will only receive a return of their capital investment after the ordinary shareholders have been repaid.

Changes in the Company's share capital

	Ordinary share capital £000	Share premium £000
Balance at 1 January 2010	358	257
Issue of new shares	-	-
Balance at 31 December 2010	358	257
Increase in Holding Company's ownership	-	93,195
Balance at 31 December 2011	358	93,452

An increase in share premium during the current year is due to the recapitalisation of the US companies. Hiscox plc increase its ownership in the Company in order for the Company to increase the ownership in Hiscox Holdings Inc and offset the intercompany US Dollar loan from Hiscox Holdings Inc.

13 Tax expense

The amounts charged in the consolidated income statement comprise the following

	2011 £000	2010 £000
Current tax		
(Credit)/expenses for the year	(172)	214
Adjustment in respect of prior year	(1,517)	1
Total current tax (credit)/charge	(1,689)	215
Deferred tax		
Credit for the year	(10)	-
Total deferred tax credit	(10)	-
Total tax (credit)/charge to the income statements	(1,699)	215

The tax expenses on the Company's profit before tax differs from the theoretical amount that would arise using the average tax rate applicable to profits of the company as follows

NOTES TO THE FINANCIAL STATEMENTS *continued***13 Tax expense** *continued*

	2011 £000	2010 £000
Profit before tax	29,509	20,765
Tax calculated at the standard corporation tax rate applicable in the UK of 26.5% (2010 28%)	7,820	5,814
Effects of		
Non taxable income	(8,002)	(5,600)
Prior year tax adjustments	(1,517)	1
Total tax (credit)/charge for the year	(1,699)	215

The Company is part of a Group Payment Arrangement for corporation tax purposes and accordingly tax balances are settled by the UK parent company, Hiscox plc. The corporation tax balances disclosed above represent amounts surrendered or received from Group companies as part of this process.

Factors affecting tax charges in future years

During the year, as a result of the change of the UK main corporation tax rate to 26% that was subsequently enacted on 29 March 2011 and was effective from 1 April 2011 and to 25% that was substantively enacted on 5 July 2011 and that will be effective from 1 April 2012, the relevant deferred tax balances have been remeasured.

Further reductions to the UK corporation tax rate were announced in the March 2012 budget. The changes, which are expected to be enacted separately each year, propose a further reduction of the rate to 24% from 1 April 2012, and henceforth to reduce the rate by 1% per annum to 22% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements. The impact of these changes in future periods will be dependent on the level of taxable profits in those periods.

14 Trade and other payables

	2011 £000	2010 £000
Amounts due to related parties	58,474	40,567
Other creditors	11	(476)
Total loans and receivables	58,485	40,091

	2011 £000	2010 £000
The amounts expected to be recovered before and after one year, are estimated as follows -		
Within one year	58,485	40,091
After one year	-	-

Amounts due to Group undertakings are repayable on demand however, repayment has not been requested.

15 Dividends paid to owners of the Company

	2011 £000	2010 £000
Interim dividends in respect of the current year	30,000	20,000

NOTES TO THE FINANCIAL STATEMENTS *continued***16 Principal subsidiary companies of Hiscox Holdings Limited at 31 December 2011**

Company	Nature of business	Country of incorporation
Hiscox Underwriting Ltd*	Underwriting agent	Great Britain
Hiscox International Holdings B V	Insurance holding company	Netherlands
Hiscox AG	Underwriting agent	Germany
Hiscox Holdings Inc *	Insurance holding company	USA (Delaware)
Hiscox Inc	Underwriting agent	USA (Illinois)
Hiscox Specialty Insurance Company Inc	Insurance Company	USA (Illinois)
ALTOHA Inc	Insurance holding company	USA (Delaware)
American Live Stock Inc	Underwriting agent	USA (Illinois)
Hiscox Insurance Company Inc	General insurance	USA (Illinois)
Hiscox Investment Holdings Ltd	Insurance holding company	Great Britain
Hiscox Syndicates Limited*	Lloyds Managing agent	Great Britain
Hiscox ASM Limited*	Insurance intermediary	Great Britain
Insurex-Exposure Limited*	Dormant	Great Britain
Hiscox European Underwriting Limited*	Insurance intermediary	Great Britain
Hiscox European Services Limited	Service company	Great Britain
Roberts & Hiscox (Underwriting Agencies) Limited*	Dormant	Great Britain

*Held directly

All companies are wholly owned. The proportion of voting rights of each subsidiary held is the same as the proportion of equity shares held.

17 Ultimate parent company

The Company is a subsidiary of Hiscox plc, United Kingdom.

The smallest and largest group in which the results of the Company are consolidated is that headed by Hiscox Ltd, Bermuda. No other group financial statements include the results of the Company. The consolidated financial statements of this group are available to the public and may be obtained from Wessex House, 45 Reid Street, Hamilton, Bermuda.

18 Related party transactions

Hiscox Holdings Inc is the holding company for the Group's companies in the USA. The Company had previously provided a loan to Hiscox Holdings Inc and received interest income on that loan on an arm's length basis. This loan was repaid in full during the year.

During the current year the Company incurred a loan with one of its subsidiaries, Hiscox International Holdings BV. This is a interest bearing loan payable on arm's length basis. Hiscox Underwriting Group Services Limited is a service company in the UK which pays all UK suppliers and recharges the relevant expenditure to the Company.

The following balance sheet amounts were outstanding at year end with related parties:

Balance sheet net assets and (liabilities) outstanding relating to related group companies	2011 £000	2010 £000
Assets		
Subsidiaries	1,025	23,614
Fellow Group Companies	770	778
	1,795	24,392
Liabilities		
Subsidiaries	20,957	263
Fellow Group Companies	37,528	40,304
	58,485	40,567

Income and expenditure

The foreign exchange gains recorded in profit before tax are purely in relation to translation of the loan position with a subsidiary company.

The interest income recorded in profit before tax relates purely to loan interest income receivable from a subsidiary company.

Hiscox Underwriting Group Services Limited recharged £6,000 (2010: £6,000) expenses during the year in relation to day to day expenditure.