HISCOX

Hiscox Ltd
Report and Accounts
2017

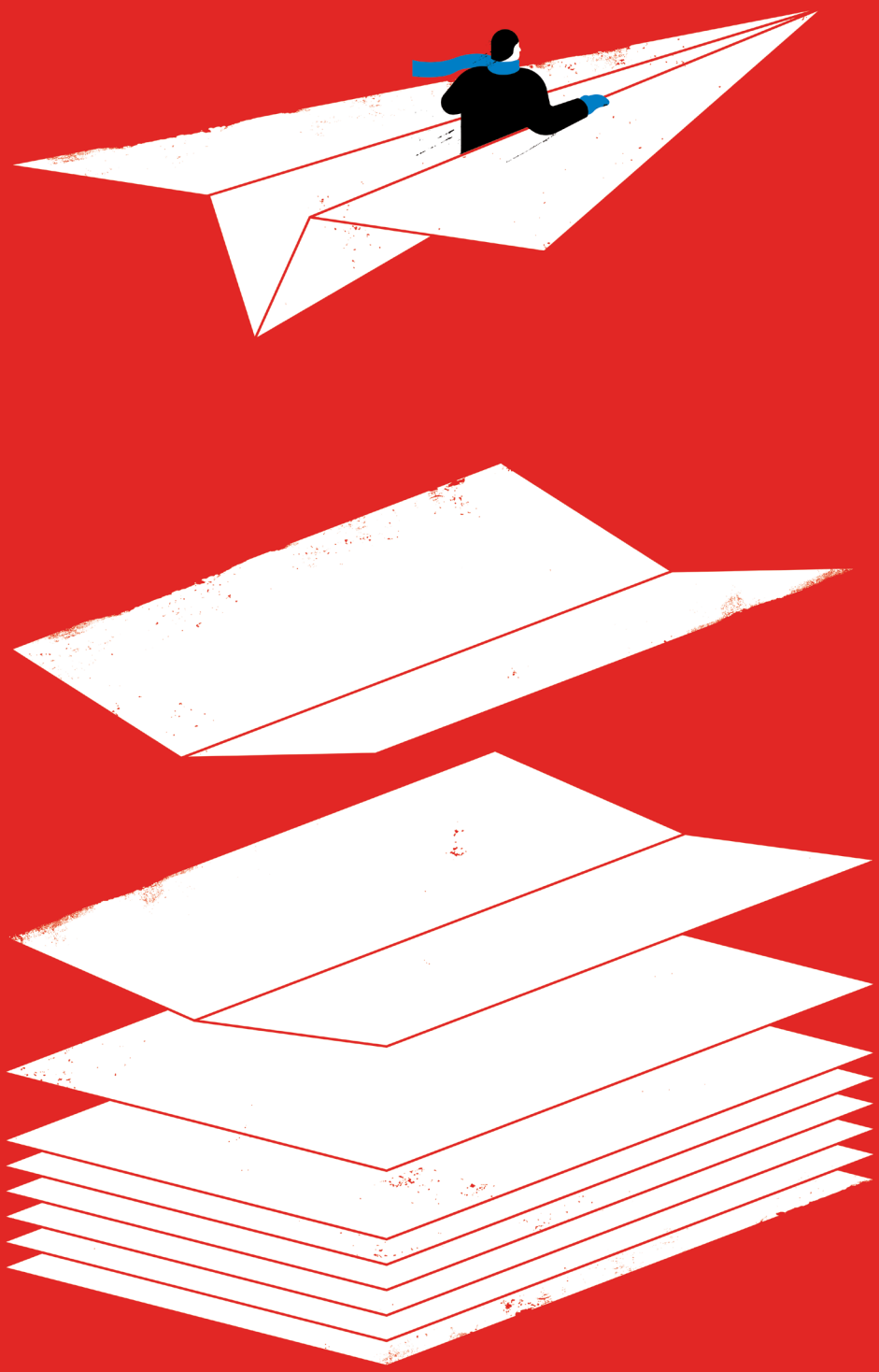
Hiscox is a diversified international insurance group with a powerful brand, strong balance sheet and plenty of room to grow. We are listed on the London Stock Exchange, headquartered in Bermuda and currently have over 2,700 staff across 14 countries and 32 offices. We can trace our roots back to 1901 and have grown organically over time from our beginnings in the Lloyd's market.

Our ambition is to be a respected specialist insurer in key geographies and product lines, valued by our customers, business partners and shareholders. Our values define our business, with a focus on quality, courage, excellence in execution and our people.

Ten good reasons to work at Hiscox

Recently, we have been thinking a lot about what makes Hiscox a great place to build a career. We have been talking to our people, newcomers and old-timers; reading our reviews, both good and bad; and seeing how we stack up against the competition. We have distilled this into ten points which we think uncover one of our best-kept secrets – what it's really like to be part of our remarkable team.

See page 29.



Financial highlights

98.8%

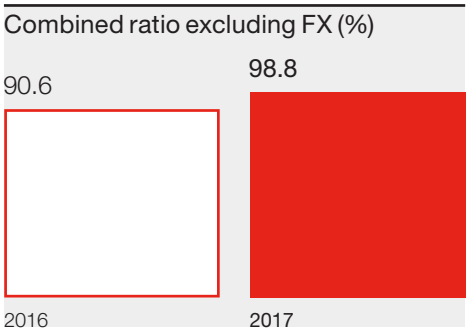
Combined ratio excluding FX in a year of historic catastrophes.

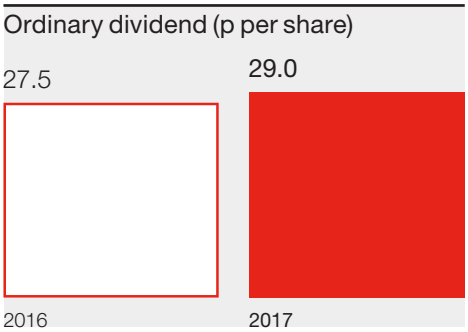
29.0p

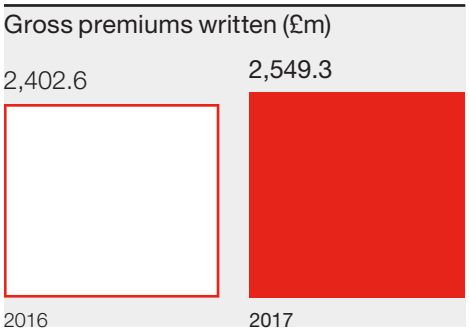
Total ordinary dividend per share up by 5.5%.

£2,549.3m

Gross premiums written increased by 6.1%.







Group key performance indicators*

	2017	2016
Gross premiums written (£m)	2,549.3	2,402.6
Net premiums earned (£m)	1,874.5	1,675.0
Profit before tax (£m)	30.8	354.5
Profit before tax excluding foreign exchange (£m)	93.6	202.1
Profit after tax (£m)	26.3	337.0
Earnings per share (p)	9.3	119.8
Total ordinary dividend per share for year (p)	29.0	27.5
Net asset value per share (p)	618.6	649.9
Combined ratio (%)	99.9	84.2
Combined ratio excluding foreign exchange (%)	98.8	90.6
Return on equity (%)	1.5	23.0
Investment return (%)	2.0	1.9
Reserve releases (£m)	251.5	213.0

*Additional performance measures are discussed on page 28.

Why invest in Hiscox?

Hiscox is a diversified international insurance group with a consistent, long-held strategy that provides opportunity throughout the insurance cycle. We are a uniquely balanced insurer with a powerful brand, strong balance sheet and plenty of room to grow.

Our strategy

Our success is due to our long-held strategy:

- to use our underwriting expertise in Bermuda and London to write larger premium, volatile or complex risks;
- to build distribution in the UK, Europe, USA and Asia for our specialist retail products;
- to protect and nurture our distinctive culture by recruiting the best people, and by focusing on organic growth.

This strategy provides opportunities throughout the insurance cycle, allowing us to deliver in the short, medium and long term.

Long-term shareholder value

Hiscox has always had a focus on creating long-term shareholder value with a progressive dividend policy.

Over the last five years ROE averaged 15%, well above the FTSE All-Share average of 9%. This performance has enabled the Company to distribute £742 million to shareholders since 2013, and deliver a total shareholder return of 280% – well above the FTSE All-Share of 74%.

Building balance – a symbiotic relationship

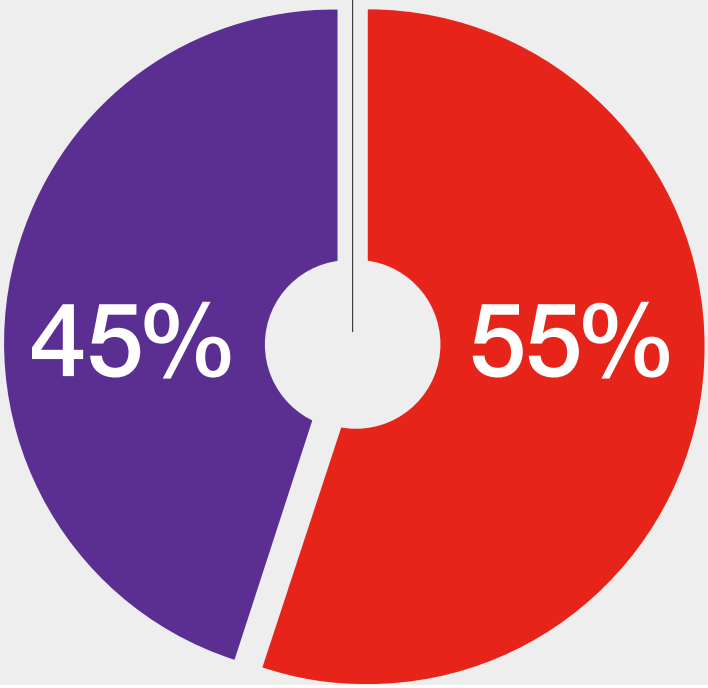
Total Group controlled income for 2017 (%)

Big-ticket business

- Larger premium, globally traded, catastrophe exposed business written mainly through Hiscox London Market and Hiscox Re & ILS.
- Shrinks and expands according to pricing environment.
- Excess profits allow further investment in retail development.

Retail business

- Smaller premium, locally traded, less volatile business written mainly through Hiscox Retail.
- Growth between 5-15% per annum.
- Pays dividends.
- Specialist knowledge differentiates us and investment in brand builds strong market position.
- Profits act as additional capital.



The Hiscox Group employs more than 2,700 people across 14 countries and 32 offices. Our operations span every continent and we are not overly reliant on any one of our divisions for the Group's overall profits.

Operational highlights

Hiscox Retail
Now the single biggest segment in the Group, driving growth and profits and covering the dividend for the second year in a row.

Hiscox Retail
Standout performance from Hiscox USA, with premium growth of 29% in constant currency.

29%↑

Hiscox London Market
Taken decisive action in areas like political risks, healthcare, extended warranty and auto physical damage business, where results were marginal.

Hiscox London Market
Focus on growth in investment lines such as cyber, product retail, general liability and flood – where our award-winning FloodPlus product differentiates us.

Hiscox Re & ILS
Increasingly material ILS player, now with US$1.5 billion assets under management.

US$1.5bn

Hiscox Re & ILS
Launch of new US flood product, FloodXtra, positions us well in a deregulating US flood market.

A track record of profitable growth

Over the last five years the Hiscox Group has:

increased gross written premiums by 50% to

£2.55bn

achieved compound dividend growth of

8.4%

returned capital to shareholders of

£742m

delivered an average combined ratio of

87.2%

reported average return on equity of

15.4%

We have invested significantly in creating a unique culture that reflects our values and customer-focused ethos, and a powerful, differentiated brand which our target clients can identify with.

A unique culture

The excellence of our people has been a crucial factor in our continuing success. Their expertise, courage and dedication continue to drive our reputation for quality and professionalism. In return, we strive to provide them with a working environment in which they can flourish.

In our annual global employee engagement survey we looked at how connected employees feel to Hiscox, their managers, their teams and their roles. Hiscox enjoys very high employee engagement, which averages in the top quartile of over 200 companies worldwide. Of our employees, 88% said they are proud to work for us, while 93% said they believe in our corporate values.

We are market leaders in many of the sectors in which we operate, while our commitment to provide clients with quick responses, clear coverage and superb service is at the heart of everything we do. In 2017 it resulted in us receiving a number of accolades.

Award wins

Hiscox Group

- Robert Childs received the Judges' Award for Contribution to the Industry at the Reactions London Market Awards 2017.
- Bronek Masojada received the CEOs' CEO award at the Insurance Times Awards 2017 and Insurance CEO of the Year at the Reactions London Market Awards 2017.
- One of Management Today's Top 12 Most Admired Companies in Britain.
- Glassdoor's 8th Best Places to Work 2018, as voted by employees in the UK.
- Bronze Award for Best Places to Interview in the UK from Glassdoor.

Big-ticket business

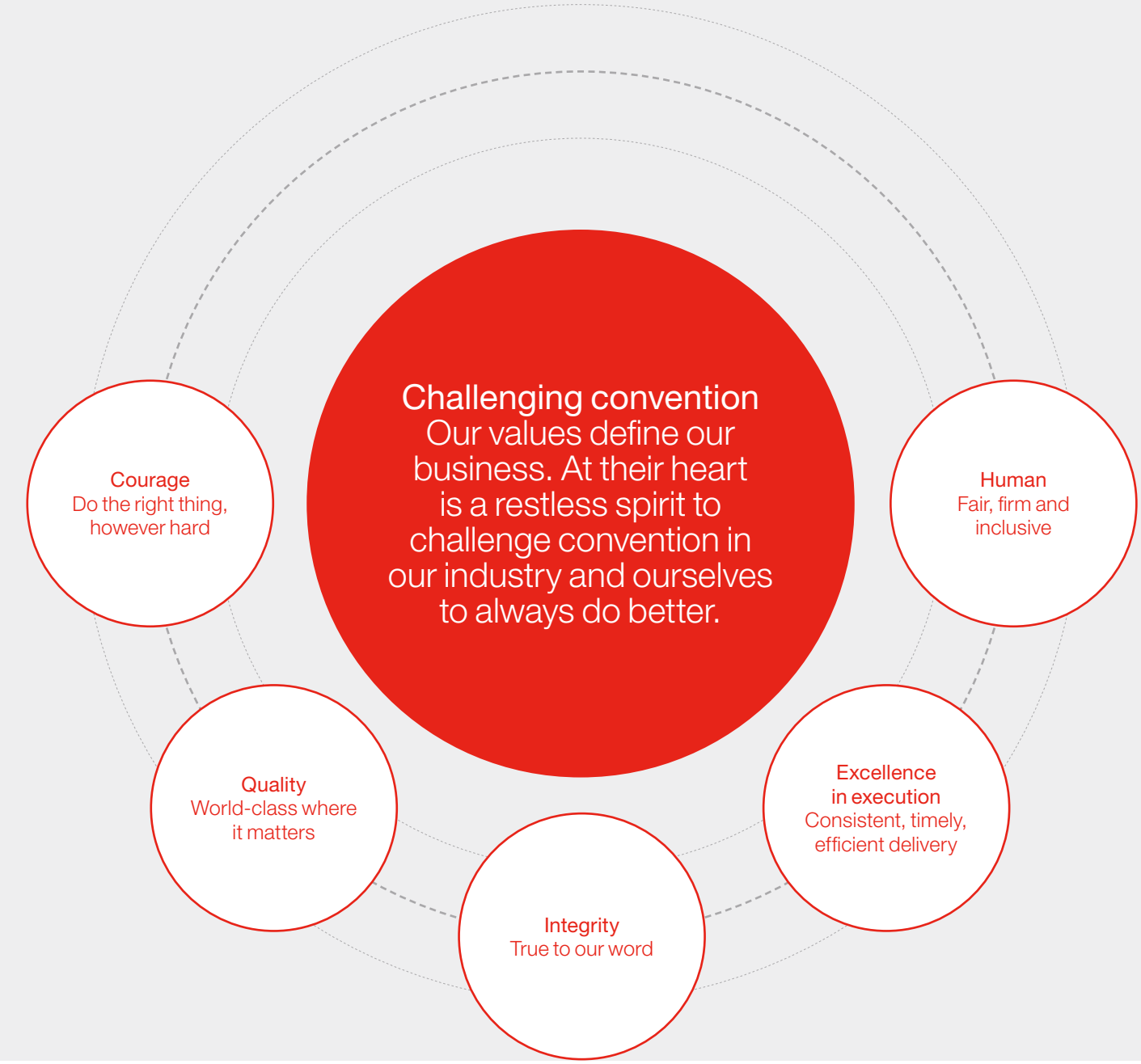
- Marketing Campaign of the Year for the Hiscox Cyber Risk Protection Campaign at the Reactions London Market Awards 2017.
- Underwriting Initiative of the Year for FloodPlus, and Young Underwriter of the Year award for Daniel Alpay, at the Insurance Insider Honours Awards 2017.
- ILS Fund Manager of the Year at the Reactions London Market Awards 2017.

Retail business

- UK Insurer of the Year, as voted for by Bluefin brokers.
- Hiscox Spain was voted Top Specialist Insurer for Claims Service by members of ADECOSE, the country's largest and most influential broker association.
- UK Consumer Intelligence Award for claims in 2017, as voted for by UK householders.
- Hiscox USA was recognised as Best in Class for Audio Advertising at the Financial Communications Society's 23rd Annual Portfolio Awards in New York for its six-part podcast series, Points of Courage.
- Hiscox USA's I'mpossible campaign received top honours for integrated marketing at the Business Marketing Association's Global Ace Awards 2017.

Our core values underpin a reputation we have earned for integrity and decent behaviour in everything we do, which we firmly believe is good for the morale of staff and for the results of the business.

Our ethos



Chairman's statement

Hiscox delivered a profit before tax excluding foreign exchange of £93.6 million (2016: £202.1 million) in the most expensive year for natural catastrophes ever, as hurricanes, earthquakes and wildfires battered insurers' balance sheets. A solid investment return and the balance in our business mix sustained us. Good underwriting and profits from the retail businesses countered the volatility of the big-ticket lines. Our strategy is working.

Our retail businesses had a great year and provided the lion's share of profit at £109.9 million (2016: £158.0 million). Pleasingly, profits from Hiscox Retail have exceeded £100 million for the second consecutive year. Retail is also the current growth engine of the Group at 20.5%, with Hiscox USA the standout performer increasing gross written premiums by 29% in constant currency.

In big-ticket lines, an extended period of benign claims activity and a flood of capacity had diminished margins across the industry and we reduced as planned in Hiscox London Market and Hiscox Re & ILS. However, following the catastrophes in the third quarter, we adjusted course and reworked our business plans to grow as prices rose. On the whole we have achieved good price rises in property, casualty and catastrophe-exposed lines, particularly in loss-affected areas, and it is my opinion that this momentum will continue through 2018.

Our balance sheet remains strong and the options we have mean we are well placed to seize the opportunities that this changing market is bringing.

Financial performance

The result for the year ending 31 December 2017 was a profit before tax excluding foreign exchange of £93.6 million (2016: £202.1 million). Gross written premium increased by 6.1% to £2,549.3 million (2016: £2,402.6 million). The combined ratio was 99.9% (2016: 84.2%). Earnings per share decreased to 9.3p (2016: 119.8p) and the net asset value per share decreased to 618.6p (2016: 649.9p). Return on equity was 1.5% (2016: 23.0%). We made a good investment return of £87.3 million (2016: £74.8 million), before derivatives and fees, which equates to a return of 2.0% (2016: 1.9%) on total assets under management.

I am pleased to announce a final dividend of 19.5p, a step up in the full year ordinary dividend to 29p, which is an increase of 5.5%. The record date for the dividend will be 11 May 2018 and the payment date will be 12 June 2018.

The Board proposes to offer a scrip alternative subject to the terms and conditions of Hiscox Ltd's 2016 Scrip Dividend Scheme. The last date for receipt of scrip elections will be 18 May 2018 and the reference price will be announced on 29 May 2018.

Market

Back in January 2017 we tested the London Market's ability to withstand major catastrophes with an industry-wide 'dry run' exercise, which turned out to be timely. We learnt a number of valuable lessons, and at Hiscox we updated some of our large loss processes, which stood us in good stead for the events of the second half of the year. It is the speed and agility of the London Market to respond to major loss events that makes or breaks its reputation, and regulators are pivotal to that process. We were pleased with the responsiveness of Lloyd's and other regulators.

People

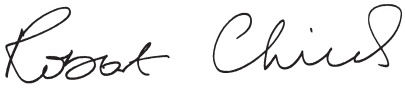
I am also pleased with the progress we have made at Board level in the past three years. In 2017, we saw a number of changes to both the Hiscox Ltd Board and our Executive Committee, and both were boosted by new skills and experience.

Following nine years of service, at which point the UK Corporate Governance Code deems them not independent, Ernst Jansen and Gunnar Stokholm stepped down from the Hiscox Ltd Board in November. I would like to thank them for their trusted counsel and wisdom, which will be sorely missed by the Hiscox Ltd Board. Our three new Non Executive Directors on the Hiscox Ltd Board, Michael Goodwin, Thomas Hürlimann and Costas Miranthis, bring impressive insurance industry experience gained across Asia, Europe and Bermuda, which will be valuable to our business.

Our Executive Committee was also strengthened with two new members; Kate Markham, who has moved from our direct-to-consumer business into Hiscox London Market where she is CEO, and Mike Krefta, who began his career with us in reinsurance operations 15 years ago, and is now CEO of Hiscox Re & ILS. It was especially pleasing to recruit from within for these roles; people build careers here.

It is our people who differentiate us and our focus on building remarkable teams is evident right across the Group. Their enthusiasm, commitment and fearlessness to challenge convention drives us forward and I would like to thank them for their focus and hard work over the year.

Robert Childs
Chairman



Regulatory burden

It's hard not to feel tormented by regulation. On the one hand we were delighted by the response of our regulators to our requests to grow after recent catastrophes. However, on the other hand, like many businesses we are working hard to navigate geopolitical issues such as Brexit, US tax reform, General Data Protection Regulation (GDPR) and New York's Cybersecurity regulation. At the same time, insurers are managing the impact of other incoming European regulations such as the Insurance Distribution Directive (IDD). On top of these important and complex customer safeguards, our industry has seen a host of new thematic reviews. I'm all for progress, in fact one of the Hiscox maxims is 'there is always a better way', but implementing these changes in tandem drains resource from the day-to-day endeavours of paying claims, collecting premiums, serving our customers and investing in building our business. I'm sure I am not alone in appealing for some reprieve from the regulatory leapfrog while we deal with so many sizable global issues.

Outlook

The $140 billion of catastrophe losses across the sector led to capital destruction and reserve deficits, and as a result the market is turning. This is not an immediate process; it comes about through each difficult conversation, each new quotation and each renewal. We have been waiting for this, and the good teams we have built and innovative products we have developed mean we are well placed to serve the needs of more customers. Being an underwriter in a changing market brings out the battler in us, and I have been proud of the resolve of our teams.

> Our big-ticket businesses have a renewed vigour, and our retail businesses continue to shine.
>
> Outlook

Our big-ticket businesses have a renewed vigour, and our retail businesses continue to shine. The balanced business we have been building for over 20 years continues to give us options throughout the insurance cycle and there is significant headroom to increase market share across all our retail businesses. We see plenty of opportunity to deliver profitable growth and further value to shareholders.

Robert Childs
26 February 2018

Chief Executive's report

In 2017, the global insurance industry was tested by hurricanes, earthquakes, wildfires and more, and the estimated US$140 billion insured loss makes it the most expensive year for natural catastrophes ever. After reserving net US$225 million for these events, our profit before tax excluding foreign exchange of £93.6 million (2016: £202.1 million) reflects the robustness of the strategy we have pursued for many years. The steady growth of our retail businesses and their underlying profitability balanced the thunder and lightning of the big-ticket lines.

2017 was another important lesson in the need for flexibility in business, and I have been proud of our resilience. The year turned out to be an historic one for natural catastrophes and it is at times like this that reputations are won or lost. Paying valid claims fast is what our business was built for; if there were no claims, there would be no need for insurance. Our teams around the world have served our customers well.

Looking forward, we have seen rate rises in big-ticket areas, though not as much as we might have liked, but which have allowed us to grow in areas such as flood and property. Our retail businesses will continue on their steady path. Across the business we will invest to modernise our infrastructure and offering for the digital era, continue to build our brand and make sure we adapt to a seemingly never-ending set of regulatory and politically driven changes. We have a zest for what lies ahead, and see opportunities for profitable growth in each of our business units.

I review each part of our business in turn below.

Hiscox Retail

Hiscox Retail continues to grow in significance and this year generated 56% of the Group's gross written premiums at £1,423.9 million (2016: £1,181.4 million). Comprising of Hiscox UK & Ireland, Hiscox Europe and Hiscox International, it is the single biggest segment in the Group, a strong profit contributor, and differentiates us from our peers. We continue to invest heavily in our brand and our ongoing investment in IT infrastructure in both the UK and USA will support our ambitious growth plans.

Our retail businesses delivered profits of £109.9 million (2016: £158.0 million) and a combined ratio of 94.6% (2016: 88.0%). Growth in the USA remains impressive, Hiscox UK & Ireland has done well at the top and bottom line, and Hiscox Europe had its best year ever – despite the distraction of preparing for Brexit.

Small business insurance is now the biggest single product line for the Group, delivering almost £1 billion in gross written premiums, and the profits from Hiscox Retail have exceeded £100 million for the second year in a row.

Hiscox UK & Europe

This division provides commercial insurance for small- and medium-sized businesses, typically operating in white-collar industries, and personal lines cover, including high-value household, fine art and collectibles, and luxury motor. These products are distributed via brokers, through a growing network of partnerships, and direct to consumers.

Hiscox UK & Ireland

Our most mature retail operation, Hiscox UK & Ireland, increased gross written premiums by 11.6% to £556.3 million (2016: £498.6 million), with every region contributing. The broker channel remains a key driver, with the professional risks and specialty commercial business performing particularly well. We still have plenty of room for growth in our existing product areas. We have attracted new business with our broadened appetite for larger risks, and have also expanded the range of professions we cover to include milliners and other specialist retailers.

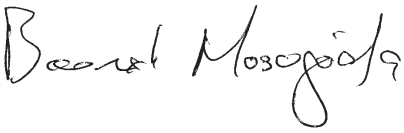
In the high net worth space, we agreed a transfer deal with Aon for its high net worth book of household insurance. In personal lines we also focused on embedding the products we launched in 2016, including our renovations and extensions product and our UK flood product, which have both performed well. We have suffered from an increase in escape of water claims arising from burst pipes, which is a trend affecting the industry. We are working with others to see how we can help policyholders mitigate this risk.

In the direct-to-consumer channel, our investment in IT infrastructure and expanded underwriting appetite for bigger risks are having a positive effect. There is good organic growth in our core direct commercial business, where we are taking on more businesses at the 'medium' end of SME, and in direct home, where we are taking on larger properties. We established a new partnership with Barclays, where we are providing home insurance products to their Premier customers, and are pleased to be the insurance service provider for Plexal, the new technology innovation centre in London's Queen Elizabeth Olympic Park.

The power and distinctiveness of the Hiscox brand is an important driver of our growth. We have seen good improvements in all key brand measures as the long-term benefits of a consistent strategy and ongoing investment continue to pay off. In the UK, we returned to TV with a sponsored ten-part property

2017 was another important lesson in the need for flexibility in business, and I have been proud of our resilience.

Bronek Masojada
Chief Executive



Hiscox Retail	2017 £m	2016 £m
Gross premiums written	1,423.9	1,181.4
Net premiums earned	1,229.9	1,020.5
Underwriting profit	89.0	100.4
Investment result	22.8	30.4
Foreign exchange and other*	(1.9)	27.2
Profit before tax	109.9	158.0
Combined ratio	94.6%	88.0%
Combined ratio excluding foreign exchange	94.5%	91.8%

*Includes impairments and accelerated amortisation.

series on Channel 4, 'Best Laid Plans', to support our renovations and extensions product.

I am pleased to say that the migration of our commercial broker channel business to a new IT platform is complete, with art and private client business scheduled for 2018. The commercial team is already benefiting from improved conversion, pricing and service, and our underwriters now have more time to spend with brokers and work on complex risks. We have also been able to insource our broker channel back-office functions to our shared service centre in Lisbon, which is already delivering benefits in terms of quality and control.

Hiscox Europe

Hiscox Europe had its best year ever in both growth and profitability, delivering gross written premiums of €245.3 million (2016: €218.4 million), up 12.3% in constant currency. All countries contributed to the underwriting performance, with strong new business and retention. Cyber, specialty commercial and management liability products continue to be key drivers of growth and we continue to invest in them.

Germany and Spain performed particularly well. In Germany, a focus on cyber and classic car continues to deliver and the business is achieving impressive 95% retention rates. We also extended our reach with a new sales branch in Frankfurt.

In Spain, we have focused on growing our existing partnerships, through innovation in products and services. We also launched our new cyber product, Cyber Clear, with promising early signs.

Hiscox France returned to growth after a challenging 2016, driven by the professions book and a focus on specialty commercial schemes. New leadership is also having a positive effect. In Benelux, we continue to focus on professionals and specialty commercial business, and to invest in our market-leading cyber offering.

Our mainland Europe business is supported by our shared service centre in Lisbon, where we now have a team of about 230 people. Operations support is mostly integrated with each individual country to ensure as close an alignment as possible, to overcome the tyranny of distance.

Having initiated technology transformation programmes in our retail businesses in the UK and the USA, our attention will soon turn to Europe. In 2018, we will begin the planning for this task, with an expectation that this will move to execution in 2019 when the UK programme is largely complete. In the meantime, we are re-launching our broker extranet sites under the rubric 'my Hiscox' with additional products and self-service features to drive sales and service. We have also deployed a state-of-the-art CRM solution across our broker and direct channels, as well as Robotics Process Automation (RPA) to automate back-end processing and even further improve our service levels to brokers and partners.

Hiscox International

This division comprises Hiscox USA, Hiscox Special Risks and DirectAsia. Its revenues grew by 28.8% to £654.3 million (2016: £508.1 million), 24.8% at constant currency.

Hiscox USA

Hiscox USA underwrites small- to mid-market commercial risks through brokers, partnerships and directly to businesses online and over the telephone. The business continues

Hiscox USA withstood the impact of the Q3 hurricanes well, testament to the scale and resilience we have built into the business.

Hiscox USA

£544.1m

Hiscox USA gross premiums written, an increase of 29% in constant currency.

to be a standout performer within the Group, delivering excellent growth of 28.8% in constant currency to US$701.6 million (2016: US$544.8 million), with all lines contributing. Hiscox USA withstood the impact of the Q3 hurricanes well, testament to the scale and resilience we have built into the business.

Our direct and partnerships division, the fastest-growing segment of Hiscox USA, had another strong year. We expanded our underwriting appetite within partnerships into adjacent small business segments, such as food trucks and insurance agents. Our small business operations continue to go from strength to strength and we now have more than 250,000 policies in force.

Growth in our broker channel business was driven predominantly by professional risks and general liability, where we are seeing continued success in selling it both as a stand-alone product and as additional cover to existing clients. New market participants in cyber have led to increased competition and some downward pressure on pricing, but we are staying relevant through our products and our expertise. We have walked away from unprofitable business in our programmes book, and will remain opportunistic when it comes to new business. Our entertainment business is now established and achieving scale, and our directors and officers' line has benefited from a sharper focus on the most promising industries and geographies.

We remain a small player in the US insurance market, and the opportunity is substantial. Our US team has done extremely well to build a lead in the small business segment, particularly online, and has established strong partnerships. Competition is increasing, but we will be relentless in our investment in the brand, our systems, products and teams.

The IT infrastructure project we are undertaking to replace the existing policy and claims administration system is progressing well, and our direct operations will be the first to benefit from it. Much like the IT projects we have completed in our UK business though, these are multi-year programmes that will create some operational stretch for our teams.

Hiscox Special Risks

This business underwrites special risks including kidnap and ransom, fine art and executive security from offices in Cologne, London, Los Angeles, Miami, Munich, New York, Paris and St Peter Port.

The business delivered gross written premiums of US$127.3 million (2016: US$128.8 million), a decline of 1.2% in constant currency or a small increase of 3.7% in Sterling terms, which is a good result in intensely competitive trading conditions.

The Security Incident Response product we launched at the start of the year in the UK, and have since rolled out to the USA, Spain and Japan, differentiates us and is creating a market where none existed previously. It gives us opportunities with a wider range of clients who are focused on broader security issues beyond kidnap exposure, such as criminal threats, workplace violence, corporate espionage and cyber extortion. It also enables us to leverage additional distribution channels such as directors and officers' brokers, and has been very well received so far. We will look at other opportunities to build on this success in 2018.

The Special Risks underwriting centre we established is delivering material benefits to the business by enabling underwriters to spend more time underwriting complex risks and pursuing new business. The operating model is being refined further with a focus on the USA and technological innovation, which we expect will provide further benefits.

DirectAsia

DirectAsia is a direct-to-consumer business in Singapore and Thailand that sells predominantly motor insurance. Hiscox acquired the business in April 2014. Its premiums reduced to £11.4 million (2016: £13.0 million), in line with management expectations, following the sale of our business in Hong Kong in 2016. Our Thai business operates as an agency and therefore is not reflected in these figures.

Despite the extremely competitive environment in Singapore the team is attracting new business thanks to ongoing investment in the brand, improving conversion rates in our contact centres and a more targeted approach to pricing. We also extended our distribution in conjunction with a local aggregator, and established new partnerships with a major vehicle inspection centre and with Shell – both of which are already yielding encouraging results. Product innovations including cover for motorcycle delivery riders and NCD60, a rewards system for customers, have also enhanced our proposition.

In Thailand, where we see significant opportunity, we launched a new TV campaign to raise brand awareness among our target customers. We continue to focus on marketing, including a new social media campaign to leverage the fact that Thais are among the

Hiscox London Market	2017 £m	2016 £m
Gross premiums written	581.7	726.0
Net premiums earned	435.7	443.1
Underwriting loss	(35.7)	(2.3)
Investment result	11.3	12.3
Foreign exchange and other*	(11.8)	34.0
(Loss)/profit before tax	(36.2)	44.0
Combined ratio	111.6%	90.7%
Combined ratio excluding foreign exchange	108.7%	99.4%

*Includes impairment.

biggest Facebook users in the world on a per-capita basis.

The incremental gains we are making in this business are as we expected, and positive indicators of the direct and partnership business we are building in Asia.

Hiscox London Market

In a year severely affected by natural catastrophes, it is no surprise that Hiscox London Market, which has a focus on catastrophe exposed risks, delivered a loss of £36.2 million (2016: profit of £44.0 million), equal to a combined ratio of 111.6%.

The market conditions facing Hiscox London Market have been deteriorating for some time, so in 2017 we shrank our premium by almost £150 million to £581.7 million (2016: £726.0 million). This was not an across the board retreat, but focused on lines like political risks, healthcare and extended warranty/auto physical damage where our results were marginal. We worked hard to hold market share in our core lines including terrorism, household and commercial property binders, and to progress in our investment lines of cyber, US flood, general liability, product recall and cargo. We believe that this discipline is the key to long-term outperformance.

Our original business plan for 2018 was to continue to shrink, but the accumulation of natural catastrophes caused a change of plan. Our revised plan called for an increase of Syndicate 33's capacity from 2017 levels by £450 million to £1.6 billion. Rate increases to date, while good for loss-affected lines like US and Caribbean property and elements of casualty, have not been as strong as we anticipated, so we will expand and expect to see Hiscox London Market return to growth, but not by as much as originally expected. We continue to press for rate rises and the underwriting discipline we exert now will flow though to our bottom line over time.

Looking at each business area in turn:

Property

Our property division includes USA and international commercial property, power and mining risks, and USA catastrophe exposed personal and small commercial lines traded in the London Market.

The year started in a soft and softening market for our property team, so we reduced our big-ticket property account while maintaining our personal and small commercial lines where rates were under less pressure. The losses of the second half are driving up property pricing, particularly in loss-affected accounts, and we expect to grow materially here in 2018.

A new initiative in 2016 and 2017 was our FloodPlus product which is a commercial market alternative to the government-backed National Flood Insurance Program. Our underwriting resolve and risk selection was tested in Hurricane Harvey which caused extensive flooding in Houston. We paid losses, which is after all the product we sell, but we see opportunities ahead. We created a Lloyd's consortium with other leading players and in 2018 the consortium will seek to grow this award-winning product materially.

Marine and energy

Our marine and energy division includes upstream energy, marine and energy liability, cargo and hull risks.

All lines were impacted by an ever softening market in the first half of the year. Losses from hurricanes Harvey, Irma and Maria affected our hull and cargo accounts in the second half. To date, rate increases in these lines have not been at the level expected, so we will need to remain disciplined.

Marine liability had a good year, with international performing particularly well and rates increasing slightly. We will look to increase our position in this line as the business renews throughout 2018.

Energy lines continue to experience the knock-on effects of oil price depression, and the impact of more capacity than buyers. We continue to seek out opportunities where the terms are attractive.

Casualty

Our casualty division includes our directors and officers', cyber, professional indemnity and general liability lines.

We have reduced in healthcare and miscellaneous professional indemnity, focusing instead on our investment lines of directors and officers', general liability and cyber, where our market-leading teams and products are having a positive effect. Directors and officers' and general liability are seeing a welcome uptick in pricing, and the cyber market continues to grow substantially as global demand increases.

Specialty

This division includes our aviation, contingency, terrorism, personal accident and product recall business. The space business moved into Hiscox MGA over the course of the year, and we stopped writing political risks business during 2017.

The soft market prevailed, particularly in terrorism and personal accident, and we were selective in these lines. Terrorism remains a profitable class of business and our market-leading position continues to stand us in good stead.

Product recall is still a relatively new line of business and there is some overcapacity, but it remains an attractive specialty area where we can add value with niche expertise. Market losses have helped to curtail rate reductions and we have achieved good growth. We agreed to buy the renewal rights to Liberty's London Market product recall book, and we launched an aviation-focused product that has been endorsed by the Aircraft Builders Council as the product recall policy of choice for its members.

Catastrophe reinsurance pricing into the key 1 January renewal season saw average prices increase by 9%.

Hiscox Re & ILS

£53.6m

Investment in marketing and brand building in 2017.

In 2018, we will focus on increasing our cross-sell opportunities, particularly in marine and energy.

It was another difficult year for aviation, where rates continued to fall, eroding an already non-existent margin. We significantly reduced our exposure to this line during 2017 and in 2018 will withdraw from aviation hull and liability underwriting.

Alternative risk

Last year I said we would materially reduce our involvement with underwriting agency White Oak in 2017, and we kept to this plan – exiting the extended warranty and auto physical damage business. With the benefit of hindsight our expansion into this area was a mistake as we failed to achieve the margins we expected.

We are now focused on portfolio business, where we match our capacity and experience with the expertise of underwriters in niche lines that complement our core appetite.

Hiscox MGA

Hiscox MGA underwrites and distributes products where customers' requirements for capacity exceed Hiscox's own risk appetite, or where the team's distribution focus allows us to access business in local markets around the world. It operates out of London, Paris and Miami.

We focused on four core lines of business in 2017: yachts and mega yachts, South American-focused property facultative reinsurance, space (which moved into the MGA in 2017) and terrorism. The team is steadily developing the business and we think that this will become a material distribution arm for the Group.

Hiscox Re & ILS

Hiscox Re & ILS comprises the Group's reinsurance businesses across the world and ILS activity through our flagship ILS funds. Our strategy of underwriting on behalf of Hiscox and third-party capital, whether they are insurance companies, other syndicates or capital market investors, is working well.

Gross written premiums for Hiscox Re & ILS grew by 4.5% in local currency to US$700.2 million (2016: US$670.0 million). Net of cessions to supporting capital partners, premiums reduced to US$293.6 million (2016: US$306.2 million). The business delivered a profit of US$25.5 million (2016: US$155.9 million) and a 101.3% combined ratio (2016: 53.0%), a good result in the face of challenging trading conditions. We benefited from our non-catastrophe lines, fees on our management of third-party funds and some releases from catastrophes in prior years.

Hiscox Re expanded its product suite in 2017, with new cyber and flood offerings. FloodXtra, a new product developed using detailed topological and weather analytics, allows us to target the deregulating US flood market. We see real opportunity to partner with US personal lines carriers who wish to enter this market. The product has been in development for some time but Q3 weather events have enabled us to generate good, early interest. We will continue to focus on these growing lines of business in 2018.

Growth in US catastrophe reinsurance has been especially pleasing, and helped to offset the closure of our healthcare business and reductions in retro and casualty lines, where rates were under more pressure. Property catastrophe reinsurance makes up approximately 60% of gross written premium for Hiscox Re & ILS. The team's gross underwriting performance was exceptional and as a result we were able to retain our quota share support from insurers and syndicates, and to replace those whose appetite changed.

Hiscox Re ILS, our manager of capital market funds which invest in insurance, had a good year. We were able to attract additional qualified investors and we entered 2018 with US$1.5 billion of assets under management. The professionalism of the team was recognised when they were awarded ILS Fund Manager of the Year at the Reactions London Market Awards 2017.

Catastrophe reinsurance pricing into the key 1 January renewal season saw average prices increase by 9%. There were clear variations within this, with loss-affected accounts seeing larger increases. The increases were less than we had expected and our aggregate book will grow less than initially planned. It is clear though that rate decreases are few and far between, so we think that 2018 will offer a better risk/reward trade-off than 2017.

Growing in non-catastrophe lines will be a focus for 2018, with opportunities in cyber and casualty. The ILS team will also be working with their insurance colleagues to see how we can utilise our access to both capital market investors and primary insurance to create new products and opportunities.

Claims

2017 will be remembered as one of the most costly years in history for natural catastrophes as a result of hurricanes Harvey, Irma, Maria and Nate, Mexico

Hiscox Re and ILS	2017 £m	2016 £m
Gross premiums written	543.7	495.2
Net premiums earned	209.0	211.4
Underwriting profit	3.5	84.1
Investment result	21.7	10.1
Foreign exchange and other*	(5.4)	21.3
Profit before tax	19.8	115.5
Combined ratio	101.3%	53.0%
Combined ratio excluding foreign exchange	98.9%	64.9%

*Includes finance cost.

earthquakes and California wildfires. The total cost of these events to the industry is estimated at in excess of US$140 billion, and Hiscox established net reserves of US$225 million to cover the expected losses from them. We try to take a prudent view when we create these reserves, but as with many matters in insurance, uncertainties remain. The prudence of our team in reserving prior catastrophes and individual claims was demonstrated with the release of £252 million (2016: £213 million) from prior years. Shocks in insurance are normally negative, so it was pleasing to demonstrate past prudence.

In retail lines, claims activity increased to a more normal level after a very benign 2016. In the UK, in line with others in the industry, we faced a veritable epidemic of escape of water claims. It seems that modern plumbing is not as robust as older methods. Across the world we are investing in retail claims capabilities. We received over 74,000 claims notifications (2016: over 63,000) and paid out £294 million (2016: £248 million). This ongoing increase is a welcome by-product of the success of our retail businesses.

Paying claims well is a core part of our value proposition, so we are pleased that our net promoter scores from those who have had claims remain very strong. In 2018, we are developing a claims 2.0 plan to ensure we can scale our claims and move to more digital processes, without losing the personal touch which is so important to our customers who are going through what is often a traumatic experience.

Marketing

At Hiscox we see marketing as a way of amplifying the reputation we get from dealing with each customer and broker in a fair and reliable way. This amplification is not cheap and in 2017 the Group spent £54 million on marketing and brand-building activity (2016: £42 million). Our initiatives include the 'I'mpossible' brand idea which ran on digital, press, event, radio and even 'in elevator' mediums in the USA. Our US brand awareness peaked at 44% during the year (2016: 38%) and our ambition is to reach the 70% we have in the UK. Our new UK brand idea of 'ever onwards' was also launched in the year. This small commercial-focused marketing drove a double-digit increase in premiums.

We continued to activate a range of sponsorship and partnership activity across the Group, predominantly focused on our core interest areas of art, classic cars and technology. We set the marketing and sponsorship budget for the direct and partnership businesses by reference to the acquisition costs in the broker channel for similar products. This means that as these businesses grow, we expect to increase their marketing budgets as well. There are economies of scale, but we believe that at the moment our long-term interests are served by continuing on this path.

IT

We are continuing on our path of replacing all our core retail systems. In 2017, our UK broker channel moved to the new system and in 2018 we expect the high net worth business to follow suit. The new system is allowing greater automation of the underwriting process, with attendant efficiency gains whose benefit will begin to be seen in 2018. We expect the programme to wind down in 2019 at which time core members of the team will switch focus to Hiscox Europe.

In 2017, Hiscox USA began the preparatory phase of its system replacement, entering phase one in 2018. We now have over 250,000 small commercial customers, so the move to a more robust and digital friendly platform is well timed.

As if all of these core systems replacements were not enough, we are also readying Hiscox for the implementation of the General Data Protection Regulation (GDPR), the New York Insurance Department's new cyber regulations, achieving the UK's cyber essentials plus standard across the Group, adapting our systems to Brexit and supporting a finance transformation process. Like all businesses today, Hiscox cannot trade and grow profitably without robust modern infrastructure, so we are committed to completing these programmes and other linked initiatives even though, as previously stated, they are increasing our expense ratio by 1% in the short term.

Investments

The main objectives of our investment portfolio, those of providing the liquidity to pay claims and capital to support the underwriting business, have come to the fore this year. Having a conservative approach has ensured that both these aims have been comfortably met. However, while we have steered a pretty steady course with the portfolio since the financial crisis, accepting the low returns that have been available in the safer part of the bond markets, we were always prepared to take some risk, mostly through an allocation to equities. Following this strategy our investments in 2017, before derivatives and fees, made £87.3 million (2016: £74.8 million) equating to a return of 2.0% (2016: 1.9%). Conventional wisdom always had it that a negative environment for bonds would be positive for equities and vice versa. This correlation held true last year. With our major government bond benchmarks producing negative or very low returns the contribution from fixed income was predictably unexciting. However, a strong year for equities saw our modest allocation to risk assets provide a significant portion of our overall investment performance. This is a good result that exceeded our expectations.

The recovery from the crisis has taken much longer than we expected but it does seem that 2017 may prove to be a turning point and that a return to a more normal level of interest rates has started.

Our retail businesses now account for 56% of our income and, as this year's results have shown, are substantial contributors to our profits and bring welcome resilience to our balance sheet.

Evolution of leadership

Our bond portfolios have been positioned accordingly and while those in Sterling and Euros start from very low levels, we are investing our US Dollar cash flow at much higher yields than we have been used to for some time. Portfolios such as ours will be beneficiaries if interest rates move higher in 2018 as we expect. The so-called risk-free returns that we enjoyed pre-crisis are still some way away but at least we are taking steps in the right direction. In the meantime, we continue to resist the temptation to take more risk and lower the quality of the portfolio.

Capital and external environment

Hiscox's capital requirement is driven by a mixture of the level needed to provide the required security to our customers and brokers, the expectations of regulators around the world and political decisions in the countries in which we operate. Over the past two years these factors have conspired to drive an atomisation of our capital, resulting in a consequent reduction of diversification and increased capital needs and cost. These trends look likely to continue into 2018.

The first driver of atomisation and increased cost is Brexit. We continue to assume that freedom of services will not last beyond Brexit date, and were pleased that in January, Luxembourg's Commissariat aux Assurances approved a licence for Hiscox S.A., our new EU-27 insurance company. We have begun preparations for a Part VII transfer of relevant policies and their associated liabilities to this new entity. We aim to have completed this by December 2018 to provide continuity of cover to our clients across Europe. This adaptation to Brexit will cost Hiscox approximately £12.5 million in one-off cost, and an expected ongoing €2 million per annum. It will also lead to a temporary increase in required capital of approximately £50 million, with only 75% of this moderating over time, due to the loss of diversification in our capital base.

The second driver of atomisation is the USA's recent Base Erosion Anti-Abuse Tax (BEAT). The headline of this new law is tax, but the bigger implication is the difficulty Hiscox, and all other insurers not headquartered in the USA, will have in diversifying US risk with UK, European and Asian risks. This leads to higher USA capital requirements, and a longer term likely increase in cost to consumers. Hiscox will experience an increased US capital requirement of US$75 million as a result of BEAT. In addition Hiscox has written down its deferred tax asset by net US$4 million.

The third driver of capital is our collective regulators. The financial crisis of 2008/09 continues to cast a long shadow, so each stress test or model improvement seems to result in a small incremental increase in regulatory capital requirement. There is little incentive for a regulator to say 'we feel you are more than adequately capitalised'.

The final driver is the rating agencies. Hiscox is often referred to as a Lloyd's business, which is a fair reflection of where we came from, but not of the shape of our business today. Rating agencies looked at us in the same category as pure catastrophe writers, not giving credit to the benefits of diversification that our now substantial retail business brings. I am pleased to report that in 2017, S&P had a fresh look at Hiscox and moved us from a high risk category to a medium risk category. I hope that they, and the other rating agencies, feel their judgement is vindicated with Hiscox being profitable in a year of US$140 billion of catastrophe losses. This was a great piece of work by our capital team using our new capital model, and results in a lower capital requirement for an unchanged rating.

Most of these influencers on capital levels are not unique to Hiscox as they affect all firms. In the short term the gradual ratcheting up of capital requirements depresses returns, but as economic forces work through it is inevitable that consumers' costs will increase. That may be a price worth paying for ever greater protection of the government and the taxpayer. At the macro level the taxpayer and consumer are the same person, so I hope that higher costs do not lead to lower insurance penetration, thereby causing other problems for the government and taxpayer.

It is testament to the strength and flexibility of our business that Hiscox is capable of paying the losses from the 2017 hurricanes, of providing the incremental capital driven by political decisions, and funding the planned increases in underwriting all from our own resources. In 2018, we will continue to review our capital and funding strategy to ensure we retain significant financial flexibility to react, adapt and take advantage of opportunities that arise from changing conditions.

Change in reporting currency

As previously announced, the functional currency of some of our subsidiaries including Syndicate 33, and the reporting currency of the Group, will change to US Dollars effective 1 January 2018. This change will significantly reduce the volatility of the Group's earnings due to foreign exchange movements, in particular due to translation of foreign currency balances. We will report to the market on this new basis when disclosing the Q1 Interim Management Statement in

May 2018, and ahead of our interim results we will publish comparative restated data for our final and interim results of 2017.

Evolution of leadership

It is a common market misconception that the structure and leadership of Hiscox is unchanging. This is not the case. We seek to have a steady evolution of our structure and leadership as we look to marry personal plans with what is needed to achieve our ambitions.

This year our organisation's structure has evolved, some of our pioneers are departing and we have filled their roles and created new roles with a mix of internal talent and judicious external recruitment. Our retail businesses now account for 56% of our income and, as this year's results have shown, are substantial contributors to our profits and bring welcome resilience to our balance sheet. Reflecting this, and recognising their common challenges of creating a compelling customer experience, driving product innovation, creating scale ,and leveraging expenses and digitising for the modern age, we appointed Ben Walter, CEO Hiscox USA to the newly created role of CEO Hiscox Global Retail. Ben will relocate to the UK in July and Hiscox UK & Ireland, Hiscox Europe, Hiscox USA and Hiscox Special Risks will report to him. He will work alongside Joanne Musselle, Chief Underwriter of Hiscox UK who was promoted to the newly created role of Chief Underwriter, Hiscox Global Retail in January. Together they will work to drive forward our retail businesses across the world.

The next phase of growth for our US businesses will depend on how we build our presence and brand in the US market, which is why Steve Langan, CEO of Hiscox UK & Europe, and Chief Marketing Officer for the Group will this year move to take up the role of CEO Hiscox USA, while retaining his Group marketing role. Our ambition is to build a brand equal in presence to what Hiscox has achieved in the UK, and with Steve's background in consumer marketing and his experience of leading the creation of our UK brand, he is the best person to lead us to achieving this ambition.

We welcomed two new appointments to the Executive Committee, and it was pleasing to recruit from within for these roles. Mike Krefta joined the Executive Committee in September on his promotion to Hiscox Re & ILS CEO, and Kate Markham, UK Head of Direct, followed suit in November on her appointment to the newly created role of Hiscox London Market CEO. Mike and Kate both bring fresh thinking and technical and consumer expertise to the Executive Committee. Jeremy Pinchin returned to the UK from Bermuda, relinquishing his roles as the founding CEO of Hiscox Re & ILS and Group Company Secretary to focus on his roles of Group Claims Director and Executive Committee member. He has also taken on chairmanship of the Hiscox pension scheme and Hiscox Special Risks. During his time in Bermuda, Jeremy brought together our London and Bermuda reinsurance teams, drove the creation of our ILS business and established Hiscox Re & ILS as an innovative force in the reinsurance industry.

Some Hiscox pioneers have left the business. After 23 years of service to Hiscox, Steve Camm, Hiscox Special Risks CUO, retired. Steve established our Guernsey operations in 1998, beginning with just one colleague in a basement office, growing it to the centre of our Special Risks operation. He was relentless in his pursuit of a retail approach to our kidnap and ransom underwriting in the face of strong market opposition. We will continue to benefit from his experience as a Non Executive Director to Hiscox Special Risks. Kevin Henry, who has been underwriting kidnap and ransom risks with Hiscox for nine years, has stepped into his shoes.

David Astor has spent 15 years as our Chief Investment Officer and is retiring in March 2018. David's steady nerve during the financial crisis helped us navigate turbulent markets and a low interest rate environment. His measured insight and expertise, dry humour and understatement will be missed.

Alex Veys joined Hiscox in December as the new CIO for the Group. Alex brings a wealth of experience in managing large and complex asset management portfolios from 30 years in investment management.

Just as Hiscox grows and evolves, so do our people and our achievements this year are down to their combined efforts. I would like to thank all 2,700 of my colleagues for their endeavours throughout the year. They have delivered in challenging circumstances and their collective desire to go the extra mile is what drives Hiscox forward.

Outlook

2017 was a challenge for Hiscox and the industry. Our balance, in product and geography, has benefited our policyholders and our shareholders. As we look forward, this diversity, from direct-to-consumer products, to big-ticket and reinsurance lines as well as insurance-linked strategies, gives us the kind of options that we didn't have even ten years ago.

We have growth ambitions for all our business units, but will remain disciplined if prices are inadequate, as demonstrated by the reductions in Hiscox London Market in 2017. We continue to see great opportunities in retail, and our big-ticket businesses are expected to return to growth as they benefit from the current waves of market dislocation and improvement in the pricing environment. It is now more evident than ever that the balanced business we have been building for the last 20 years continues to give us opportunities throughout the insurance cycle.

The business continues to work on major projects; some we have chosen such as the IT infrastructure upgrades, but others, such as Brexit, GDPR, IDD and new US cyber security regulations are driven by external forces. The aggregation of these projects is placing significant demands on the business but they are all necessary. I hope that 2018 will see these reach a crescendo which will subside in subsequent years.

Our investments in people, products, infrastructure and brand make a difference. We will continue to leverage the opportunities that come with a changing market and to serve more customers.

Bronek Masojada
26 February 2018

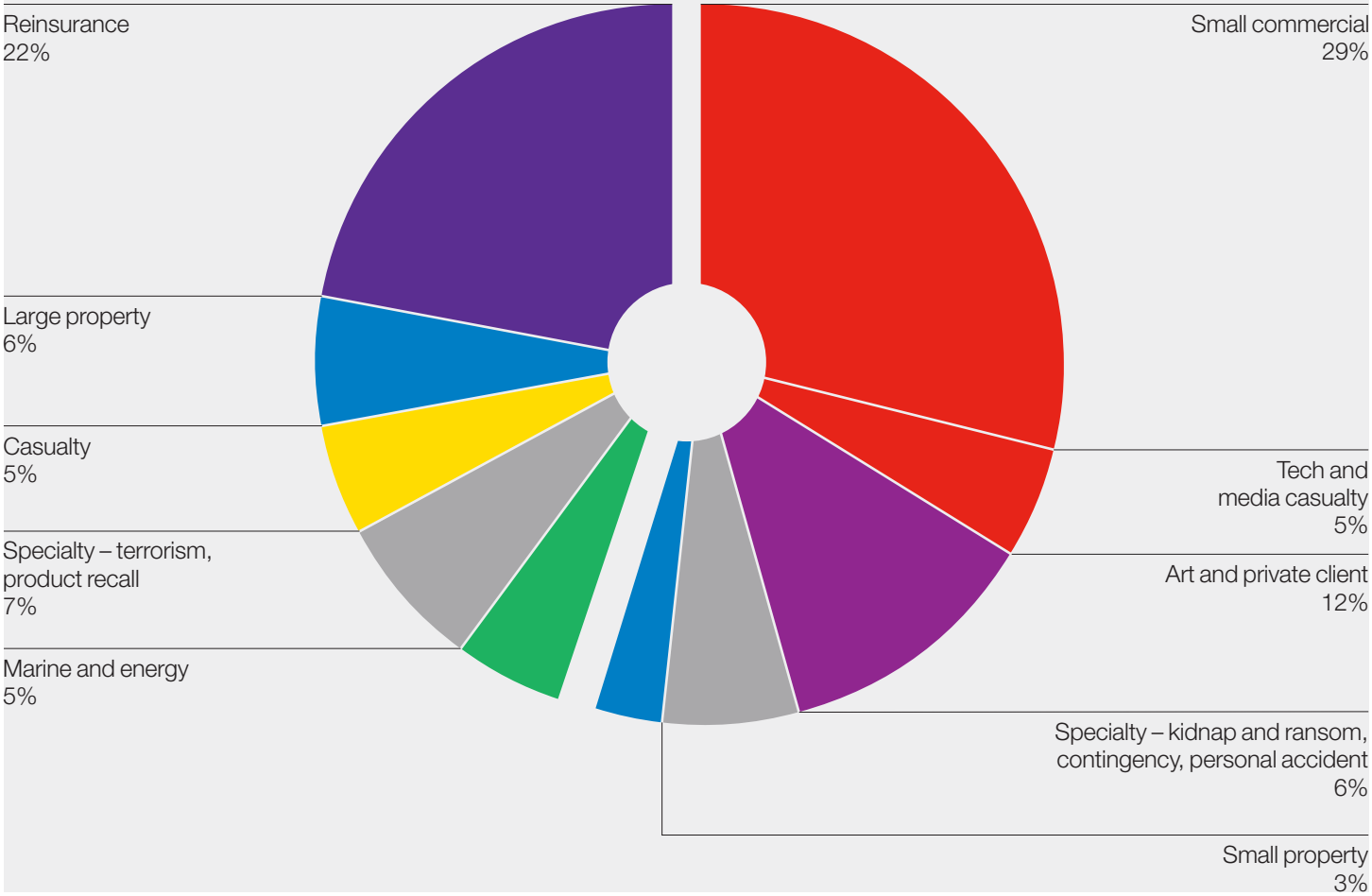
Building a balanced business

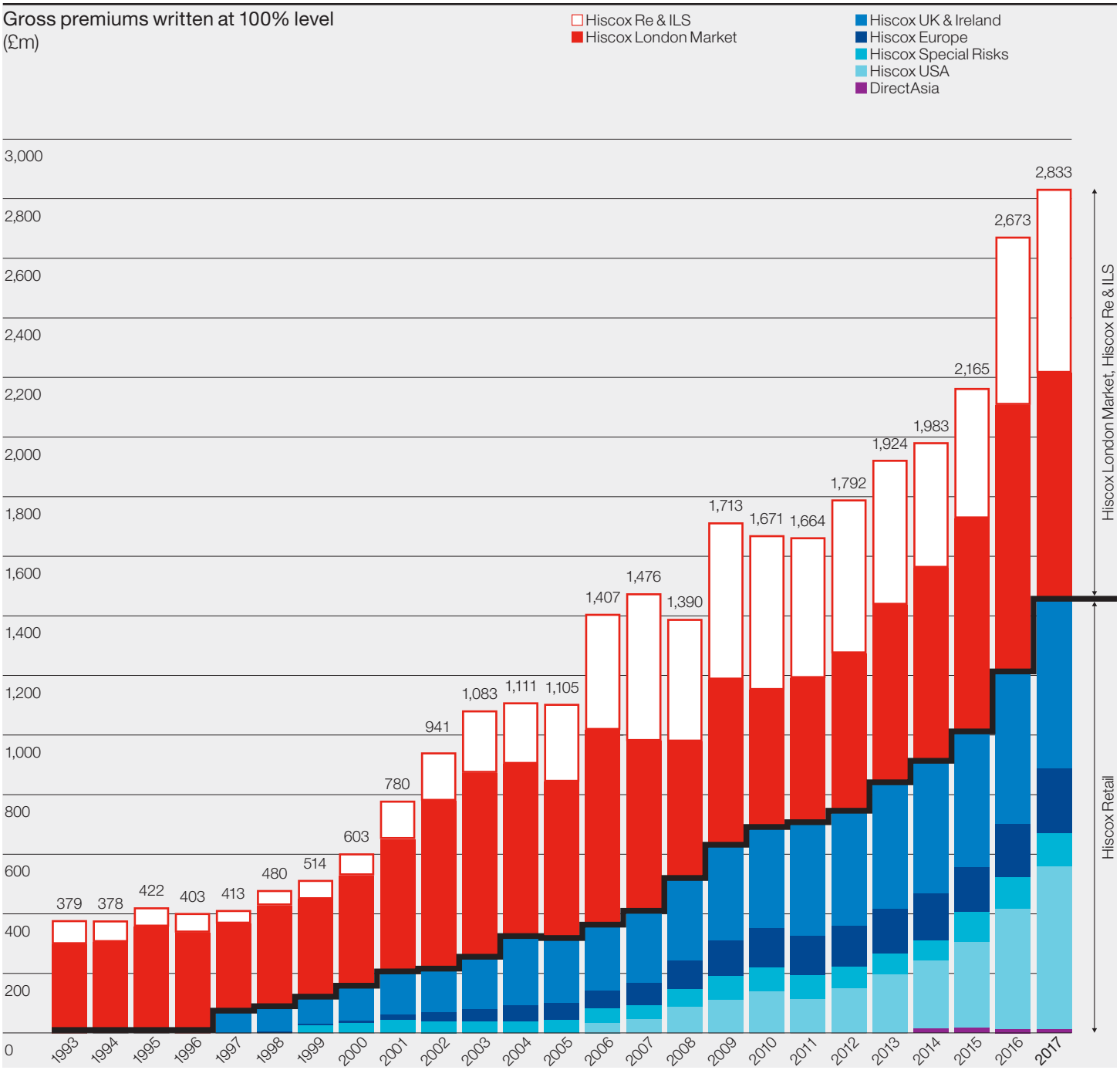
Hiscox enjoys a symbiotic relationship between more catastrophe exposed, globally traded business, and less volatile, smaller premium, retail business which gives us opportunities throughout the insurance cycle.

Total Group controlled income for 2017
100% = £2,833 million

Big-ticket business
- Larger premium, globally traded, catastrophe exposed business written mainly through Hiscox London Market and Hiscox Re & ILS.
- Shrinks and expands according to pricing environment.
- Excess profits allow further investment in retail development.

Retail business
- Smaller premium, locally traded, less volatile business written mainly through Hiscox Retail.
- Growth between 5-15% per annum.
- Pays dividends.
- Specialist knowledge differentiates us and investment in brand builds strong market position.
- Profits act as additional capital.




Gross premiums written at 100% level
(£m)
Hiscox Re & ILS
Hiscox London Market
Hiscox UK & Ireland
Hiscox Europe
Hiscox Special Risks
Hiscox USA
DirectAsia
3,000
2,800
2,600
2,400
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
379
378
422
403
413
480
514
603
780
941
1,083
1,111
1,105
1,407
1,476
1,390
1,713
1,671
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2017
Hiscox London Market, Hiscox Re & ILS
Hiscox Retail

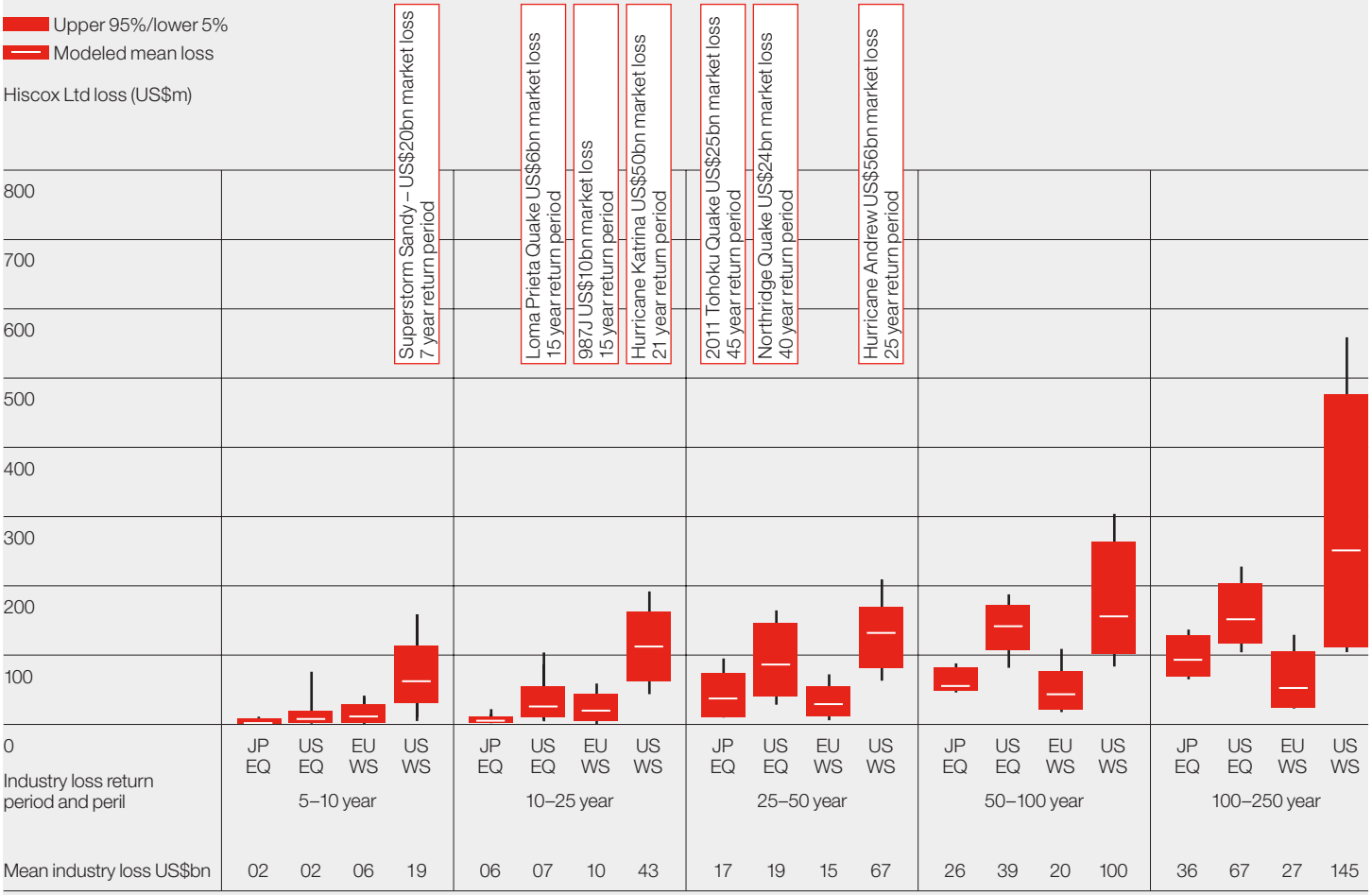
Actively managed business mix

Total Group controlled premium 2017: £2,833 million
(Period-on-period in local currency)

Small commercial	Reinsurance	Specialty	Art and private client	Property	Marine and energy	Global casualty
+23.0%↑	+8.9%↑	-33.2%↓	+4.4%↑	-9.3%↓	+5.2%↑	+7.3%↑
£972m	£609m	£367m	£331m	£273m	£141m	£140m
Professional liabilities	Non-marine	Kidnap and ransom	Home and contents	Commercial property	Cargo	Public D&O
Errors and omissions	Marine	Contingency	Fine art	Onshore energy	Marine hull	Errors and omissions
Private directors and officers' liability	Aviation	Terrorism	Classic car	USA homeowners	Energy liability	Large cyber
Cyber	Casualty	Product recall	Luxury motor	Managing general agents	Offshore energy	General liability
Commercial small package	Specialty	Personal accident	Asian motor	International property	Marine liability	
Small technology and media						
Healthcare related						
Media and entertainment						

Actively managed key underwriting exposures

Boxplot and whisker diagram of Hiscox Ltd net loss (US$m) for certain modeled losses
January 2018



This chart shows a modeled range of net loss the Group might expect from any one catastrophe event.
The white line between the bars depicts the modeled mean loss.

The return period is the frequency at which an industry insured loss of a certain amount or greater is likely to occur.
For example, an event with a return period of 20 years would be expected to occur on average five times in 100 years.

JP EQ – Japanese earthquake, US EQ – United States earthquake, EU WS – European windstorm, US WS – United States windstorm

Realistic disaster scenarios, Hiscox Ltd

The table below presents selected realistic disaster scenarios based on our book of business in force at 1 January 2018 and industry data. Given the nature of the risks underwritten, the loss estimates may be materially different from those that arise depending on the size and nature of the event.

	Gross loss US$m	Net loss US$m	Gross loss as a % of total equity	Net loss as a % of total equity	Net loss as a % of insurance industry loss	Industry loss size US$bn	Return period years
Japan earthquake	879.3	111.7	37.1	4.7	0.2	50	240
Gulf of Mexico windstorm	1,709.3	201.1	72.2	8.5	0.2	107	80
Florida windstorm	1,339.5	179.8	56.6	7.6	0.1	125	100
European windstorm	588.6	79.9	24.9	3.4	0.3	30	200
San Francisco earthquake	1,258.8	180.4	53.1	7.6	0.4	50	110

Capital

Hiscox monitors its capital requirements based on external risk measures and internal risk appetite.

Capital management

The Board is responsible for monitoring the capital strength of the Hiscox Group and ensuring that its insurance carriers are suitably capitalised for regulatory and ratings purposes, taking into account future needs including growth where opportunities arise.

We will continue to maintain a progressive core dividend policy despite the significant event losses incurred during 2017. It is testament to the Group's strategy of balance between the big-ticket and retail businesses that we are able to do this. The Group has proposed to increase the final dividend by 2.6% to 19.5p, resulting in a full year ordinary dividend of 29.0p (2016: 27.5p), up 5.5%. Our focus on efficient capital management means the business remains well-positioned to support growth in areas expected to be profitable.

Capital requirements

Monitoring of the Group's capital requirements is based on both external risk measures, set by regulators and rating agencies, and our own internal guidelines for risk appetite. A full description of the requirements set by the regulators for the most significant insurance carriers is included in note 3.3 to the financial statements. A brief explanation of the primary internal and external capital constraints at Group level is given below, and presented in the chart on page 23.

The Group measures its capital requirements against its available capital. Available capital is defined by the Group as the total of net tangible asset value and subordinated debt.

The subordinated debt issued by the Group is hybrid in nature, which means it counts towards regulatory and rating agency capital requirements. At 31 December 2017 available capital was £1,892 million (2016: £1,970 million), comprising net tangible asset value of £1,617 million (2016: £1,695 million) and subordinated debt of £275 million (2016: £275 million).

The Group can source additional funding from revolving credit and Letter of Credit (LOC) facilities. Standby funding from these sources comprised US$500 million at 31 December 2017 (2016: US$500 million), of which US$10 million was utilised at 31 December 2017 (2016: US$10 million).

Rating agencies

Our ability to attract business, particularly reinsurance, is dependent upon the maintenance of appropriate financial strength ratings from the leading rating agencies: A.M. Best, S&P and Fitch. These ratings are assigned based on a range of factors, including business model, risk management, framework and financial strength. They are assigned individually to the insurance carriers of the Group, but capital adequacy is also monitored by the rating agencies at the consolidated Group level.

A.M. Best, S&P and Fitch have shared their capital models with the Group. These models calculate capital adequacy by measuring available capital, after making various balance sheet adjustments, and comparing it with required capital, which incorporates charges for premium, reserve, investment and catastrophe risk. Our interpretation of the results of each of these models indicates we are comfortably able to maintain our current ratings as set out in note 3.3 to the financial statements. The rating agency requirements shown in the chart on page 23 are consistent with the Group's own internal projections of rating agency capital requirements.

Group regulators

As a Bermudian-registered holding company, the Group is regulated by the Bermuda Monetary Authority (BMA) under the Bermuda Group Supervisory Framework. The BMA requires Hiscox to monitor its Group solvency capital requirement and provide a solvency return in accordance with the Group Solvency Self Assessment framework (GSSA), including an assessment of the Group's Bermuda Solvency Capital Requirement (BSCR). The BSCR model applies factors to premium, reserves and assets/liabilities to determine the minimum capital required to remain solvent throughout the year.

The GSSA is based on the Group's own internally assessed capital requirements and is informed by the newly introduced Group-wide Hiscox Integrated Capital Model (HICM), which, together with the BSCR, forms part of the BMA's annual solvency assessment. The HICM provides a consistent view of capital requirements for all segments of the business and at Group level.

We are also required to publish a Financial Condition Report (FCR), which sets out details of the measures governing the Group's business operations, corporate governance framework, solvency and financial performance. The FCR is also intended to provide additional information about the Group's business model, enabling the public to make an informed assessment on whether the business is run in a prudent manner.

Internal capital requirements

The Group sets risk limits and tolerances that reflect the amount of risk it is willing to accept. To ensure good risk management, our current exposure by key risk type is monitored against these predefined measures throughout the year.

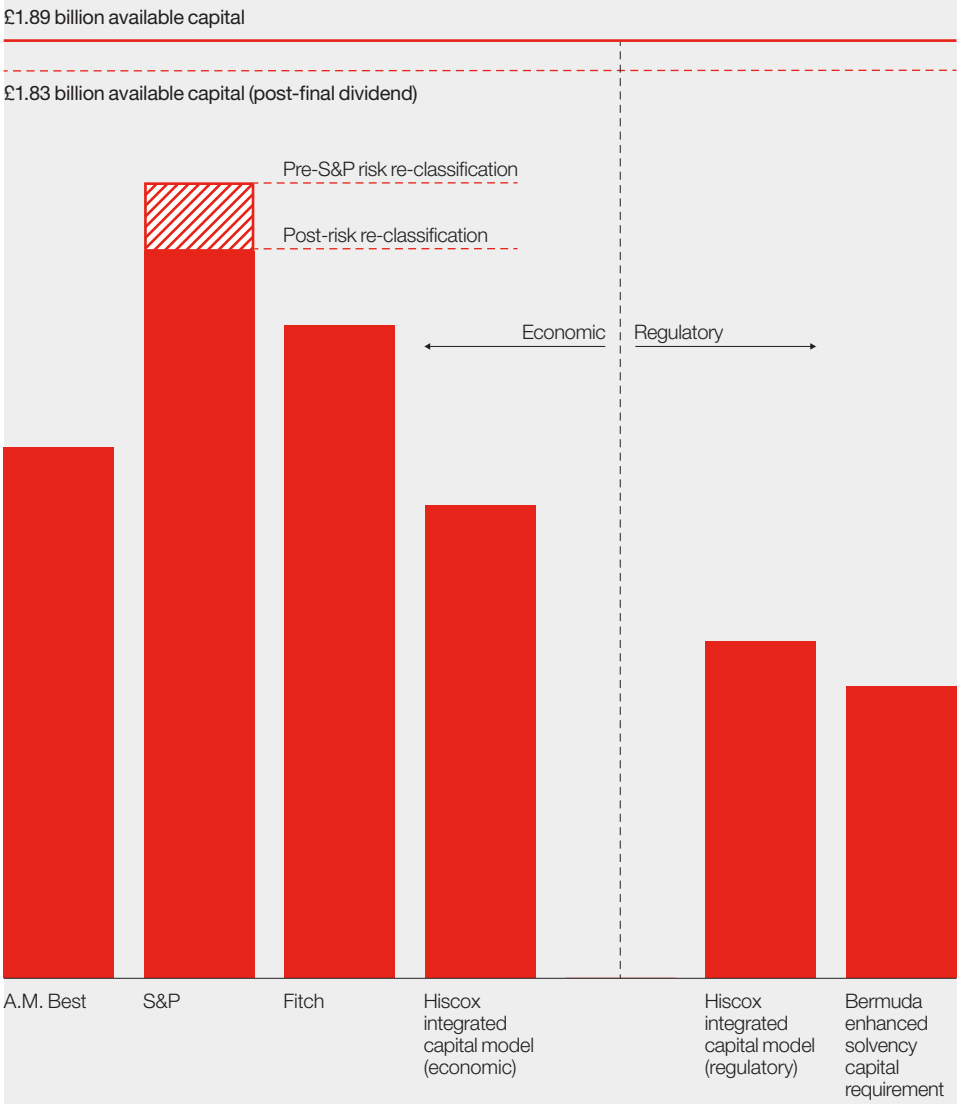
£1,892m

Available capital as at 31 December 2017.

We will continue to maintain a progressive core dividend policy despite the significant loss events incurred during 2017.

Capital management

Projected capital requirement



Rating agency assessments shown are internal Hiscox assessments of the agency capital requirements on the basis of year-end 2017 results. Hiscox uses the internally developed Hiscox integrated capital model to assess its own capital needs on both a trading (economic) and purely regulatory basis. All capital requirements have been normalised with respect to variations in the allowable capital in each assessment for comparison to a consistent available capital figure. The available capital figure comprises net tangible assets and subordinated debt.

The largest driver of our capital is underwriting risk. The Group manages the underwriting portfolio so that in a 1-in-200 aggregate bad year it will lose no more than 12.5% of core capital plus 100% of buffer capital (£100 million) with an allowance for expected investment income. A market loss at this remote return period would be very large indeed and would be expected to bring about increases in the pricing of risk. Our capital strength and financial flexibility following this scenario mean the Group would be well positioned to take advantage of any opportunities that might arise. After the payment of the final dividend on 12 June 2018, the available capital will reduce to approximately £1,836 billion, comfortably meeting the current regulatory, rating agency and internal capital requirements. Our estimate of the year-end 2017 BSCR solvency ratio is to exceed 225%. The Group continues to operate with a strong solvency position. In addition, each of the subsequent insurance carriers hold appropriate capital positions on a local regulatory basis.

Group financial performance

The strong performance of our retail businesses and solid investment returns helped to offset catastrophe claims of US$225 million and foreign exchange losses of £63 million.

The Hiscox Group delivered profit before tax for the year of £30.8 million (2016: £354.5 million), or £93.6 million (2016: £202.1 million) excluding foreign exchange gains/losses. This is a good result given the number of natural catastrophes that occurred in the second half of the year, including the first Category 5 storm to make US landfall in 25 years, with hurricanes Harvey, Irma and Maria generating net losses for the Group of US$225 million. The Group will be reporting in US Dollars from 1 January 2018, following a change in functional currency of subsidiary entities, which will reduce impact of the volatility in the foreign exchange movement in future periods. The investment return improved slightly at 2.0% (2016: 1.9%). The Group recorded a post-tax return on equity of 1.5% (2016: 23.0%) and earnings per share of 9.3p (2016: 119.8p).

Net asset value per share decreased by 4.8% to 618.6p (2016: 649.9p), with net tangible asset value at 570.0p (2016: 605.7p). The Board has declared a final dividend of 19.5p per share, to be paid on 12 June 2018 to shareholders on the register at 11 May 2017, taking the total ordinary dividend per share for the year to 29.0p, an increase of 5.5% (2016: 27.5p). The Group continues to maintain a progressive dividend policy.

Gross premiums written of £2.5 billion increased 6.1% year-on-year or, on a constant exchange rate basis, 1.9%. Strong growth continued in Hiscox Retail, up 20.5% for the year, and now accounts for 56% of the Group's gross premiums written – helping to offset the expected decline in gross premiums written in Hiscox London Market. The Group's combined ratio including foreign exchange movements was 99.9% (2016: 84.2%), or 98.8% (2016: 90.6%) excluding the impact of foreign exchange.

The underwriting performance for each operating segment is detailed as follows.

Hiscox Retail

Hiscox Retail accounts for 56% (2016: 49%) of the Group's gross premiums written at £1,423.9 million (2016: £1,181.4 million). Gross premiums written for Hiscox UK & Ireland were up a healthy 11.6% at £556.3 million (2016: £498.6 million). Hiscox Europe's gross premiums written also grew, up 22.1% to £213.3 million (2016: £174.7 million), or 12.3% in constant currency. Hiscox USA was once again a standout performer, with gross premiums written up 36.0% to £544.1 million (2016: £400.0 million), or 28.8% in constant currency. Gross premiums written within Hiscox Special Risks were up to £98.7 million (2016: £95.2 million), however down 1.2% in constant currency, and DirectAsia contributed £11.4 million of gross premiums written (2016: £13.0 million).

The net claims ratio increased to 45.2% (2016: 38.4%) with increases in USA and Special Risks after good returns in the prior year. The increased claims ratio also resulted in an increase to the net combined ratio which, excluding the impact of foreign exchange, grew to 94.5% (2016: 91.8%). Careful expense management resulted in the expense ratio reducing to 49.3% (2016: 53.4%). Profit before tax is £109.9 million (2016: £158.0 million), but before foreign exchange remains more consistent at £110.3 million (2016: £120.7 million). This result validates our long-held strategy of building retail businesses that provide balance to the more volatile, catastrophe-exposed big-ticket lines.

Hiscox London Market

Gross premiums written reduced by 19.9% to £581.7 million (2016: £726.0 million), in line with expectations as we continued to navigate ongoing soft market conditions. This represents a 23.1% decline (2016: 14.2% growth) in local currency. The quota share arrangements with Syndicate 6104 remained in place. The net claims ratio increased to 70.1% (2016: 57.4%) as a result of the hurricane activity. This also impacted on the combined ratio which, excluding foreign exchange movements, increased to 108.7% (2016: 99.4%). The expense ratio reduced to 38.6% (2016: 42.0%). The loss before tax for the year was £36.2 million (2016: profit of £44.0 million) or, excluding foreign exchange losses, was a loss of £24.5 million (2016: profit of £9.0 million).

Hiscox Re & ILS

Gross premiums written increased by 9.8% to £543.7 million (2016: £495.2 million), or 4.5% in constant currency. The claims ratio increased to 71.0% (2016: 39.1%) as a result of the hurricane activity, as did the combined ratio which, excluding foreign exchange movements, increased to 98.9% (2016: 64.9%). Foreign exchange had much less impact on the segment in 2017, but provided a positive impact of 11.9% to the combined ratio in 2016. The expense ratio declined to 27.9% (2016: 25.8%). Profit before tax reduced to £19.8 million (2016: £115.5 million).

Hiscox Corporate Centre

The central investment portfolio returned £25.5 million (2016: £17.9 million) during the year. Foreign exchange movements resulted in a loss of £46.5 million (2016: profit of £57.2 million), due to the Corporate Centre holding a significant proportion of US Dollar assets to support the underwriting activities of the managed syndicates. As a result, the loss before tax was £62.6 million (2016: profit of £37.0 million).

Strong growth continued in Hiscox Retail, up 20.5% for the year, and now accounts for 56% of the Group's gross premiums written.

98.8%

Combined ratio excluding foreign exchange.

Cash and liquidity

The Group's primary source of liquidity is from premium and investment income. These funds are used predominantly to pay claims, expenses, reinsurance costs, dividends and taxes, and to invest in more assets.

During 2017, the Group returned capital to its shareholders of £76 million (2016: £113 million).

Outflows for the year were £2.4 million (2016: outflow of £123.8 million). The Group paid £32.1 million of tax during the year compared with £6.1 million in 2016.

The Group had net cash inflows from investing activities of £3.0 million (2016: outflow of £31.0 million), with continued underwriting software development. Marketing expenses remained a major component of our expense base at £53.6 million during the year (2016: £42.1 million).

Non-financial reporting statement

The details that relate to our non-financial reporting statement can be found in the corporate responsibility section on pages 48 to 51.

Group key performance indicators

	2017					2016				
	Hiscox Retail	Hiscox London Market	Hiscox Re & ILS	Corporate Centre	Total	Hiscox Retail	Hiscox London Market	Hiscox Re & ILS	Corporate Centre	Total
Gross premiums written (£m)	1,423.9	581.7	543.7	–	2,549.3	1,181.4	726.0	495.2	–	2,402.6
Net premiums written (£m)	1,298.9	376.2	189.1	–	1,864.2	1,092.0	469.1	226.8	–	1,787.9
Net premiums earned (£m)	1,229.9	435.7	208.9	–	1,874.5	1,020.5	443.1	211.4	–	1,675.0
Investment result (£m)	22.8	11.3	21.7	25.5	81.3	30.4	12.3	10.0	17.9	70.6
Profit/(loss) before tax (£m)	109.9	(36.2)	19.8	(62.6)	30.8	158.0	44.0	115.5	37.0	354.5
Claims ratio (%)	45.2	70.1	71.0	–	54.9	38.4	57.4	39.1	–	44.2
Expense ratio (%)	49.3	38.6	27.9	–	43.9	53.4	42.0	25.8	–	46.4
Foreign exchange impact (%)	0.1	2.9	2.4	–	1.1	(3.8)	(8.7)	(11.9)	–	(6.4)
Group combined ratio (%)	94.6	111.6	101.3	–	99.9	88.0	90.7	53.0	–	84.2

	2017	2016
Financial assets and cash* (£m)	4,412.7	4,409.7
Other assets (£m)	2,794.6	2,232.1
Total assets (£m)	7,207.3	6,641.8
Net assets (£m)	1,754.4	1,818.4
Net asset value per share (p)	618.6	649.9
Net tangible asset value per share (p)	570.0	605.7
Adjusted number of shares in issue (m)	283.6	279.8

*Excluding derivative assets and insurance-linked securities funds.

Group investments

Insurance events in 2017 have served as a reminder that the priority for the investment portfolio is to provide liquidity to pay claims and capital to support the business.

Group investment performance

	31 December 2017			31 December 2016		
	Asset allocation %	Return %	Return £000	Asset allocation %	Return %	Return £000
Bonds (£)	13.4	1.2		14.1	2.7	
Bonds (US$)	54.2	1.5		54.6	1.7	
Bonds (Other)	10.2	(0.1)		8.7	1.1	
Bonds total	77.8	1.2	42,079	77.4	1.9	55,709
Equities	7.6	12.9	41,453	6.9	6.2	17,246
Deposits and cash equivalents	14.6	0.5	3,755	15.7	0.3	1,881
Actual return		2.0	87,287		1.9	74,836
Group invested assets			£4,413m			£4,410m

Before fees, derivative positions and investments in insurance-linked securities funds.

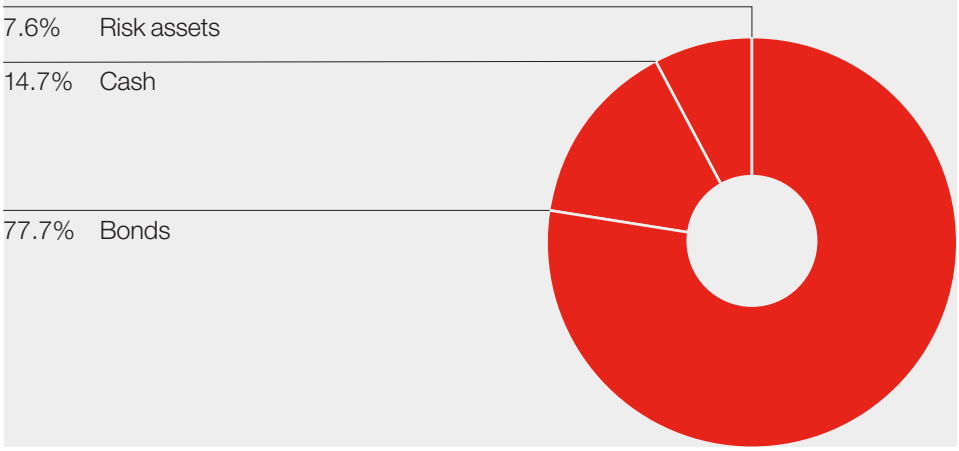
The Group's invested assets at 31 December 2017 totalled £4.41 billion (2016: £4.41 billion). A weaker US Dollar and an increased level of claims payments following the active storm season left the assets under management largely unchanged over the year. The investment result, excluding derivatives and fees, amounted to £87.3 million (2016: £74.8 million) equating to a return of 2.0% (2016: 1.9%). Investors took the variety of political outcomes and heightened geopolitical tensions during the year in their stride focusing instead on the positive development of global growth which was generated without any real signs of inflation. While a prolonged absence of volatility provided a supportive background for equity markets, further moves by Central Banks towards normalising monetary policy led to a more challenging environment for bond investors. Given that bonds always form a large part of our portfolio, we are pleased with the eventual outcome which, boosted by a strong return from our risk assets, exceeded our original expectations.

Bond markets in 2017 increasingly had to contend with Central Bankers withdrawing their monetary stimulus to varying degrees. In the USA, Canada and the UK there were a series of official rate rises. The Federal Reserve increased the federal funds rate three times as expected, while the Bank of Canada and Bank of England surprised markets somewhat with their respective increases. Additionally, there was a move by major central banks, apart from the Bank of Japan, to prepare investors for a reduction in their balance sheets – so-called quantitative tightening. The impact of the above in government bond markets was for short-term yields to rise over the year and yield curves generally to flatten. The move to higher yields gained traction in the second half of the year as the two-year US Treasury yield jumped from 1.3% to 1.9% with equivalent UK gilt yields increasing from 0.1% to 0.5%. Against this background short-dated government benchmarks in Sterling, Euros and Canadian Dollars delivered negative returns for the year while the one- to three-year US government benchmark returned just 0.4%.

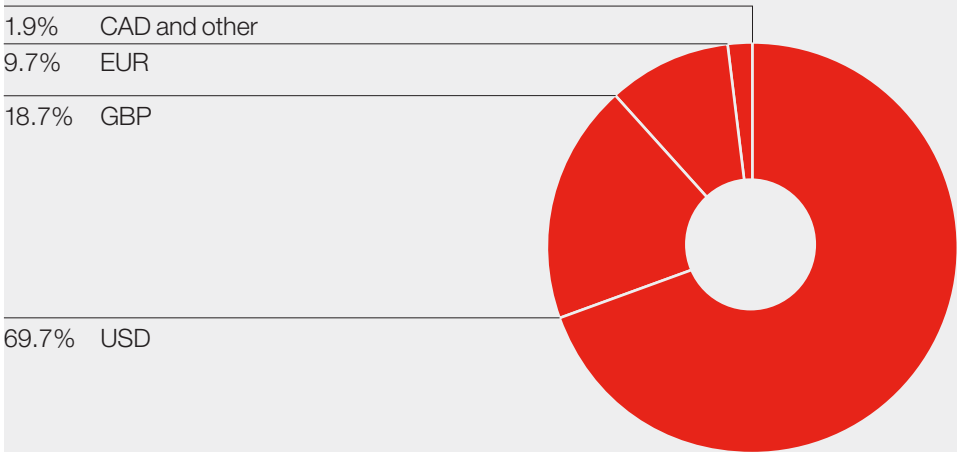
The positive result of 1.2% from our bond portfolios therefore can be seen as good. As ever, our bond returns are driven largely by our holdings in the US markets which comprise 70.7% of our fixed income assets. Our managers there performed well with gains of 1.5%. Given the low, or in the case of Euros, negative yields at the start of the year, it was always going to be hard to make money elsewhere. The reality, despite outperforming benchmarks, is that the Sterling and Euro portfolios (nearly 9.8% of our bonds) delivered negligible returns. The outperformance against the benchmarks has been due to a focus on income and the allocation to non-government bonds where a further compression in credit spreads added value. While the move up in yields has crimped returns recently, it is encouraging for the future as new money is invested at higher rates. The yield to maturity on the bond portfolio for example has increased from 1.3% at the end of 2016 to 1.6% at the end of last year.

The concerns over valuations in equity markets that prevailed 12 months ago

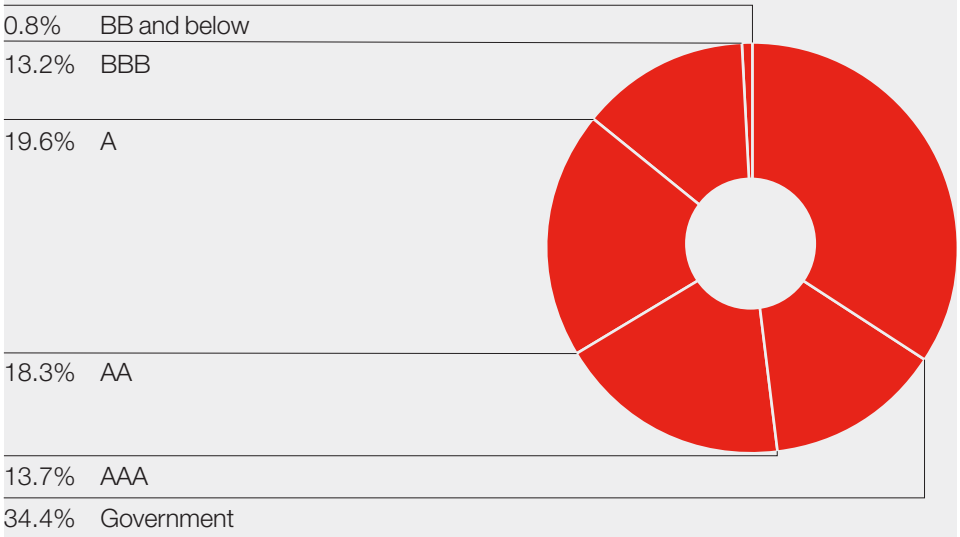
Asset allocation



Bond currency split



Bond credit quality



gave way during the year to optimism that they would be justified by improved earnings growth. This was driven by a broad-based economic recovery and reinforced latterly, in the USA at least, by the potential benefits of tax reform. The subsequent strength of equity markets has seen our risk assets generate a 13% return and contribute a significant portion of the overall result. With less diversity in sector performance our range of actively managed funds have done better on an absolute and relative basis than last year. Our allocation to global funds produced strong results and our selection of hedge funds also bounced back from a period of underperformance, beating the relevant hedge fund index and contributing usefully to the return. The performance of funds investing in the UK market has been more mixed but stayed in touch with the benchmark which had a particularly strong end to the year. At today's levels, concerns about equity valuations persist but momentum remains in their favour.

Insurance events in 2017 have served as a reminder that the priority for the investment portfolio is to provide liquidity to pay claims and capital to support the business. Our conservative stance ensures that it has been in a good position to fulfil both roles. Our secondary objective is to maximise our investment result in the prevailing market conditions subject to a prudent risk appetite. Meeting this objective has been increasingly challenging in a world where asset prices have been inflated by the extraordinary levels of monetary support provided by central banks. In recent years we have resisted the temptation to stretch for yield in the lower quality tranches of the fixed income world but have retained an allocation to equities which has served us well in enhancing our investment income. In bonds we have also approached duration with caution to protect us against the effect of rising yields. It is easy to forget that two-year US yields have been rising steadily over the last five years from a low of 0.18% to 1.9% at the end of December 2017. Our US Dollar bond portfolios have made positive annual returns throughout this period and are now well positioned to earn higher yields in 2018. Results from Sterling and Euro portfolios are likely to remain muted though. Overall, however, with the tailwinds of liquidity beginning to disappear, our current focus on quality will remain. There will be better chances ahead to take more investment risk.

Additional performance measures (APMs)

APMs are commonly used measures to allow comparison across peer companies.

The Group has identified additional performance measures (APMs) that are not defined in accordance with Generally Accepted Accounting Principles (GAAP), being International Financial Reporting Standards (IFRS), and may not necessarily have standardised meanings for ease of comparability across other organisations in the industry. These non-GAAP measures are used within the financial statements. The APMs are: profit excluding foreign exchange gains/(losses), GWP growth in local currency, combined claims and expense ratios, return on equity, net asset value pence per share and reserve releases. These are commonly used measures across the industry, and allow the reader of the Annual Report to compare across peer companies.

Profit excluding foreign exchange gains/(losses)

This represents the profit for the period after deducting foreign exchange gains or adding back foreign exchange losses in the relevant period. This enables the reader of these financial statements, and the Group, to measure the comparability of underlying profitability without the volatility of these positions. To obtain the value, the reader of these financial statements should remove the foreign exchange gains/(losses), as identified in the income statement, from the profit for the period.

GWP growth in local currency

Gross written premium, as reported in the consolidated income statement, is measured in the underlying currency and compared to prior years on a constant currency rate basis. This eliminates the impact exchange fluctuations has on the result and therefore allows a direct comparison between the years. This is performed on a business unit basis and gives an accurate indication of premium growth compared to prior years.

Combined claims and expense ratios

The combined claims and expense ratios are common measures enabling comparability across the insurance industry that measure the relevant underwriting profitability of the business by reference to its costs as a proportion of its net earned premium. The Group calculates the combined ratio as if we owned all of the business, including the 27.4% of Syndicate 33 that the Group does not own. The Group does this to enable comparability from period to period as the business mix may change in a segment between insurance carriers, and this enables us to measure all of our underwriting businesses on an equal measure. The calculation is discussed further in note 4, operating segments. The combined ratio excluding foreign exchange gains is calculated as the sum of the claims ratio and the expense ratio.

Return on equity (ROE)

As is common within the financial services industry, the Group uses ROE as one of its key performance metrics. While the measure enables the Company to compare itself against other peer companies in the immediate industry, it is also a key measure internally where it is used to compare the profitability of business segments, and underpins the performance-related pay and shared-based payment structures, as discussed within the remuneration policy report in the Annual Report and Accounts. The ROE is shown in note 6, along with an explanation of the calculation.

Net asset value (NAV) pence per share

The Group uses NAV pence per share as one of its key performance metrics. This is a widely used key measure for management and also for users of the financial statements to provide comparability across peers in the market. NAV pence per share is shown in note 5, along with an explanation of the calculation.

Reserve releases

Reserve releases are a measure of favourable development on claims reserves that existed at the prior balance sheet date. It enables the users of the financial statements to compare and contrast our performance relative to peer companies. The Group maintains a prudent approach to reserving, to help mitigate the uncertainty within the reserve estimates. The release is calculated as the movement in ultimate losses on prior accident years between the current and prior-year balance sheet date, as shown in note 25, as the result of better than expected outcomes of the estimates booked at the prior period close.

Ten good reasons to work at Hiscox

Through talking to our people (newcomers and old-timers), reading our reviews (both good and bad), and seeing how we stack up against the competition, we have created our very own ten good reasons to work at Hiscox. Here's what it's really like to be part of our remarkable team.

#1.
Work with smart people.

#2.
Be part of a strong culture that challenges the status quo.

#3.
Work for a business that cares about people.

#4.
Take risks and grasp opportunities.

#5.
Drive your own learning and development.

#6.
Enjoy a balanced life, inside and outside of work.

#7.
Work in an environment that inspires.

#8.
Earn benefits that help you plan for the future.

#9.
Improve your well-being.

#10.
Work hard and have fun.

Ten good reasons to work at Hiscox

#1. Work with smart people

Let's start with a common perception of insurance: that it's dull; a career for men with university degrees, grey suits and the lifelong ambition to sell insurance policies; that you'll go to lots of meetings and if you aren't in one of those, you'll be glued to a desk nine-to-five, all day. Every. Single. Day.

While we admit there can be a fair bit of desk time for many of us, that's where the accuracy of this insurance stereotype ends. If we do have a 'type', it's one that's based on attitude: Hiscox people genuinely care for customers, for the business and for each other. To thrive here, you have to do the right thing no matter how hard it might feel at the time, and have the courage to challenge each other and the status quo. We work hard and are proudly high-achieving, and we care about what Hiscox stands for. While we all work in insurance now, we have arrived from many different walks of life and brought with us ideas and influences from far beyond the industry.

"We share the same morals, but different opinions; believe in the same fundamentals, but practice in an individual manner."
Ten years with Hiscox

#2. Be part of a strong culture that challenges the status quo

That distinctive Hiscox attitude stems directly from our long-held and practised values: courage, quality, integrity, excellence in execution and human. In our most recent employee survey, 94% of employees said that they believe in these values. That first one – courage – is at the heart of our corporate culture: a restless urge to challenge convention and push for continuous improvement, however high the hurdles.

We expect our people to question things rather than just passively conform, and we believe it's this spirit that keeps employees interested, motivated and engaged. A high proportion of our people are here for the long term, and even when others have left for pastures new, a good number have found their way back to us.

"You'll love it if you enjoy being empowered, want accountability, are able to take ideas and make them happen, and have passion for what you do. You'll hate it if you like to be told what to do and don't have passion for your work."
21 years with Hiscox

#3. Work for a business that cares about people

Hiscox people are treated as exactly that: people. We asked new recruits (people who had worked with us for less than two years) what surprised them most about working here and they told us it was our approachable senior leaders and the intelligent, friendly, caring nature of our teams.

If you think working in insurance is about being dictated to by large spreadsheets and complex calculations, the way we do business here might surprise you – the numbers are important, of course, but human thoughts, feelings and intuition rule supreme.

"Although it can get a little hectic, I've never felt like I'm on my own."
One year with Hiscox

We work hard and are proudly high-achieving, and we care about what Hiscox stands for.

#1. Work with smart people

#6. Enjoy a balanced life, inside and outside of work

Ten good reasons to work at Hiscox

#4. Take risks and grasp opportunities

As a business, Hiscox is flatter and leaner than many of its competitors – and that brings with it significant challenges. But there are two sides to every coin: our people are able to make their job their own; they are empowered to run with ideas and spot opportunities. And while they'll be given plenty of support if they need it, no one is going to hold their hand while they're getting on with the job. We want to grow our own leaders, so we actively encourage our people to apply for new roles in Hiscox offices around the world to help broaden their experiences and develop their leadership skills.

Our business model is one that looks beyond just hitting the numbers on a quarterly basis. We invest for the long term too, and that means taking big bets when it feels right. We find that this approach works as well for people as it does for business. We invest in people who have the courage to take bets on themselves.

"Hiscox doesn't have room for those who do just enough to get by – what we call 'the 51 percenters'."
Ten years with Hiscox

#5. Drive your own learning and development

We're a growing company, and our employees need to grow with us. The onus is on them to drive their own learning and development, but we make sure they're well-supported, with two formal opportunities each year to discuss their development needs and potential – whether that's in their current role, taking the next step up or moving across the organisation to try something new. There's a lot of learning 'on the job', but we also offer people the chance to gain professional qualifications such as CII, CIPD and CIMA. We also provide in-house courses with specialist external facilitators on topics such as people management, personal impact and presentation skills.

Our early careers programme includes opportunities for graduates, apprentices and interns. Our two-year graduate programme offers immediate hands-on exposure and includes three secondments, including a spell abroad in one of our offices in the USA, Bermuda, Singapore, the UK or Europe. We also offer a small number of apprenticeships for school leavers and summer internships to those returning to study.

"The encouragement to develop and grow is not just evident, but expected, and I really respect that."
One year with Hiscox

#6. Enjoy a balanced life, inside and outside of work

We understand that people have lives outside of work. They might be parents or carers; they may want time for hobbies or improving their well-being; they may want to attend the school play or sports day; they might have a long commute from which they sometimes need a break. We're all grown-ups here, so we manage our own time – if we need to visit the dentist or watch our children perform in a play, we're trusted to make it work around work. Hiscox also has a flexible working policy, which we want people to use – nearly all of our flexible working requests have been approved in full.

We have recently launched new employee network guidelines and are encouraging employees to start their own networks within Hiscox. We believe this is one way we can encourage the growth of a truly inclusive workplace culture.

"We're treated like adults here; we're given responsibility to run our lives."
Eight years with Hiscox

#7. Work in an environment that inspires

A giant rocket in York. A café and meeting area overlooking a spacious atrium in Lisbon. Scenic views of Manhattan skyscrapers from Madison Avenue. The iconic Lloyd's of London building. With 32 offices across 14 countries (plus the box at Lloyd's), our workspaces are inviting and designed to spark discussion.

Each location provides a home to part of our extensive art collection, which includes unusual contemporary works by renowned international artists such as David Hockney, Candida Hofer and Vik Muniz. Every piece demands you take a second look. Rather than being shut away, they are on display in the areas where we meet and work, providing visual stimulation and breaking the conventions of a typical office space in the same way that we're expected to challenge those of the insurance industry. As well as all the art, there are places to break out and think, or to catch up with colleagues and guests. Each office has its own distinct personality and features: our London art café, the bees we keep on the roof in York, on-site massage therapy in Bermuda, weekly pilates classes in Colchester or working treadmills in offices throughout the USA.

"The art is awesome, kind of makes you realise that the Company is far from short-sighted; art is both an investment in value and an investment in staff morale and long-term happiness."
Five years with Hiscox

Ten good reasons to work at Hiscox

#8. Earn benefits that help you plan for the future

We offer a competitive salary and benefits such as: profit-related and personal performance-based bonus. We're not a business that feels the need to say thank you for every little thing, but when people excel at their jobs, their efforts are rewarded.

A major aim of our benefits package is to enable employees to plan for the future, which is why it includes generous retirement benefits and life, personal accident and health insurances. We also offer a 'save as you earn' scheme, so that employees can save for the things that are important to them – we've heard stories of deposits for first homes, major home renovations, holidays and weddings. Many of our employees also keep fit with our subsidised gym memberships, and enjoy some downtime at Christmas with our Christmas gift (in the UK, we particularly love our food and wine hampers!). The specifics vary from country to country, based on local labour laws and customs, but we try to ensure our packages are equal wherever you work.

"Saving through work took away the temptation to be frivolous, and nothing beat the excitement of picking up the keys to my first home."
Four years with Hiscox

#9. Improve your well-being

We offer sports club memberships as part of our benefits packages. And in some of our offices – such as London and York – there are also subsidised therapies on offer, including sports massage, acupuncture and osteopathy. For those who wish to cycle or run to work or exercise during their lunch break, there are showers and lockers for their things. There's fruit on offer in lots of our offices (or biscuits in some if you'd rather!). Others have toast and local jams. We also have a confidential employee assistance phone line that can offer support with personal and professional issues.

"We spend a lot of time working, so being able to grab an hour boxing with a personal trainer in the basement not only helps me stay fit, but means family time is family time."
18 years with Hiscox

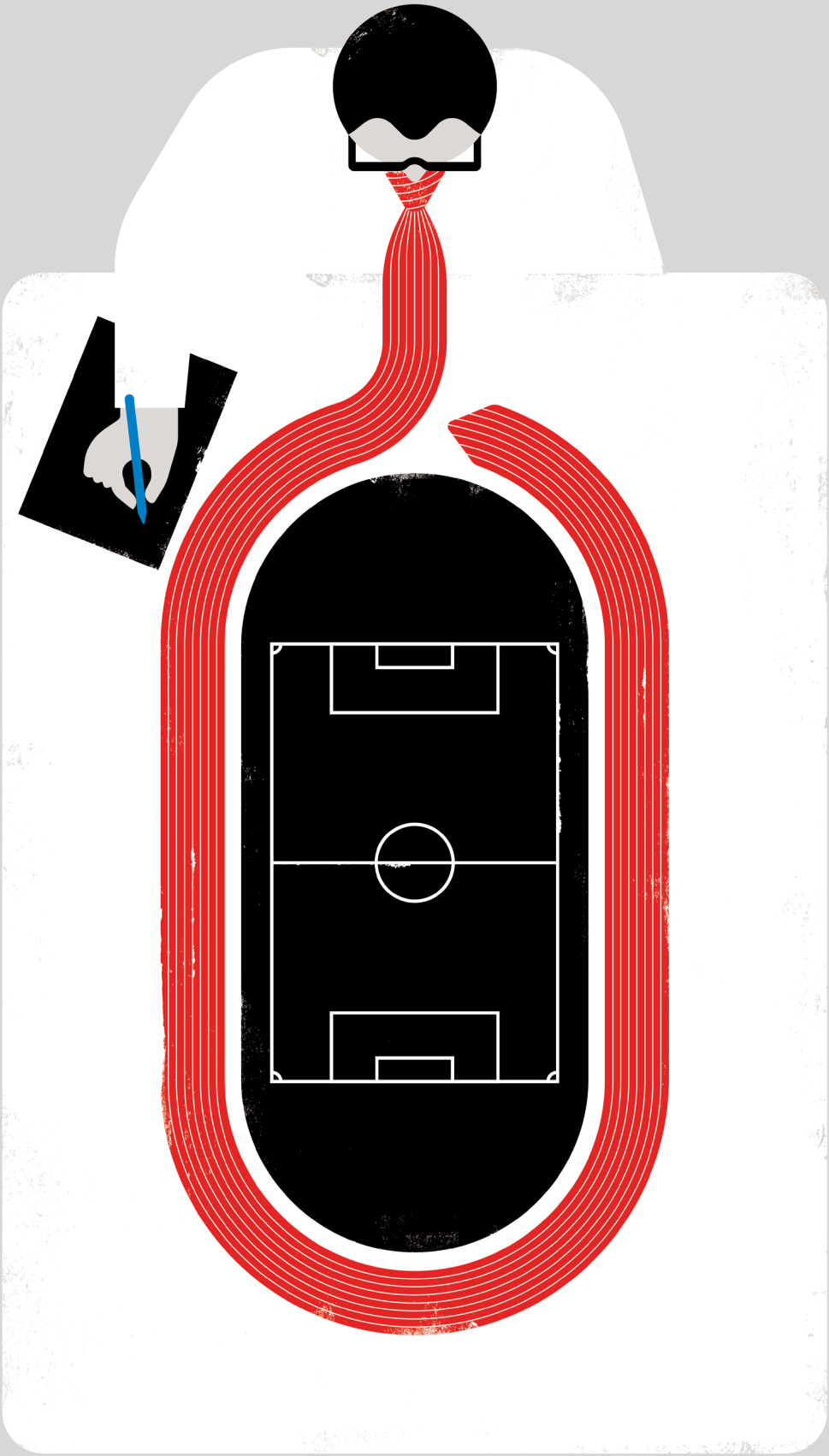
#10. Work hard and have fun

Whether working closely with our teams on challenging projects, celebrating good work or fundraising for the things we care about, we aim to enjoy each other's company. There's usually a lot going on in our offices around the world – from social committees organising still life art classes, wine tastings and pop-up nail bars, to low-key team outings and celebrations and, of course, the annual office Christmas party. Lots of people around the Hiscox Group take part in fundraising initiatives to support Group or local projects and charities, too. On top of their day jobs, we've got sky-divers, dragon boat racers, bakers and decorators and more beyond, all raising money for important causes.

"I have had a brilliant time and I have laughed."
27 years with Hiscox

We're not a business that feels the need to say thank you for every little thing, but when people excel at their jobs, their efforts are rewarded.

#9. Improve your well-being



#7. Work in an environment that inspires

Governance

Risk management

Our core business is to take risk where it is adequately rewarded, guided by a strategy that aims to maximise return on equity within a defined risk appetite.

The Group's success depends on how well we understand and manage our exposures across key risk types. These consist of strategic risk, insurance (underwriting and reserve) risk, market risk, credit risk, operational risk, regulatory and legal risk and group risk. Our collective risk knowledge informs every important decision we make.

Risk strategy

Our robust risk strategy positions us to capture the upside of the risks we pursue and effectively manage the downside of the risks to which we are exposed. Our risk strategy is based upon three key principles:

- we maintain underwriting discipline;
- we seek balance and diversity through the underwriting cycle;
- we are transparent in our approach to risk, which allows us to continually improve awareness and hone our response.

Risk management framework

The Group takes an enterprise-wide approach to managing risk. The risk management framework provides a controlled system for how risk is identified, measured, mitigated, monitored and reported across the Group. It supports innovative and disciplined underwriting across many different classes of insurance by guiding our appetite and tolerance for risk.

Exposures are monitored and evaluated both within the business units and at Group level to assess the overall level of risk being taken and risk mitigation approaches. We consider how different exposures and risk types interact, and whether they may result in correlations, concentrations or dependencies. The overall objective is to optimise risk-return decision-making while ensuring total exposure remains within the parameters set by the Board.

Risk management framework

Our continuing success depends on how well we understand and manage the significant exposures we face.

The risk management framework is underpinned by the system of internal control, which provides a consistent approach for the design and operation of internal controls to manage our key risks.

The risk management framework is regularly reviewed and enhanced to reflect changes to the Group's risk profile, the external environment and evolving practice on risk management and governance. During 2017, we have commenced a refresh of our system of internal control in light of recent growth.

Risk appetite

Risk appetite sets out the nature and degree of risk the Group is prepared to take to meet its strategic objectives and business plan. It forms the basis of our real-time exposure management and is monitored throughout the year.

Our risk appetite is set out in two ways:

- in qualitative terms through risk appetite statements, which outline the level of risk we are willing to assume by risk type and overall;
- in quantitative terms through risk limits and tolerances, which act as boundaries where actual risk exposure is more actively monitored. Risk tolerance is the maximum threshold we do not want to exceed; nearing it would represent a 'red alert' for senior management and the Board.

Risk appetite, which is set for each of our insurance carriers and for the Group as a whole, is reviewed annually. It is flexed to respond to internal and external factors such as the growth or shrinkage of an area of the business, or changes in the underwriting cycle impacting upon capacity and rates.

Three lines of defence model

1

First line of defence
Owns risk
The first line of defence is responsible for ownership and management of risks on a day-to-day basis, and consists of everyone at every level in the organisation, as all have responsibility for risk management at an operational level.

2

Second line of defence
Assesses, challenges and advises on risk objectively
The second line of defence provides independent oversight, challenge and support to the first line of defence. Functions in the second line of defence include the Group risk team and the compliance team.

3

Third line of defence
Provides independent assurance of risk control
The third line of defence provides independent assurance to the Board that risk control is being managed in line with approved policies, appetite, frameworks and processes. It also helps verify that the system of internal control is operating effectively.

Risk management across the business

The Group coordinates risk management roles and responsibilities across three lines of defence. These are set out in the table to the left.

Risk is also overseen and managed by formal and informal committees and working groups across the first and second lines of defence. These focus on specific risks such as catastrophe, reserve, investment, credit and emerging risk. The Group Risk and Capital Committee and the Group Underwriting Review Committee make wider decisions on risk.

The role of the Board in risk management

The Board is at the heart of risk governance and is responsible for setting the Group's risk strategy and appetite, and for overseeing risk management (including the risk management framework).

The Risk Committee of the Board advises on how best to manage the Group's risk profile by reviewing the effectiveness of risk management activities and monitoring the Group's actual risk exposure, to inform Board decisions. The Risk Committee relies on frequent updates from within the business and from independent risk experts.

During 2017, the Board looked at a number of risk-related matters.

- The Group's risk profile, compared with its Board-approved risk appetite.
- Independent second line of defence model validation findings on the Group's risk and capital models.
- Risk reporting focused on topical live issues with actions and mitigation plans.
- Regular reporting on the risks determined by the Board to be critical to the Group.
- Stress and scenario testing, performed to identify and measure the likelihood and impact of potential plausible but extreme events. The Board considered and challenged the findings and associated action plans for the scenarios, which had been designed to test the resilience of the business plan to major and minor shocks.
- Specific risk reviews, providing a deeper understanding of key risks and potential exposures to the business.

- Updates to the risk and control register, which summarises the Group's material risk exposures and the key controls in place to mitigate them, as agreed with risk owners.
- Updates to Group risk policies, addressing the Group's main risks.
- The Group Solvency Self-Assessment (GSSA) report, which builds on many of the components described above to summarise the Group's Own Risk and Solvency Assessment (ORSA), which is described further below.

ORSA process

Hiscox's ORSA process is an evolution of its long-standing risk management and capital assessment processes. It is the self-evaluation of the risk mitigation and capital resources needed to achieve the Group's and individual insurance carriers' strategic objectives on a current and forward-looking basis, given their risk profiles.

The structure of the GSSA report and the insurance carriers' ORSA reports have been further refined in 2017 to streamline the documents and strengthen the narrative relating to conclusions, with procedure-related supporting documentation maintained in an ORSA record.

Role of the Group risk team

The Group risk team is responsible for designing and overseeing the implementation of the risk management framework and continually improving it. The team works with the business units to understand how they maintain the first line of defence and whether they need to make changes in their approach. The team is also responsible for monitoring that the business meets regulatory expectations around enterprise risk management and reporting on risk to the Board and the Risk Committee.

The Group risk team is led by the Group Chief Risk Officer, who reports to the Group Chief Executive Officer and Chair of the Group Risk Committee.

During 2017, the Group has invested significantly in further strengthening the breadth of the Group risk team, with the recruitment of a number of additional team members.

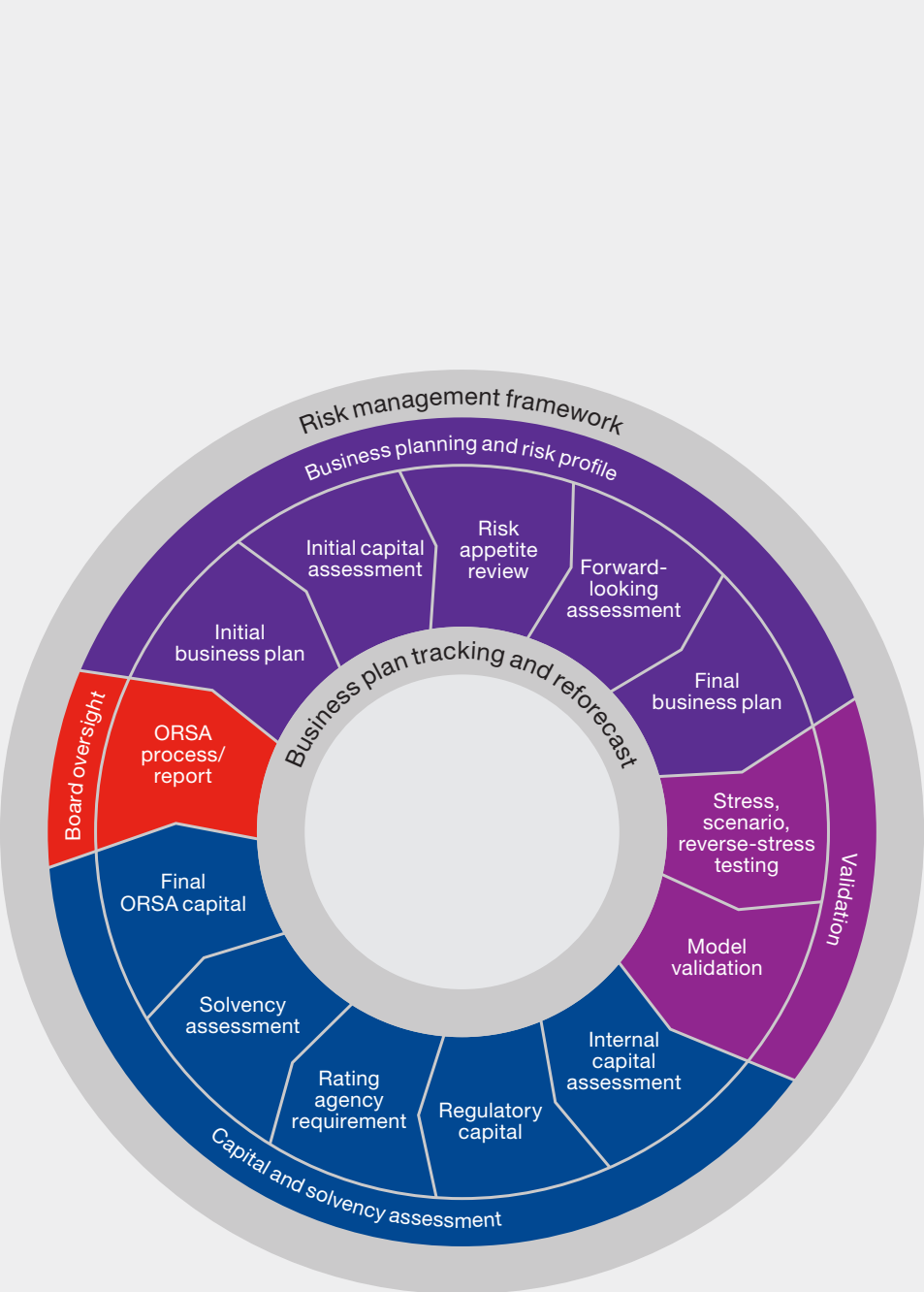
Principal risks

The principal risks facing the organisation are described on the following pages.

The ORSA reports have been further refined in 2017 to streamline the documents and strengthen the narrative relating to conclusions, with procedure-related supporting documentation maintained in an ORSA record.

ORSA process

Hiscox Own Risk and Solvency Assessment (ORSA) process



Strategic risk

The risks associated with strategic decisions and objectives taken or not taken by the Group, including uncertainties and opportunities in the internal and external environments.

What is the risk?	Why do we have it?	How is it managed?
Strategy evolution and execution The Group's continuing success depends on how well we understand our clients, markets and the various external factors affecting our business. Having an ineffective strategy could have widespread repercussions on profitability, capital, market share, growth and reputation.	Setting the right course, particularly in a sector as hazardous as insurance, is essential for our long-term success. New risks could arise, which might transform the industry.	A key pillar of the Group's strategy is to balance the underwriting of high-margin, volatile, complex global risks by also selling stable, local specialist retail products. The Group invests in growth areas that offer the potential of a good return on investment. To ensure individual and aggregate exposure remains within set parameters, the business plan is aligned to the Group risk appetite set by the Board. The Group's emerging risk forum assesses risks and opportunities that could potentially affect the business, including geopolitical changes such as Brexit or US trading and taxation relationships. Stress testing and scenario analysis help identify unanticipated dependencies and correlations between risks, which could impact upon the Group's strategy. Hiscox's ORSA process focuses on the changes, opportunities and threats that may affect the business in the future.

Insurance risk – underwriting

The risks related to our core business of providing insurance products and services to clients, and to the management of our net exposure to losses.

What is the risk?	Why do we have it?	How is it managed?
Pricing Hiscox competes against major international insurance and reinsurance groups. At times, competitors may choose to underwrite risk at prices below the break-even technical price. Prolonged periods in which premium levels are low or competition is intense are likely to have a negative impact on the Group's financial performance. Accepting risks below their technical price is detrimental to the industry. It can drive market rates down to a point where underwriting losses mount, insurers' capital is reduced and some businesses fail. Customers could receive poor service and the industry could suffer negative publicity.	We operate in open, aggressively competitive markets in which barriers to entry for new players are relatively low. Competitors may choose to differentiate themselves by undercutting their rivals. As a result, capacity levels in these markets rise and fall, causing prices to go up and down, creating volatile market cycles.	We adapt our desire to write certain lines of business according to market conditions and the Group's overall risk appetite. We reject business unlikely to generate underwriting profits and regularly monitor pricing levels, producing detailed monthly reports on how pricing and exposures are developing. This allows us to quickly identify and control any problems created by deteriorating market conditions. Hiscox frequently acts as the lead insurer in the co-insurance programmes needed to cover high-value assets, so we have some ability to set market rates. The Group rewards its staff for producing profit not revenue. This helps to maintain underwriting discipline in soft markets.

Insurance risk – underwriting

The risk related to our core business of providing insurance products and services to clients, and to the management of our net exposure to losses.

What is the risk?	Why do we have it?	How is it managed?
Underwriting exposure management Hiscox insures individual customers, businesses and other insurers for damage caused by a range of catastrophes, both natural (for example, hurricanes or earthquakes) and man-made (for example, terrorism), which can cause heavy underwriting losses that materially impact upon the Group's earnings and financial condition if the insured event materialises. The Group buys reinsurance protection to manage catastrophe risk and reduce the volatility that major losses could have on our financial position. If the Group's reinsurance protection were proven to be inadequate or inappropriate, it could significantly affect our financial condition.	Underwriting large, volatile and complex risks can be potentially costly, but can also create strong returns over the medium to long term. The scope and type of protection we buy may change from year to year depending on the extent and competitiveness of cover available in the market.	The Group underwrites catastrophe risk in a carefully managed, controlled manner. Our strategy of creating and maintaining a diversified portfolio, both by product and geography, helps limit our overall catastrophe exposure. The Group's business plan is underpinned by a clearly-defined appetite for underwriting risk. We closely monitor our risk exposure to maximise the expected risk-return profile of our entire portfolio and offset any potential losses from more volatile accounts. Underwriters are incentivised to make sound decisions that are aligned with the Group's strategic objectives and risk appetite and clear limits are placed on their underwriting authority. In response to legal developments, policy wordings are regularly reviewed to ensure that, as far as possible, exposure to those risks identified in the policy at the time of issue is maintained. Our modeling resources are tailored to support insurance and reinsurance plans and ensure that exposure matches expectations. Risk aggregation and modeling resources are shared across the Group. Stress and scenario testing is performed by the Group and by individual insurance carriers to assess our potential exposure to certain catastrophes. We buy reinsurance to reduce our risk exposure and mitigate the impact of catastrophes based upon a clear outwards reinsurance strategy and centralised reinsurance programme that enables us to minimise gaps in coverage across the business and get the right deal by leveraging our size. Decisions about the type and amount of reinsurance we buy are supervised by a dedicated reinsurance purchasing team using modeling techniques.
Binding authorities Hiscox generates considerable premium income through third parties authorised to underwrite insurance policies on the Group's behalf. Third parties may accept risk outside of agreed parameters or normal guidelines, exposing us to financial and operational risks.	Binding or delegated authorities give the Group access to a greater volume of business and can contribute significantly to our profitability and market share.	Authorities granted by Hiscox are closely controlled through strict underwriting guidelines, contractual restrictions and obligations. A Group-wide delegated authority policy sets out clear standards and principles for managing the delegation of authority to external third parties. We vet all third parties prior to appointment and monitor and audit them regularly to ensure they meet our standards.

Insurance risk – reserve

The risks of managing the adequacy and volatility of claim provision reserves set aside to pay for existing and future claims.

What is the risk?	Why do we have it?	How is it managed?
Reserve risk The Group makes financial provisions for unpaid claims, defence costs and related expenses to cover liabilities both from reported claims and from 'incurred but not reported' (IBNR) claims. If insufficient reserves were put aside to cover our exposures, this could affect the Group's future earnings and capital.	When underwriting risks, we estimate both the likelihood of them occurring and their cost. Our actual claims experience could exceed our expectations, requiring us to increase our levels of reserves held.	The provisions we make to pay claims reflect our own experience and the industry's view of similar business. They are also influenced by loss payments, pending levels of unpaid claims, historic trends in reserving patterns and potential changes in rates arising from market or economic conditions. Provisions are set above the actuarial mid-point to reduce the risk that actual claims may exceed the amount we have set aside. Our provision estimates are subject to rigorous review by all areas of the business, as well as by independent actuaries on the managed Syndicates. The relevant boards approve the amount of the final provision, on the recommendation of dedicated reserving committees. Details of the actuarial and statistical methods and assumptions used to calculate reserves are set out in note 25 to the consolidated financial statements.

Market risk – investment

The risk of financial loss or adverse movements in the value of Hiscox's assets resulting from adverse movements in market prices and our exposure from trading and/or the risk of exposure to inappropriate assets/asset classes.

What is the risk?	Why do we have it?	How is it managed?
Asset value Money received from our clients in premiums and the capital on our balance sheet is invested until it is needed to pay claims. These funds are inevitably exposed to investment risk. Investment risk also encompasses the risk of default of investment counterparties, who are primarily the issuers of bonds in which we invest.	The investment of Hiscox's assets generates an investment return. Our investment portfolio is exposed to a number of risks related to changes in interest rates, credit spreads and equity prices, among others.	Our objective is to maximise investment returns in the prevailing financial, economic and market conditions, without creating undue risk to the Group's capacity to underwrite. Funds held for reserves are invested primarily in high-quality bonds and cash. To reduce foreign exchange risk, these are usually maintained in the currency of the original premiums for which they were set aside. As many of our insurance and reinsurance liabilities have short timespans, we do not aim to match exactly the duration of our assets and liabilities. The Group's fixed-income fund managers operate within clear guidelines as to the type and nature of bonds in which they can invest. These prioritise the need to pay claims while providing sufficient flexibility to enhance returns. A proportion of funds is allocated to riskier assets, principally equities. By taking a long-term view on these assets, we seek to achieve the best possible risk-adjusted returns. Within our risk assets, we make an allocation to less volatile, absolute return strategies, which balance our desire to maximise returns with the need to ensure capital is available to support our underwriting throughout any downturn in financial markets.
Liquidity A failure of our liquidity strategy could leave us unable to meet cash requirements to pay liabilities to customers or other creditors when they fall due. We might also incur high costs in selling assets or raising money quickly in order to meet our obligations. Such a failure could have a material adverse effect on the Group's financial condition and cash flows.	If a catastrophe occurs, the Group may be faced with large, unplanned cash demands. This could be exacerbated by having to fund a large number of claims pending recovery from our reinsurers. Although our investment policies stress the conservation of principal and liquidity, our investments are subject to market-wide risks and fluctuations.	The Group's investment policy recognises the demands created by our underwriting strategy, so that some investments may need to be sold before maturity or at short notice. A high proportion of our investments are in liquid assets, which reduces the risk of losses being incurred if a quick sale is needed. Funds held for reserves are invested primarily in high-quality, short duration bonds and cash so the Group can meet its aim of paying valid claims quickly. The Group's cash requirements can normally be met through regular income streams: premiums, investment income, existing cash balances or by realising investments that have reached maturity. Our primary source of inflows is insurance premiums, while our outflows are largely expenses and payments to policyholders through claims. We forecast our cash flow for the week, month, quarter, or up to three years ahead, depending on the source. To identify potential issues, we run stress tests to estimate the impact of a major catastrophe on our cash position. We also consider the impact on our liquidity of other adverse events occurring, such as an economic downturn and declining investment returns. The Group maintains extensive borrowing facilities with a range of major international banks. This minimises the risk of one or more institutions being unable to honour commitments to us.

Credit risk

The risk of loss or adverse financial impact due to counterparty default or failure to meet obligations with agreed terms.

What is the risk?	Why do we have it?	How is it managed?
Credit risk – reinsurance The Group buys reinsurance to protect us, but if our reinsurers were unable to meet their obligations to us it could put a strain on our earnings and capital, and harm our financial condition and cash flows.	We cover clients against a range of catastrophes and protect ourselves through reinsurance. We face credit risk when we seek to recover sums from our reinsurers.	We buy reinsurance only from companies we believe to be strong. A dedicated Group Credit Committee must approve the use of every reinsurer, based on an assessment of their financial strength, trading record, payment history, outlook, organisational structure and external credit ratings. Our credit exposures to these companies are closely monitored, as are the companies themselves, so we can quickly identify any potential problems. We consider public information, our experience of the companies, their behaviour in the marketplace and consultants' and rating agencies' analysis.
Credit risk – brokers If a broker fails to pass premiums to us or fails to pass the claims payment on to a policyholder, this can result in us losing money.	The vast majority of our business is written through brokers. We face credit risk when money is transferred to and from brokers for premiums or claims.	We monitor our exposure to brokers on an ongoing basis and have a continuing dialogue with our core brokers to quickly identify and resolve any credit issues that arise. Such monitoring takes into account a number of factors, which can include credit rating, financial position, financial performance, payment history and market factors. In the case of some large losses, we pay policyholders directly to reduce broker credit risk on material transactions.

Operational risk

The risks of direct or indirect losses involving people, processes, systems and external events, resulting from the running of the business.

What is the risk?	Why do we have it?	How is it managed?
Information security (including cyber security) A failure to properly protect information could compromise the confidentiality, availability or integrity of our data. Cyber security risk is the threat to the Group from globally connected networks such as the internet. It differs from the exposure posed by underwriting cyber risks, which is considered an insurance risk. As well as causing financial losses, information security risk can have legal, regulatory and reputational consequences.	Our business is based on trust from customers and partners, and that trust depends on our ability to keep their information secure. We operate in a world in which the volume of sensitive data and the number of connected devices and applications have increased exponentially, while cyber attacks are increasingly frequent and sophisticated. Our business depends on the integrity and timeliness of the information and data we maintain, own and use.	Information security risk is managed as a business risk, not an IT responsibility. We employ an information security policy and a cyber security risk strategy. The Group employs information security resources, which provide advice on information security design and standards. We also have an information security group, including experts from around the business who assess and manage these threats in line with risk appetite. Our cyber strategy combines industry standard perimeter security with protection for specific, highly confidential information. The Group constantly deploys and evolves systems, policies and procedures to mitigate internal and external threats to our IT infrastructure. We conduct Group-wide mandatory training on information and cyber security, which is also mandatory for all third parties and contractors. Our stress testing and scenario analysis considers the impact and likelihood of information security exposures and assesses management actions, including response plans.

Operational risk

The risks of direct or indirect losses involving people, processes, systems and external events, resulting from the running of the business.

What is the risk?	Why do we have it?	How is it managed?
Information technology and systems failure A major IT, systems or service failure could have a significant impact on our business.	Our information technology and systems are critical to conducting business and providing continuity of service to our clients, including supporting underwriting and claims processes.	We have dedicated IT resources that support the Group's technology needs and oversee critical systems and applications. Our stress testing and scenario analysis considers the impact and likelihood of an IT or systems failure and assesses how management actions could be taken to mitigate the risk. A formal disaster recovery plan is in place to deal with workspace recovery and the retrieval of communications, IT systems and data should a major incident occur. These procedures would enable us to quickly move the affected operations to alternative facilities. The plan is tested regularly and includes simulation tests.
Project risk and change management The risks that projects and/or change initiatives are not delivered to plan, budget or specification, or that the risks inherent in projects are not appropriately managed. Where this occurs, there may be not only direct financial losses but also indirect losses through distraction risks and inefficiencies.	We operate in an ever-changing environment, with technological advancements, customer behaviour and external expectations evolving rapidly in recent years. To remain relevant we must continue to evolve how we conduct our business.	All major programmes have dedicated project governance structures to oversee the delivery of the programme, including risk management aspects. Programme sponsors also provide updates to the Board and Risk Committee as appropriate. The newly-formed Programme Assurance Office provides oversight across all major programmes. It provides senior management with an independent view of the progress, risks and issues within the programmes as well as the linkages between them. Specialist resource is used to augment project resources, either in a contractor or advisory capacity, as needed.

Regulatory and legal risk

The risk of financial loss, regulatory censure, reputational damage and/or other adverse impact as a result of non-compliance with all relevant regulations and/or legislation in all relevant jurisdictions.

What is the risk?	Why do we have it?	How is it managed?
Regulatory change The insurance industry is exposed to continuous regulatory change, which may affect the level of capital we are required to hold or require changes to how we are set up operationally from time to time.	Insurance is a highly regulated industry. There may be times when the regulatory landscape undergoes a significant shift that directly impacts our business.	The Group understands that sound, prudent regulation is key to the stability and sustainability of the insurance and wider financial markets. We continuously monitor new regulation and review our internal processes to facilitate compliance. Our approach is to combine local expertise with a globally consistent framework to manage regulatory change and provide effective compliance with the varied and evolving requirements.

Corporate responsibility

Our values underpin every aspect of our business and have earned us a reputation for decency and integrity. They are reflected in our work around the environment, the marketplace, the community and in our workplace culture.

The environment*

Hiscox is committed to a policy of reducing the environmental impact of our work. By 2020, we aim to complete a 15% real-term reduction in our Scope 1, 2 and 3 carbon emissions per full-time equivalent (FTE), relative to 2014. We are ahead of target. The table far right depicts the Group's global carbon emissions year-on-year since 2014.

We also remain fully committed to being a carbon neutral business. Our global emissions are currently being offset through a pioneering collaboration with Carbon Footprint Ltd in the Great Rift Valley in Kenya, which uses carbon finance to fund tree planting and support the developing community. We review our collaborations every year and in 2016 offset 7,383 tonnes in carbon emissions through this scheme.

Hiscox is one of the founding members of ClimateWise, a global network of over 20 leading insurance companies united by their concerns over climate change and their ability to understand and communicate the risks associated with it. Since the network's launch in 2008, our progress in meeting a set of principles outlined by ClimateWise has been subject to annual independent review. In 2017, we were given a score of 69%, ranking us seventh among the participants. The Hiscox ClimateWise Report is available at www.hiscoxgroup.com/responsibility.

This commitment to the environment has a commercial imperative as well as a moral one. Hiscox is a constituent of indexes including CDP and the FTSE4Good Index Series, a series of benchmark and tradable indexes designed to help investors integrate environmental, social and governance (ESG) factors into their investment decisions.

The marketplace

In its dealings with the marketplace, the Group aims to demonstrate the highest levels of professionalism, expertise and ethical practice. In recognition of these qualities, Hiscox UK & Ireland and Hiscox London Market both have the Chartered Insurance Institute's Chartered Insurer status – an important marker for attracting partners that are looking to work with high-quality insurers.

Dealing with brokers

Insurance brokers are important stakeholders in our business. For us to create a competitive advantage in the marketplace, it is essential that we build strong and lasting relationships with brokers that share our values. To these ends, the Group has instigated a 'superb service' ethos, designed to develop a greater understanding of brokers' needs, and also runs annual broker summit events for our broker partners and the rising stars in their businesses.

Dealing with investors

Hiscox communicates openly and transparently with its shareholders. The Group reports both its half- and full-year results to investors via a series of presentations, and all relevant financial information is available on the corporate website. Senior managers and key employees meet regularly with investors and analysts to explain the Group's business strategy and financial performance and answer any questions.

Dealing with customers

Hiscox has built its reputation upon outstanding customer service. Our belief is that insurance is a promise to pay: should a loss occur, we aim to fully support our customers and pay every valid claim as quickly as possible.

Employees and workplace culture*

It is Hiscox's policy to require all staff to meet standards of behaviour that reflect the core values of the Group. By consistently demonstrating these high levels of conduct, we believe we are more likely to achieve business success and create value for shareholders.

Hiscox aims to provide its staff with both the means and the motivation to excel. This is achieved through a fair system of rewards and an environment in which employees can enjoy their work and reach their full potential. Hiscox recognises the importance of maintaining a healthy work/life balance, so offers the option of flexible and homeworking wherever possible.

While achieving the highest standards of corporate governance, we strive to remain, in essence, a non-bureaucratic organisation. An effective system of internal controls ensures that risks are managed within acceptable limits, but not at the expense of innovation or speed of response. Our ability to strike this balance is one of the Group's greatest strengths.

Diversity and inclusion

Diversity and inclusion (D&I) was a Group-wide priority in 2017, and we made important progress in this area. We appointed a D&I expert to lead on this work, agreed a set of KPIs for each of our business units, and established a nine-point plan to address the gender imbalance at senior levels. Our flexible working and maternity leave policies were enhanced, and we completed a comprehensive pay gap analysis in preparation for the new requirements to publish a gender pay gap report from 2018. We also sponsored the Dive In Festival for the third consecutive year,

4.6%↓

Carbon footprint per FTE has fallen for the fourth consecutive year, down 4.6% year-on-year.

Global emissions

	Year 2014	Year 2015	Year† 2016	Year 2017
Scope 1 – company car use, on-site gas combustion and refrigerant loss	446	590	612	742
Scope 2 – purchased electricity	1,916	2,113	2,175	1,889
Total (scope 1 and 2)	2,362	2,703	2,787	2,631
Tonnes CO_2e per FTE (Scope 1 and 2)	1.20	1.20	1.14	0.97
Scope 3 – air, rail and personal car business travel	4,905	4,538	4,596	5,151
Total (all scopes 1, 2 and 3)	7,269	7,241	7,383	7,782
Tonnes CO_2e per FTE (all scopes 1, 2 and 3)	3.68	3.22	3.02	2.88

†The 2016 baseline has been re-stated. This is as a result of more accurate actual electricity data available where estimates were previously used: Bordeaux, Cologne, Hamburg, Munich and Dublin.

an annual series of events around diversity and inclusion that takes place across 17 countries and 32 cities.

Building on the success of the Women in Leadership training programme in 2016, the programme's reach was extended to include more employees in lower bands. We continue to reap the benefits of our Women at Hiscox employee network, which since March 2016 has completed a range of networking events and established a number of successful mentoring relationships. We have also launched employee network guidelines to empower our people to create additional employee networks, with initial interest in parents and carers, mental health and well-being, LGBT and millennials networks.

Our focus on D&I as a strategic priority continues in 2018 as we broaden the scope of activities beyond gender, drive more specific and targeted action, and ensure D&I is firmly on the management agenda of each of our business units. We will also complete important analysis work to better understand the extent to which we are supporting and retaining women returning to work from maternity leave.

Rewards and benefits

The Group encourages employees to share in its success through performance-related pay, bonuses, savings-related share option schemes and executive performance share plans. We also offer competitive benefits packages, which contain health and fitness benefits and opportunities for flexible working and career breaks. Salary packages are benchmarked against the financial services industry as a whole and against the Lloyd's market specifically (where applicable), and are also considered on a country-by-country basis.

Training and development

Hiscox is committed to training and developing employees to help them maximise their potential. Every permanent member of staff has the opportunity to pursue training and development, with training and development needs reviewed twice a year as part of our Group-wide performance management and review process, which is also when performance is measured against clearly-set objectives.

Communication and participation

We listen to the views of our people and encourage them to contribute new ideas. Employees are kept informed of business developments through formal briefings, town hall events, team meetings, intranet bulletins, video conferences and other more informal routes. Once settled into their job at Hiscox, staff at all levels of the business are also invited to lunch with members of the Executive Committee, who want to hear their ideas for improvement and innovation and views on Hiscox as a place to work.

Social and community matters*

The Group is fully committed to supporting the communities within which it operates, through donations, professional support and the volunteer work of its employees.

- In 2017, Hiscox Bermuda supported organisations working with local young people, the elderly and the most vulnerable members of the community. These groups included The Family Centre, The Reading Clinic, the Eliza Dolittle Society, The Bermuda Society for the Blind, Big Brothers Big Sisters, Meals on Wheels, Purvis Primary School PTA and the Adult Education School. We continued to support various environmental groups including Greenrock, Bermuda Environmental Sustainability Taskforce, Reef Watch and Groundswell, and inclusive sports programmes such as Beyond Rugby, Bermuda Tennis Association Grassroots programme, Boccia Bermuda and the Hiscox Under-11 Cricket League. We were also pleased to take part in Keep Bermuda Beautiful's clean-up campaign, Adopt a Spot.
- Hiscox USA supported charities local to its offices that focus on education, medical science, advancement of the arts and culture or provision of services to disadvantaged and vulnerable communities.
- Hiscox Iberia continued to participate in the annual 1kg of Help campaign, working with brokers and other business partners to donate food to those in need during the festive season.

Some examples of our support for the communities in which we operate, clockwise from left: the Hiscox Under-11 Cricket League in Bermuda; a member of staff in York attends to the Hiscox bees; some of our York team take part in the city's annual dragon boat race; our London team enjoy some dodge ball; table tennis tournaments in our Atlanta office.









For more detail on corporate responsibility see **hiscoxgroup.com**

£182,000

The Hiscox Foundation donated £182,000 to charities in the UK and USA during 2017.

Hiscox Benelux supported the community during Christmas by offering food cheques to the elderly. Community work was also undertaken across many of our UK offices. In Colchester, the team raised over £32,000 for Mid and North East Essex Mind, and continued its reading partnership programme with local schools. In York, the team raised nearly £6,000 for The Samaritans, and continued to cultivate the colony of bees that we have installed on the roof of our office. In London, we contributed £25,000 to the Evening Standard's Grenfell Tower fund and took the first steps towards establishing Hiscox Gives, a charity committee to coordinate the charitable activity of our teams in London.

Supporting the arts, science and technology

The Group is a passionate supporter of the arts, science and technology. In 2017, Hiscox supported the City of London's Sculpture in the City project for the seventh consecutive year, and continued to be the insurance partner of the Whitechapel Gallery, a free-to-access gallery close to its London office that champions contemporary art. Hiscox also became The National Gallery's first Contemporary Art Partner as part of an exciting multi-year partnership, and supported Art Night – a free contemporary arts festival that puts art into extraordinary locations around London for one night a year, encouraging the public to experience art and their city through fresh eyes.

Hiscox remained title sponsor of The Sunday Times Hiscox Tech Track 100, which charts the fastest-growing private technology, telecoms and digital media companies, and supported the prize fund of the Aesthetica Art Prize, which celebrates emerging artists. Hiscox Germany continued to support promising young artists, presenting a €7,500 prize to the best young artist selected by a jury at Hamburg's renowned university of fine art, HFBK, and supporting another artist with an artist-in-residence scholarship. Hiscox France worked with FIAC, France's premier art fair.

The Hiscox Foundation

The Hiscox Foundation is a charity, funded by an annual contribution from the Group, which makes grants to social and humanitarian initiatives and contributes to the fundraising activities of Hiscox employees. In total, the Hiscox Foundation in the UK and USA donated £182,000 during 2017.

In the UK, the Foundation contributed over £51,000 to the charitable endeavours of Hiscox staff. It also continued its support for the Richard House Children's Hospice, which provides care to children and young people with life-limiting health conditions, and Humanitarian Aid Relief Trust, which works with marginalised, oppressed and exploited communities around the world. The Hiscox Foundation USA provided similar backing to the charitable work of Hiscox staff. This included donations to the Romeo Milio Lynch Syndrome Foundation, which supports those with a hereditary predisposition to certain types of cancers; Special Olympics Unified Sports, which promotes social inclusion through sport; Volunteers of America in Greater New York's Operation Backpack, which in 2017 provided 17,000 children living in a New York City shelter with a new, full backpack in time for the first day of school; and the American Red Cross for its Hurricane Maria Disaster Relief appeal. The Hiscox Foundation USA also continued its support for the Parris Foundation, an organisation dedicated to teaching children in deprived communities about science, technology, engineering and mathematics.

*Respect for human rights**

Maintaining a positive, open and inclusive culture that respects our colleagues' human rights is fundamental to the Group's strategy, and we are guided by the principles of the UN's Universal Declaration of Human Rights and the International Labour Organisation's core labour standards. In light of this, and the nature of our business, we do not maintain a standalone human rights policy.

*Anti-bribery and anti-corruption**

Our anti-bribery and anti-corruption policy applies to all employees and entities in the Hiscox Group. It outlines that all employees, entities and associated firms of the Hiscox Group shall not make any payment or provide anything of value, to any person, with the intention to improperly influence that person to create a business advantage for Hiscox. The policy is reviewed on an annual basis.

All individual incidents are reported using the suspicious transactions/anti-fraud procedure. In 2017, no incidents in relation to anti-bribery were reported.

As part of our induction process, individuals are requested to complete six regulatory assignments within three months of joining: Hiscox conduct risk and treating customers fairly; Hiscox introduction to the FCA; Hiscox money laundering and how you can prevent it; what whistleblowing is and why we need it; Hiscox data protection training and business ethics.

Whistleblowing

Our Group-wide whistleblowing policy ensures employees feel empowered to raise concerns relating to malpractice or wrongdoing without fear of unfair treatment. If an employee has a serious concern relating to the operation of the business, our whistleblowing procedures enable them to confidentially raise their concerns with senior management or, if they choose, with the Chair of the Hiscox Ltd Audit Committee. All Hiscox staff can also access free, confidential advice from the whistleblowing charity Public Concern at Work.

*Part of our non-financial reporting statement under ss.414CA and CB of the Companies Act 2006.

Board of Directors

Robert Simon Childs
Non Executive Chairman (Aged 66)
*26 February 2013**

Robert Childs joined Hiscox in 1986, served as the Active Underwriter of the Hiscox Lloyd's Syndicate 33 between 1993 and 2005, and was the Group's Chief Underwriting Officer until February 2013. In 2012 Robert joined the Council of Lloyd's. Robert was Chairman of the Lloyd's Market Association from January 2003 to May 2005. He is a Trustee of Enham (a charity for the disabled), former Chairman of the Advisory Board of the School of Management of Royal Holloway, University of London, Chairman of The Bermuda Society and, in 2017, became Deputy Chairman of Lloyd's.

Hamayou Akbar Hussain
Chief Financial Officer (Aged 45)
*12 September 2016**

Aki Hussain joined Hiscox in 2016 from Prudential plc, where he spent seven years; latterly as Chief Financial Officer of Prudential UK and Europe. Prior to his time with Prudential, Aki held a number of senior roles in the financial services, telecoms and media sectors. He was Finance Director for the Consumer Bank division at Lloyds Banking Group until 2009, before which he was Finance Director for the Consumer division of ntl (now Virgin Media). Aki is a Chartered Accountant, having trained with KPMG.

Bronislaw Edmund Masojada
Chief Executive (Aged 56)
*12 December 2006**

Bronek Masojada joined Hiscox in 1993 as Group MD and he became CEO in 2000. From 1989 to 1993 he was employed by McKinsey & Company. Bronek served as a Deputy Chairman of Lloyd's from 2001 to 2007 and was Chairman of the Lloyd's Tercentenary Research Foundation from 2008 to 2014. He is currently a member of the Board of the Association of British Insurers and a Director of Pool Reinsurance Company Limited.

Richard Colin Watson
Chief Underwriting Officer (Aged 54)
*16 May 2013**

Richard Watson joined Hiscox in 1986, having previously worked for Sedgwick and Hogg Robinson. In 2005, he was appointed Managing Director of Hiscox Global Markets, the largest division of Hiscox by premium income, and was the Underwriter of Syndicate 33 from 2006 to 2009. In 2009, Richard moved to New York and served as the Chief Executive Officer for Hiscox USA for three years. He returned to London in 2012 and became Chief Underwriting Officer for the Hiscox Group.

Lynn Carter
Independent Non Executive Director (Aged 61)
*20 May 2015**

Lynn Carter joined Hiscox in May 2015. Lynn has 38 years' experience in the banking industry, most recently as President of Capital One Bank. Prior to Capital One, Lynn was President of Bank of America's Small Business Banking division, a US$2.1 billion revenue business, with oversight of 110,000 business clients and 2,000 employees. Dividing her time between California and Connecticut, Lynn currently serves on the private Board of American Express Centurion Bank and Phoenix House Foundation, and on Bankwork$ Advisory Board.

Caroline Foulger
Independent Non Executive Director (Aged 57)
*1 January 2013**

Caroline Foulger joined Hiscox in January 2013 having retired from a partnership at PwC on 31 December 2012. Until May 2012, Caroline led PwC's Insurance and Reinsurance practice in Bermuda. Caroline is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Institute of Chartered Accountants of Bermuda and a member of the Institute of Directors. Caroline is a Non Executive Director of the Bank of N.T. Butterfield & Son Limited and Oakley Capital Investments Limited.

Hiscox Ltd

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Marc Wetherhill

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△ Member of the Audit Committee
○ Member of the Conflicts Committee
□ Member of the Remuneration Committee
⬡ Member of the Nominations Committee

▲●■⬢
Chairman of Committee is highlighted in solid.

*Effective date of Hiscox Ltd contract.

Michael Goodwin
Independent Non Executive Director (Aged 59)
*16 November 2017**

Michael Goodwin joined Hiscox in November 2017. He has over 25 years' experience in the insurance industry having worked for QBE Insurance between 1992 and 2012. He held a number of roles for QBE in the Australian and Asia Pacific markets and was the CEO for QBE Asia Pacific from 2007 to 2012. Michael is a Fellow of the Institute of Actuaries of Australia.

Thomas Hürlimann
Independent Non Executive Director (Aged 54)
*16 November 2017**

Thomas Hürlimann joined Hiscox in November 2017. Thomas has 28 years' experience in banking, reinsurance and insurance. Most recently as CEO Global Corporate at Zurich Insurance Group, a business with US$9 billion premiums and a network in over 200 countries. Before that he worked at Swiss Re and started his career with National Westminster Bank. He holds an MBA from IMD.

Colin Keogh
Independent Non Executive Director (Aged 64)
*19 November 2015**

Colin Keogh joined Hiscox in November 2015. Colin has spent his career in financial services, principally at Close Brothers Group plc, where he worked for 24 years and was CEO from 2002 until 2009. He is a Non Executive Director of Virgin Money Holdings (UK) plc and certain of its subsidiaries. He is also a Non Executive Director of M&G Group Limited and Chairman of specialist financial services business Premium Credit Limited.

Anne MacDonald
Independent Non Executive Director (Aged 62)
*20 May 2015**

Anne MacDonald joined Hiscox in May 2015. Anne has held the position of Chief Marketing Officer at four different Fortune 100 companies, marketing some of the most recognisable corporate names in the world – from Citigroup and Travelers to Macy's and PepsiCo. With an MBA from Bath University, Anne was formerly a Director of NASDAQ-listed Rentrak Corporation, stepping down from the Board on completion of its merger with comScore, Inc.

Robert McMillan
Independent Non Executive Director (Aged 65)
*1 December 2010**

Bob McMillan joined the Hiscox Ltd Board in December 2010. He spent 24 years with the Progressive Insurance Corporation where he served in various positions including National Director of Product Development, then Claims before becoming National Director of Marketing. He led Progressive's initiatives in multi-channel distribution, financial responsibility-based rating, and immediate response claims. He has received two United States patents related to motor insurance pricing. He has lectured at the University of Virginia's Darden School of Business and at the Harvard Business School. He has been a Non Executive Director of Hiscox Inc. since March 2007.

Constantinos Miranthis
Independent Non Executive Director (Aged 54)
*16 November 2017**

Costas Miranthis joined Hiscox in November 2017. He was President and CEO of PartnerRe a position from which he stepped down in 2015. Prior to joining PartnerRe in 2002 he was a Principal of Tillinghast-Towers Perrin in its London office with responsibility for the European non-life practice. He is a Fellow of the Institute and Faculty of Actuaries and a member of the American Academy of Actuaries. He is also a past Chair of the European Reinsurance Association Board.

Chairman's letter to shareholders

Key developments on corporate governance throughout the year.

Dear Shareholder

The Hiscox Group continues to grow and, in turn, the robust governance framework which underpins our business model continues to evolve. We focus on more than simply compliance with codes, ensuring we have the right culture, a balanced Board with independent Non Executives and a well-defined network of committees.

During the year the Financial Reporting Council (FRC) issued its substantial revision to the UK Corporate Governance Code, reflecting the FRC's aim to make the code shorter and sharper. We are currently reviewing this and may submit comments on the proposed revisions in due course.

The arrangements we have in place are described in detail within this corporate governance statement but it is worth highlighting a few notable events from this year.

- Ernst Jansen and Gunnar Stokholm stepped down from the Hiscox Ltd Board in November 2017, following nine years of service, at which point the UK Corporate Governance Code deems them not independent.
- The Nominations Committee led the search for three new Non Executive Directors for the Hiscox Ltd Board, culminating in the appointment of Michael Goodwin, Costas Miranthis and Thomas Hürlimann in November 2017.
- During the year, Jeremy Pinchin stepped down as CEO of Hiscox Re & ILS and Group Company Secretary to return to London, where he remains our Group Claims Director. Marc Wetherhill was appointed by the Board as Group Company Secretary and General Counsel in September 2017.

In 2017 we carried out an external Board evaluation using an independent facilitator, Lintstock. The recommendations in the report were characterised as potential refinements to existing practices and the overall composition of the Board was rated very highly. One of the findings of the report was that Non Executive Directors could maximise the value of their time spent outside of formal meetings by visiting the Group's sites to gain exposure to second- and third-tier management with a view to identifying leadership talent, providing written reports back to the Board on their insights. We are currently putting in place a timetable to incorporate these meetings throughout the year.

Robert Childs
Chairman

Corporate governance

As the size and shape of the Hiscox Group continues to grow and develop it is vital that we have in place a robust governance framework which underpins our business model.

Overview and basis of reporting

Hiscox Ltd (the Company) is the Bermuda incorporated holding company for the Group. The Company has a premium listing on the London Stock Exchange. The corporate governance framework for the Company is derived from its constitution together with Bermuda Companies Act legislation. The Listing Rules require the Company to report against the UK Corporate Governance Code published in April 2016 (the Code). During 2017, and up to the date of this Report and Accounts, the Group has complied with the provisions of the Code in all material respects. The FRC has published a revised UK Corporate Governance Code, which is expected to apply to accounting periods beginning on or after 1 January 2019.

The Board of Directors

As at the date of this report, the Board comprises the Non Executive Chairman, three Executive Directors, and eight independent Non Executive Directors, including a Senior Independent Director. Biographical details for each member of the Board are provided on pages 52 to 53. The roles and activities of the Chairman and Chief Executive are distinct and separate. The Chairman is responsible for running an effective Board including oversight of corporate governance and strategy. The Chief Executive has responsibility for running the Group's business.

The Nominations Committee monitors the composition of the Board and considers its diversity, balance of skills, experience, independence and knowledge to ensure that it remains appropriate. The composition of the Board was also reviewed as part of the Board evaluation described on page 57.

Non Executive Directors are appointed for a specified term. Their terms of appointment state that their continuation in office is contingent upon their satisfactory performance and prescribe the time commitment required of them in order to discharge their duties. The terms also state that appropriate preparation time is required ahead of each meeting.

In accordance with the Company's Bye-Laws, Michael Goodwin, Thomas Hürlimann and Costas Miranthis will seek re-appointment at the 2018 Annual General Meeting. In accordance with the Code, the remaining Directors will also submit themselves for re-appointment.

The Board have set voluntary restrictions on the number of other Directorships a Non Executive Director is permitted to hold. The external commitments of the Chairman and the Executive Directors are disclosed in their profiles on page 52. The remuneration of the Non Executive Directors does not include performance-related elements and is reviewed annually.

While the Board acknowledges the value that knowledge and experience of the organisation can bring, it also recognises the need to progressively refresh Board membership over time. Non Executive Directors will normally be expected to serve for six years. They may be invited to serve for longer, but service beyond nine years is unlikely. Any service beyond six years is subject to a particularly rigorous review.

The Chairman, Robert Childs, did not meet the independence criteria set in the Code on appointment. However, the Code does not require the independence or otherwise of a Non Executive Chairman to be considered subsequent to their appointment. Caroline Foulger is a former partner of PwC, the Company's auditors, but retired from the firm on 31 December 2012, prior to PwC's appointment as auditor, and is considered to be independent. The Board considers all other Non Executive Directors to be independent within the meaning of the Code as there are no relationships or circumstances which would interfere with the exercise of their independent judgement.

All Directors are entitled to seek independent professional advice at the Company's expense. A copy of any such advice would be provided to the Company Secretary who would then circulate it to all Directors. As part of the Board evaluation conducted during the year, Directors were asked to assess the quality of the support they receive from the Company Secretary and the responses were all positive. The Board meets at least four times a year and operates within established Terms of Reference. It is supplied with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities. The Board of Hiscox Ltd held four scheduled meetings during 2017.

The Board and Committee meetings usually take place over two days when all of the Directors convene in Bermuda.

There is a formal induction process for new Directors and induction training was provided to our three new Hiscox Ltd Board members: Michael Goodwin, Thomas Hürlimann and Costas Miranthis, during the year. The needs of a new Director joining the Board are assessed and appropriate training arranged. Directors' training requirements were assessed as part of the Board evaluation undertaken by Lintstock. Existing Directors are provided with the opportunity to attend training

Prior to the Board and Committee meetings taking place, the Board and the Executive Committee together hold in-focus sessions exploring specific aspects of the Hiscox Group.

The Board of Directors

sessions. During the year Directors also received briefings on the new Group-wide Hiscox Integrated Capital Model (HICM) and attended a number of in-focus sessions on specific areas of the business.

Prior to the Board and Committee meetings taking place, the Board and the Executive Committee together hold in-focus sessions exploring specific aspects of the Hiscox Group. These presentations are sometimes made by members of the Executive Committee, or other members of the management team, or in some cases by individuals with particular expertise in certain markets. During these sessions the Board has explored matters including a major IT programme for the USA, portfolio underwriting, cyber underwriting, the US business and ILS strategic options. In addition, the Board and Executive Committee received a presentation on developments in the FinTech and InsureTech markets from external experts in this field.

The Board's Terms of Reference include a Schedule of Matters Reserved for Board Decision, a copy of which can be found on the Group's website: www.hiscoxgroup.com. Aside from the opportunity that Non Executive Directors have to challenge and contribute to the development of strategy in regular Board meetings, Non Executive Directors also attended the annual Hiscox Partners' meeting held during the year.

The Board retains ultimate authority for high-level strategic and management decisions, including: setting Group strategy, approving significant mergers or acquisitions, approving the financial statements, declaration of interim dividends and recommendation of the final dividend, approving Group business plans and budgets, approving major new areas of business, approving capital raising, approving any bonus issues or rights issues of share capital, setting Group investment guidelines, approving the Directors' remuneration, approving significant expenditure or projects, and approving the issue of share awards.

The Board has appointed an Executive Committee and authorised the boards of the trading entities and business divisions to manage their respective operational affairs, to the extent that Board or Executive Committee approval is not required.

The Board's committees

The Board has appointed and authorised a number of committees to manage aspects of the Group's affairs, including financial reporting, internal control and risk management. Each committee operates within established written Terms of Reference and each committee Chairman reports directly to the Board.

The Audit Committee

The Audit Committee of Hiscox Ltd comprises Lynn Carter, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis. Caroline Foulger is considered by the Board to have recent and relevant financial experience and is Chair of the Committee. The Committee as a whole is considered to have competence relevant to the sector in which the Company operates. Further information on the background and experience of the Committee members is included in their profiles on pages 52 and 53. The Committee operates according to Terms of Reference published on the Group's website and met four times during the year to assist the Board on matters of financial reporting, risk management and internal control, and to determine the external auditor's fees. The Committee monitors the scope, results and cost effectiveness of the internal and external audit functions, the independence and objectivity of the external auditors, and the nature and extent of non-audit work undertaken by the external auditors together with the level of related fees. The Audit Committee receives reports from the auditors who also attend meetings of the Committee to report on the status of their audit and any findings. This allows the Committee to monitor the effectiveness of the auditors during the year.

PwC was appointed as the Company's auditor at the 2016 Annual General Meeting. There are currently no plans to re-tender the audit. The internal and external auditors have unrestricted access to the Committee. All non-audit work undertaken by the Group's external auditors with fees greater than £50,000 must be pre-approved by the Committee. PwC has confirmed to the Committee that in its opinion it remains independent. The Committee is satisfied that this is the case. In respect of the 2017 financial year, the Committee reported to the Board on how it had discharged its responsibilities, provided advice to the Board on how the Annual Report and Accounts were fair, balanced and understandable, and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Further information on the activities of the Committee is included in the Audit Committee report on pages 60 and 61. The arrangements by which staff may, in confidence, raise concerns about possible improprieties are described in the corporate responsibility statement on page 48. The arrangements were reviewed and updated and reissued to all employees across the Group in September 2016.

The Group believes that opportunity should be limited only by an individual's ability and drive, and the Committee considers diversity – including gender diversity – when recommending appointments to the Board.

The Nominations Committee

The Remuneration Committee

The Remuneration Committee comprises Lynn Carter, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis. It is chaired by Colin Keogh. The Committee operates according to Terms of Reference published on the Group's website and generally meets three times a year. The Remuneration Committee takes care to recognise and manage conflicts of interest when receiving views from Executive Directors or senior management, or consulting the Chief Executive about its proposals. No Executive is permitted to be present when the Committee discusses his or her remuneration. The Committee's role in remuneration is described in the remuneration section on page 65. The overall aim is to attract and retain high-calibre individuals and incentivise them to deliver long-term success for the Company. Executive Directors are subject to malus and clawback provisions in relation to their remuneration and the circumstances in which these would apply are described on page 82.

The Nominations Committee

The Nominations Committee comprises Lynn Carter, Robert Childs, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis. It is chaired by Robert Childs. It operates according to Terms of Reference published on the Group's website and meets as and when the Chairman determines appropriate, but at least once a year.

The Committee's role is to monitor the structure, size and composition of the Hiscox Ltd Board and, when Board vacancies arise, to nominate, for approval by the Board, appropriate candidates to fill those roles. The Group believes that opportunity should be limited only by an individual's ability and drive, and the Committee considers diversity – including gender diversity – when recommending appointments to the Board. The Committee has a policy in place to ensure that the candidate pool for each new appointment includes at least one female but does not consider it appropriate to set quotas for diversity.

More information on the Group's diversity polices and work during the year can be found in the corporate responsibility report on page 48.

During 2017, the external search consultancy firm JCA Group was commissioned to identify suitable candidates for the role of Independent Non Executive Director. Other than undertaking search assignments, JCA has no connection to the Group. The search brief was aimed at balancing the existing skills, diversity, experience, independence and knowledge on the Board. Each candidate was interviewed by the Chairman, the Chief Executive and the Group Human Resources Director. This process produced a shortlist and, from that shortlist, Michael Goodwin, Thomas Hürlimann and Costas Miranthias were nominated by the Committee. In July 2017, the Board approved these appointment on the recommendation of the Committee. The three new Non Executive Directors bring additional international experience and diversity to the Board. Michael Goodwin has experience in the Asia-Pacific markets, Thomas Hürlimann has experience working in Europe and Costas Miranthis has a background in Bermudian and US reinsurance operations. The Committee also has a role in considering the succession planning for Executive Directors and senior management, and a remit to make recommendations on future leaders.

The Investment Committee

The Investment Committee has oversight of the Group's investments and comprises Lynn Carter, Robert Childs, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan, Costas Miranthis, the Chief Executive and the Chief Financial Officer and is chaired by Robert Childs. At each meeting the Committee receives an update from the Chief Investment Officer on the performance of the Company's investment portfolio. It operates according to Terms of Reference and meets as and when the Chairman determines appropriate, but at least once a year.

The Conflicts Committee

The Group has a Conflicts Committee which comprises Lynn Carter, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis and is chaired by Bob McMillan, following the retirement of Ernst Jansen in November 2017. It meets as and when required. Conflicts of interest may arise from time to time because Syndicate 33, Syndicate 3624 and Syndicate 6104 are managed by a Hiscox-owned Lloyd's

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

Shareholder communications

Managing Agency. 27.4% of the Names on Syndicate 33 are third parties and 72.6% of Syndicate 33 is owned by a Hiscox Group company. 100% of Syndicate 3624 is owned by a Hiscox Group company. 100% of Syndicate 6104 is owned by third parties. The Committee serves to protect the interests of the third-party Syndicate Names. There is also potential for similar conflicts to arise as a result of the Group's insurance-linked securities (ILS) activity and the Committee serves to protect the interests of the external investors in the ILS funds.

The Risk Committee

The Risk Committee oversees the risk management framework and advises the Board on how best to manage the Group's risk profile. The Committee normally meets four times a year. The Committee comprises Lynn Carter, Robert Childs, Caroline Foulger, Michael Goodwin, Thomas Hürlimann, Colin Keogh, Anne MacDonald, Bob McMillan and Costas Miranthis. It is chaired by Lynn Carter. The risk management framework is described in the risk management section on pages 38 to 47.

The Group has a dedicated risk team led by the Chief Risk Officer, which reports to both the Risk Committee of the main Board and to those of the relevant subsidiary boards. At each of its meetings during the year the Risk Committee reviews and discusses a risk dashboard and critical risk tracker that monitor the most significant exposures to the business, including emerging risks and risks that have emerged but are evolving. The Risk Committee also engages in focused reviews, a recent topic being information cyber security. Stress tests and reverse stress tests (scenarios which could potentially give rise to business failure as a result of a lack of viability or capital depletion) are also performed and reported on to the Risk Committee. In light of these arrangements the Directors are satisfied that a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, has been carried out during the year.

The Executive Committee

The Executive Committee comprises Senior Executives and normally meets every six weeks. It makes recommendations to the Board and approves various matters (some of which may also require Board approval). The Committee approves senior appointments and remuneration outside the scope of the Remuneration Committee or Nominations Committee, approves operational policy, takes decisions on annual budgets, business plans, mergers and acquisitions, considers significant issues raised by management and approves exceptional spend within the limits established by the Board. Below this there are local management teams that drive the local businesses.

Performance evaluation

During the year, in line with the Code requirement, the Company undertook an evaluation of the Board and its Committee which was externally facilitated by Lintstock. The last external evaluation was carried out in 2014. Other than carrying out this evaluation, Lintstock has no other connection to the Group. The external evaluation involved one-to-one interviews with the Chairman and individual Directors. Most of the recommendations in the evaluation report were characterised as potential refinements to existing practices rather than material changes in approach.

The top priorities for the Board in 2018 were identified as supporting the Company in a changing environment, managing succession and transition, maximising the contribution of the Non Executive Directors and continuing with the in-focus session on certain areas of the business.

A written report of the evaluation was produced by the independent evaluator and circulated to all Directors. The key themes and the areas for further development were then discussed at a Board meeting in February 2018.

In addition to the external evaluation of the Board, the Senior Independent Director, Colin Keogh, met with the other Non Executive Directors without the Chairman present to appraise the performance of the Chairman. During the year, the Non Executive Directors also periodically met without the Executive Directors to discuss a wide range of issues concerning the Company.

No issues arose which would prevent the Chairman from recommending the re-appointment of a Non Executive Director. The Chairman met with the Chief Executive and the Chief Executive met with each of the Executive Directors, to discuss their performance over the year and to set targets for the year ahead.

Shareholder engagement

During the year the Company has engaged with its largest shareholders on proposed changes to the implementation of the remuneration policy as outlined on pages 76 to 84.

The views expressed by shareholders have been reported back to the Board through its committees. The Executive Directors communicate and meet

The three new Non Executive Directors bring additional international experience and diversity to the Board.

The Nominations Committee

directly with shareholders and analysts throughout each year, and do not limit this to the period following the release of financial results or other significant announcements. All Directors attended the Annual General Meeting in 2017.

The Company also commissions independent research on feedback from shareholders and analysts on a regular basis following the Company's results announcements. This research, together with the analysts' research notes, is copied to the Non Executive Directors in full. The Chairman attends a number of meetings with shareholders and analysts.

In addition, any specific items covered in letters received from major shareholders are reported to the Board. Major shareholders are invited to request meetings with the Senior Independent Director and/or the other Non Executive Directors. An alert service is available on www.hiscoxgroup.com to notify any stakeholder of new stock exchange announcements.

Accountability and internal control

Risk is at the heart of any insurance organisation and the management of risk is fundamental to the success of its business model. The principal risks facing this organisation are described on pages 41 to 47 together with an explanation of how they are managed or mitigated. These risks are managed dynamically in response to changing circumstances. For example, since last year, regulatory and legal risks has been separated from operational risk in recognition of its increasing pertinence across the Group. Emerging risks often influence our strategic approach, and are considered holistically as part of the wider risk landscape. These principal risks comprise the Group's 'critical risks', or exposures which materially threaten financial strength, severely impact business operations or significantly affect strategy. Critical risks often develop over a short time, or offer limited time to react, respond or recover, thereby requiring continuous focus. The Group is subject to regulatory requirements aimed at ensuring its continuing solvency and has established arrangements to assess and manage its principal risks continually. Risk and solvency assessments are conducted and the Group is required to assess the capital resources necessary to achieve its strategic business objectives over the coming year while remaining solvent, given its risk profile. This includes a forward-looking assessment which considers the business plan over a three-year period.

Notwithstanding the uncertainties arising from the risks summarised on pages 38 to 47 there is a statement at page 85 which confirms that for the 2017 financial year the Directors considered it appropriate to adopt the going concern basis of accounting. For the reasons explained above, the prospects of the Company are assessed over a longer period than the 12 months required by the Code. The Group calculates and projects forward the capital requirements of its regulators and those of the rating agencies to ensure that it will continue to meet any applicable solvency requirements and achieve the ratings it feels are necessary to conduct its business profitably. While the Board has no reason to believe the Group's business model will not be viable over a longer period, the period over which the Board considers it possible to form reasonable expectations as to its position is the three years to 31 December 2020. This corresponds to the forward-looking element of the Group's regulatory solvency assessments and allows reliance to be placed on the output from those assessments as well as the other arrangements described above. On the basis of its robust assessment of the principal risks, and on the assumption that they can continue to be managed or mitigated as described (and taking account of the most recent solvency assessments, together with the results of the stress tests and focused risk reviews), the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2020.

As part of our internal controls, the internal audit function provides objective and independent assurance and advice to the Audit Committee and the Board over the processes and systems of internal control and risk management operating in the Group. It achieves this through carrying out an annual risk-based programme of reviews, the scope of which considers an independent view of the risks facing the Group, as well as other factors such as strategic initiatives, emerging risks and change. It includes an annual review of the Group's compliance with the governance requirements emanating from its regulators and the Code. The findings of these internal audit reviews are reported to the Audit Committee.

Taken together the risk and internal audit activities described here enable the Board to monitor the Group's risk management and internal control systems.

Audit Committee report

Financial reporting

In relation to financial reporting, the primary role of the Audit Committee is to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and review significant financial reporting judgements contained within them. Working with both management and the external auditor, the Committee reviewed the appropriateness of the half-year and annual financial statements, concentrating on, among other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor;
- any correspondence from third parties in relation to our financial reporting.

To aid the review, the Committee considered the key judgements found in the financial statements by the Chief Financial Officer, as well as reports from the external auditor on the outcomes of its annual audit and half-year review. The Committee supported the auditor, PwC, in displaying the necessary professional scepticism its role requires. The primary areas of judgement considered by the Committee in relation to the 2017 Annual Report and Accounts were:

i) The reserving for insurance losses

As set out in our significant accounting policies on page 107, the reserving for insurance losses, in particular losses incurred but not reported, is the most critical estimate in the Company's consolidated balance sheet.

Meetings and attendance table

All Directors attended all meetings.

Director	Board Attended	Audit Committee Attended	Remuneration Committee Attended	Nominations Committee Attended
RS Childs	4/4	N/A	N/A	4/4
BE Masojada	4/4	N/A	N/A	N/A
HA Hussain	4/4	N/A	N/A	N/A
RC Watson	4/4	N/A	N/A	N/A
LA Carter	4/4	4/4	4/4	4/4
C Foulger	4/4	4/4	4/4	4/4
M Goodwin*	1/1	1/1	1/1	1/1
T Hürlimann*	1/1	1/1	1/1	1/1
C Keogh	4/4	4/4	4/4	4/4
A MacDonald	4/4	4/4	4/4	4/4
R McMillan	4/4	4/4	4/4	4/4
C Miranthis*	1/1	1/1	1/1	1/1

*Michael Goodwin, Thomas Hürlimann and Costas Miranthis were appointed as Directors with effect from 16 November 2017.

The Chief Actuary presented a Group reserving report to the Committee, which reviewed the approach taken by management when making their selection of reserving estimates. The Committee is satisfied with the judgements taken and the reporting and disclosure of these estimates.

During the year, a number of natural catastrophes occurred, with hurricanes Harvey, Irma and Maria (HIM) in particular causing devastation and significantly contributing to the largest annual catastrophe losses in history. The Committee received an update on the large loss processes that the Company conducts when significant events such as these arise. It is imperative that the Company can quickly, and to a reasonable degree of accuracy, estimate the gross and net losses arising from such events. The Committee is satisfied with the way that the process was conducted.

ii) The carrying value of deferred tax

As fully explained in note 2.22, a deferred tax asset has been established relating to operating losses arising in foreign subsidiaries. The recoverability of these assets is dependent upon the future profitability of these subsidiaries. The Committee reviewed the methodology used by management to assess the projected profitability and the carrying amount of the deferred tax asset and is satisfied with the methodology.

The Committee was briefed on the US Tax Bill H.R.1 and the introduction of a Base Erosion Anti-Abuse Tax. The Committee is satisfied of the approach being undertaken by the Group.

iii) The valuation of the investment portfolio

The Group reports its assets at fair value. As discussed in note 2.22, during periods of economic stress, the resulting

diminished liquidity means that estimating fair value involves a higher level of judgement. The Committee has evaluated the process used by management to estimate the fair value of the investment portfolio and is satisfied with their conclusions.

iv) Accounting for the defined benefit scheme
As explained in note 2.16, the Group recognises the present value of the defined benefit obligation, less the fair value of plan assets at the balance sheet date. The Audit Committee reviewed the report of the key judgements in the financial statements from the Chief Financial Officer and is satisfied that the assumptions used to measure the deficit are reasonable.

v) The recoverability of reinsurance assets
As as result of the hurricane activity in the year, the level of exposure to reinsurers has increased. The Committee received an update on the process to monitor the levels of recoverability and the regular contact with counterparties. The Committee is satisfied with the approach taken and the recoverability of those assets.

Finance Transformation Programme
The Company has embarked on a Finance Transformation Programme (FTP), which involves a wide-ranging transformation of the Finance IT systems and controls. The head of the FTP project provides a quarterly update to the Committee on the status of the project.

Functional currency reporting
The Company previously announced that the functional currency of Syndicate 33, Hiscox Dedicated Corporate Member Limited, Hiscox Syndicates Limited and Hiscox Capital Ltd and the reporting currency of the Group would change to US Dollars with effect from 1 January 2018. The Committee reviewed the proposed change to functional currency which will significantly reduce the volatility of the Group's earnings due to foreign exchange movements, in particular due to translation of foreign currency balances (noting that a significant majority of Group earnings are denominated in US Dollars). The proposed change will give investors and stakeholders a clearer understanding of Hiscox's performance over time, and The Committee was comfortable in recommending it to the Board.

> During the year an external evaluation of the Audit Committee was conducted by Lintstock. The performance of the Audit Committee was rated highly.
>
> External committee evaluation

UK Corporate Governance Code
In accordance with the 2016 UK Corporate Governance Code, the Board requested that the Committee advise on whether it believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee has provided such advice to the Board.

External auditor
PwC was appointed as the Group's auditor at the 2016 Annual General Meeting following a tender exercise that commenced in 2014 and was reported on in the 2015 Annual Report and Accounts.

External auditors are invited to attend all meetings of the Committee and it is the responsibility of the Committee to monitor their performance, objectivity and independence. The Committee discusses and agrees with the auditors the scope of the audit plan for the full year and the review plan for the interim statement. The Audit Committee receives reports from external auditors at regular intervals during the audit process, including those relating to the judgements outlined above. The external auditors provide reports at each Committee meeting on topics such as the control environment, key accounting matters and mandatory communications. Any contracts with PwC for non-audit services in excess of £50,000 must be approved by the Committee in advance. Approval will not be given for any contract that may impair the auditor's independence or objectivity. During the year, the value of non-audit services provided by PwC amounted to £200,000 (2016: £315,000). There were no circumstances in which PwC was engaged to provide services that might have led to a conflict of interests, nor does the Audit Committee consider the quantum of the fees impacts the independence of the auditors. To provide a forum in which any matters of concern could be raised in confidence, the Non Executive Directors met with the external and internal auditors throughout the year without the Executive Directors present.

Internal audit
The Group Head of Internal Audit is invited to attend all meetings of the Committee. It is the responsibility of the Committee to monitor and review the effectiveness of the Group's internal audit function and to consider reports prepared by internal audit on the effectiveness of systems of internal control.

Group Risk Officer
The Group Risk Officer is also invited to attend all meetings of the Committee. The Company has in place a Risk Committee and the items discussed by the two Committees can overlap, therefore the attendance of the Group Risk Officer aids in facilitating discussions relating to risk.

External committee evaluation
During the year an external evaluation of the Committee was conducted by Lintstock. The performance of the Committee was rated highly and a number of priorities were identified for 2018. These included developing the information that the Committee receives to become more succinct, in particular: highlighting key items in lengthy reports; making more use of private sessions to enable conversations without non-members present; and continuing to ensure that any issues or concerns are raised as early as possible.

Caroline Foulger
Chairman of the Audit Committee

#2. Be part of a strong culture that challenges the status quo

Remuneration

Letter from Chairman of the Remuneration Committee

Dear fellow Shareholder
At Hiscox we have a very clear strategy which aims to deliver strong returns across the insurance cycle and create sustainable long-term value for our shareholders. We want to employ and keep good people and provide them with the means and motivation to excel.

Although the remuneration structure has naturally evolved over time to reflect market and best practice, the simple framework and main design features have been in place for more than 15 years. The underlying philosophy is that base remuneration should be competitive but not excessive, and that outperformance will be rewarded through variable pay. We expect all employees to meet or exceed their non-financial targets such as delivering great service to customers, adhering to regulation and playing their part in building a business for the long-term. However, in order for executives to be eligible for a bonus, Hiscox must also deliver profits in excess of a specified return threshold.

Rewarding results and not effort is integral to Hiscox's high performance culture which, in the Board's opinion, is a key element of the Company's success. Hiscox has consistently delivered market-leading performance. Over the last five years ROE averaged 15%, well above the FTSE All-Share average of 9%. This performance has enabled the Company to distribute £742 million to shareholders since 2013, and deliver a total shareholder return of 280% – well above the FTSE All-Share of 74%. As a consequence Executive Directors and employees have been well rewarded over this period. We believe this philosophy works well for investors and employees.

The following principles define our approach to remuneration.

- Simple, and strictly results driven, with variable rewards only if Hiscox delivers profits in excess of a specified return threshold.
- Incentivise Executive Directors appropriately, over the short and long term.
- Align Executive Directors' interests with those of our shareholders, focusing on effective risk management, ROE, and net asset value growth which drives total shareholder return over time.

Listening to shareholders

The Remuneration Committee believes that the general remuneration structure continues to work well and therefore no changes to the remuneration policy approved by shareholders at the 2017 AGM are proposed this year. However, through conversations with shareholders during the last AGM season, some themes emerged on how we could improve our approach and the Committee is proposing to make a number of changes to how the policy will be implemented in the future.

1. Greater transparency over bonus outcomes

Although shareholders recognised that bonuses at Hiscox are closely aligned to performance, with performance below threshold leading to zero bonuses twice in the last ten years, we have taken on board requests for greater transparency over the bonus outcomes. In this year's remuneration report we provide more detail on bonus structure, including both retrospective and prospective disclosure of pre-tax return on equity (ROE) targets applicable to the bonus. In years where bonuses are paid, we will provide enhanced retrospective disclosure of individual performance factors used to determine outcomes.

2. Additional metrics for the Performance Share Plan (PSP)

In relation to the long-term PSP award, some shareholders requested alternative financial metrics be considered in addition to ROE, to avoid an overlap with the annual bonus scheme. Recognising that growth in net asset value is a key strategic goal, and is clearly linked to the delivery of long-term shareholder returns, we have replaced ROE with growth in net asset value plus dividends measured on a per share basis as the performance target for 2018 PSP awards. This approach provides a simple measure of growth which complements the ROE measure used for the short-term incentive and adds further diversity to the overall performance assessment. We have also reduced the vesting level for achievement of threshold performance from 25% of award to 20% of the maximum award.

3. Increased shareholding guidelines for senior executives

Hiscox has a long-standing culture of share ownership among senior executives, with the CEO and CUO currently owning shares valued at more than 7,000% and 2,000% of salary respectively. Whilst acknowledging this, some shareholders noted that the current minimum shareholding guidelines of 150% of salary could be increased in line with evolving market practice. Accordingly, we have increased this to 200%. The CFO was appointed in September 2016 and will continue to build his shareholding in Hiscox shares.

We have consulted with our major shareholders and received support for the direction we are taking.

The core function of the Remuneration Committee is to determine:

- the overall remuneration strategy, policy and cost for the Group;
- the levels and make up of remuneration for the Executive Directors;
- the awards of sizeable bonuses to individuals other than the Executive Directors; and
- the awards and operation of the Company's share plans, including the Performance Share Plan.

Performance and remuneration outcomes

Hiscox reserved US$225 million in catastrophe claims in 2017, a year which saw the highest insured losses ever. The Group was also impacted by foreign exchange losses of £63 million. However, a strong investment return and a good performance by Hiscox Retail meant we were able to deliver a profit of £30.8 million (2016: £354.5 million).

The significant contribution of the retail businesses continues to demonstrate the value of the business strategy and the overall balance sheet remains strong.

Hiscox also made good progress on a number of operational initiatives during 2017, including setting up a European carrier in response to Brexit, rolling out a core IT system in the UK, and investing over £50 million in marketing across the Group. Notwithstanding the excellent contributions made by a number of senior executives across the business, the Committee has once again stuck to the principles of rewarding for outputs and not inputs. ROE for the year was 1.5%, which was below the minimum threshold set. Therefore for 2017, no bonus will be payable to the three Executive Directors and for a significant number of senior staff. At a junior level we paid bonuses relative to personal performance.

Despite the challenges in 2017, the performance trend over the longer term is more positive. Based on a strong average ROE performance of 13.5% over the last three years (1.5% in 2017, 23.0% in 2016 and 16.0% in 2015), the long-term incentive plan (LTIP) award granted in 2015 will vest at 85% of maximum.

The net result of the above, is that the remuneration packages and single figure results reported for the three Executive Directors are significantly lower than in recent years. In 2017, the CEO's single figure reduced by 42% to £2.3 million.

Our remuneration approach seeks to encourage management to build a business over the long term, whilst delivering shareholder results in the short term. This is demonstrated by the value of vested PSPs being the material element of the CEO's remuneration, as illustrated on page 71.

Looking ahead

Overall, the Remuneration Committee is satisfied that our practices are aligned with the interests of shareholders and incentivise Directors appropriately over the short and long term.

Over the past year, we have listened to our shareholders and responded to feedback. During 2018, the Committee will pay close attention to any reforms implemented by the Government and will review our general approach following the publication of the revised Corporate Governance Code which is expected later in the year.

Looking further ahead we remain committed to the principles which have underpinned our remuneration strategy for a number of years.

We value the views of our shareholders and we will seek to maintain dialogue to ensure there is clarity regarding the decision-making of the Committee. We have refreshed our approach to disclosure this year and I trust that this expanded report provides you with a helpful summary of our approach to remuneration at Hiscox. I look forward to receiving your approval and hearing your feedback at our 2018 AGM.

Colin Keogh
Chairman of the Remuneration Committee

Remuneration summary

Key principles underpinning remuneration at Hiscox

The following principles have driven a culture of high performance at Hiscox, creating sustainable long-term value for shareholders.

- The remuneration policy must be simple, and strictly results-driven with variable rewards only if Hiscox delivers profits in excess of a specified return threshold.
- Remuneration should aim to incentivise Executive Directors appropriately over both the short and long term.
- Remuneration should align Directors' interests with our shareholders' by focusing on effective risk management, ROE, and net asset growth which drives total shareholder returns over time.

Remuneration outcomes for 2017

2017 was a historic year for catastrophes, and this impacted our financial results. While the Company's balance sheet remains strong and Hiscox is in a good position to capitalise on opportunities, incentive outcomes for 2017 will be significantly lower than in recent years.

No bonus for Executive Directors as ROE was below the threshold performance level.

Strong long-term performance with three-year average ROE of 13%. PSP awards granted in 2015 vested at 85% of maximum.

Single figure of £2,287,729 for CEO, is 42% lower than last year.

Summary of remuneration arrangements for 2018

A summary of the remuneration arrangements for Executive Directors is provided opposite, the full remuneration policy approved by shareholders at the 2017 AGM is detailed on pages 76 to 84.

As detailed in the Remuneration Committee Chairman's letter, certain changes have been made to implementation in response to shareholder feedback.

76-84

Base salary

Competitive but not excessive.

Benefits

Same as majority of employees.

Annual bonus

Aligned to shareholder interests.

Performance Share Plan (PSP)

Aligned to long-term shareholder interests and performance.

Shareholding guidelines

Aligned to shareholder interests.

Implementation policy for 2017	Implementation policy for 2018
Salaries for 2017: — BE Masojada: £599,625 — HA Hussain: £461,250 — RC Watson: £461,250 Salary increase of 2.5%, in line with average UK employee increase of 2.6%.	**Salaries for 2018:** — BE Masojada: £620,000 — HA Hussain: £477,000 — RC Watson: £477,000 Salary increase of 3.4%, the same as the average UK employee increase.
Benefits can include health insurance, life insurance, long-term disability schemes and participation in all-employee share schemes. Retirement benefits are delivered via a cash allowance of 10% of salary paid in lieu of the standard pension contribution, the same as most other employees in the organisation.	
Maximum opportunity: — up to 400% of salary for CEO and CFO; — up to 500% of salary for CUO. Over the past ten years, the average bonus to the CEO has been equivalent to c.40% of the current maximum opportunity. **Performance metrics:** combination of ROE and individual performance delivered against set objectives approved by the Board. **Deferral:** part deferral of amounts in excess of £50,000. **2017 actual as percentage of salary:** — BE Masojada: 0% — HA Hussain: 0% — RC Watson: 0%	**Maximum opportunity unchanged.** **Enhanced transparency of outcomes:** full disclosure of prospective ROE target ranges upon which bonus outcomes are determined. We will also provide enhanced disclosure around the individual performance factors used to support the determination of outcomes in future years.
Award subject to three-year performance period and two-year holding period. **Maximum opportunity:** 200% of salary for all Executive Directors. **Vesting subject to:** ROE performance hurdle. 25% vests for achievement of threshold performance, 100% for maximum. **2017 actual as percentage of salary:** — BE Masojada: 200% — HA Hussain: 186% — RC Watson: 186%	Awards continue to be released after five years. **Maximum opportunity unchanged.** **Vesting subject to:** net asset value per share growth plus dividends. 20% vests for achievement of threshold performance, 100% for maximum.
Share ownership guidelines of 150% of salary for all Executive Directors, after five years in role. **2017 actual:** — BE Masojada: 7,000% — HA Hussain: 60%* — RC Watson: 2,000% *HA Hussain was appointed in September 2016.	Share ownership guidelines increased to 200% of salary for all Executive Directors, after five years in role.

Annual report on remuneration 2017

This report explains how the remuneration policy was implemented for the financial year ending 31 December 2017 and how it will be applied for the 2018 financial year. PwC has been engaged to audit the sections in the annual report on remuneration 2017 below entitled 'Executive Director remuneration' and additional notes, 'annual bonus', 'long-term incentives', 'details of pension entitlements', 'Non Executive Director remuneration', and 'Directors' shareholding and share interest' to the extent that would be required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013.

Executive Director remuneration

	Year £	Salary £	Benefits £	Bonus[1] £	Long-term incentives[2] £	Retirement benefits £	Total remuneration £
BE Masojada	2017	595,969	9,720	0	1,629,670	52,370	2,287,729
CEO	2016	582,500	8,839	1,500,000	1,826,470	52,657	3,970,466
RC Watson	2017	458,438	9,367	0	1,218,482	41,674	1,727,961
CUO	2016	445,000	10,095	1,350,000	1,287,894	40,453	3,133,442
HA Hussain[3]	2017	458,438	7,128	0	481,349	41,674	988,589
CFO	2016	138,068	1,727	800,000	549,515	12,551	1,501,861

[1] A proportion of the bonus amount is deferred as set out on page 79 of the policy report.
[2] 2017 long-term incentives relate to performance share awards granted in 2015, or on joining in the case of HA Hussain, where the performance period ends on 31 December 2017. The award is due to vest on 13 April 2018. The amount also includes dividend equivalents accrued on this award. For the purpose of this table the performance share award has been valued based on the average share price during the three-month period to 31 December 2017 of 1392.63p. The 2016 long-term incentive award relates to performance share awards granted in 2014 where the performance period ends on 31 December 2016. The amount also includes dividend equivalents accrued on this award (HA Hussain's amount has been restated based on dividends received). For the purpose of this table the performance share award has been valued based on the share price on 17 March 2017 of 1082.00p.
[3] Appointed 12 September 2016. Details of his joining package are in the 2016 remuneration report.

Additional notes to the Executive Director remuneration table

Salary

Salary reviews take place in the first quarter of the year, effective from 1 April. As noted in last year's remuneration report, Executive Directors' salaries were increased by 2.5% from April 2017, which was in line with the average UK-based employee salary increase of 2.6%. Base salaries for Executive Directors from 1 April 2017 were as follows:

	April 2017
BE Masojada	£599,625
RC Watson	£461,250
HA Hussain	£461,250

Benefits

For 2017, benefits provided for Executive Directors included the Company healthcare scheme, life insurance, income protection insurance and critical illness policies as well as a Christmas gift hamper.

Variable pay

The Hiscox approach to remuneration places emphasis on alignment with performance and the shareholder experience. Therefore, a significant portion of total remuneration is delivered via incentive awards which can vary significantly based on the level of performance achieved. At Hiscox, variable pay consists of an annual bonus and share awards under the Performance Share Plan.

Although the remuneration structure has naturally evolved over time to reflect market and best practice, the simple framework has been in place for more than 15 years. The approach has reinforced the strong performance culture across the business as bonuses are only paid if results exceed the specified threshold, and not for effort alone.

Annual bonus

In response to shareholder feedback the Committee has sought to improve the transparency around the process for determining bonuses.

Structure of bonus

The bonus is structured so that there can be significant variability in outcomes, including years where no bonus is paid. The Remuneration Committee continues to believe that the most appropriate measure for the calculation of the bonus pool is pre-tax return on equity as it aligns management's interests most effectively with shareholders' interests and minimises the possibility of anomalous results. It enables the Committee to ensure that Executive Directors' and other employees' incentives are aligned with the Company's profit performance.

The Executive Directors, along with other employees across the Group, participate in profit-related bonus pools. These pools are calculated at a business unit level, and for the Group as a whole, on the basis of a set percentage of profits on achievement of a return on allocated equity.

Individual bonuses are based on the results of the relevant business area, individual performance and the size of the relevant bonus pool. The Remuneration Committee determines the bonuses to be paid to the Executive Directors based on judgement regarding the performance of the Group and a robust assessment of individual performance including adherence to specific risk management objectives. Bonuses are not paid if actual performance does not exceed the threshold, irrespective of individual performance.

In determining the size of the Executive Director bonuses, the Committee uses the following framework to support its decision-making process. When setting targets, the Committee seeks to motivate strong performance but in a manner which encourages sustainable behaviours in line with the defined risk appetite of the business:

Pre-tax return on equity	Indicative bonus range (% of max)
Less than RFR* +<5%	Nil
RFR +5% to RFR +12.5%	0-15%
RFR +10% to RFR +17.5%	15-40%
RFR +15% to RFR +22.5%	30-60%
RFR +20% to RFR +25%	50-70%
Greater than RFR +22.5%	60-100%

*Risk-free rate.

These ranges enable the Committee to exercise judgement and flex payments (including downwards) based on the delivery of specific objectives and context in which performance has been delivered.

Where performance is below the specified threshold, no bonus is paid. Over the last ten years, on the two occasions when the Group has delivered pre-tax ROE below the required threshold, no bonuses were paid to Executive Directors.

Junior and mid-level employees also participate in a personal performance bonus scheme. Awards under this scheme are based entirely on individual performance ratings. It is designed to ensure that junior and mid-level employees continue to be motivated to perform well, irrespective of overall Group performance. The benefit is up to 10% of salary.

Pay for performance – track record

The chart below shows the relationship between the Group ROE performance and bonus awards for Executive Directors over an extended period. It demonstrates the strong link between Company performance and bonus outcomes.

Executive Directors' cash incentives and return on equity

Outcomes for 2017

In assessing outcomes for 2017, the Remuneration Committee reviewed a number of objectives in areas of individual performance including:

- for CEO, BE Masojada: delivering the strategic plan (which in 2017 meant growing Hiscox Retail and Hiscox Re & ILS, while pulling back in the London Market), and embedding a culture of risk management across the organisation;
- for CUO, RC Watson: driving product innovation in key markets as well as ensuring risk limits and controls are followed;
- for CFO, HA Hussain: improving capital management and driving cost efficiencies across the business to realise economies.

Despite delivering good progress against these objectives, the pre-tax return on equity for 2017 was 1.7% (2016: 24.2%) and the resulting profit of £30.8 million was driven by an expensive year for catastrophe claims and large foreign exchange losses. In line with the assessment framework set out on page 69, no bonus pool was allocated to the Executive Directors as the final pre-tax ROE level for the year was below the specified threshold.

Hiscox is committed to providing clear disclosure regarding bonus outcomes. To the extent that bonuses are paid in future years, the Committee intends to provide suitable disclosure in future reports regarding the individual performance factors taken into account when determining individual annual bonus outcomes.

Long-term incentives

Performance Share Plan awards (PSP) where the performance period ends with the 2017 financial year

BE Masojada and RC Watson were granted awards under the PSP in 2015 for the three-year performance period 1 January 2015 to 31 December 2017. As outlined in the 2016 Directors remuneration report, HA Hussain was granted a buy-out award under his appointment terms which is based on performance over the same period.

The performance conditions for this award were set at the start of the performance period and are as follows:

	Required average post-tax ROE over three-year performance period %	Proportion of PSP vesting %
Minimum threshold vesting	Expected investment return + 5 = 7	25
Maximum vesting	Expected investment return + 12.5 =14.5	100
Straight-line vesting between these points		

Performance outcome

Based on the three-year average post-tax return on equity of 13.5%, the awards ending with the 2017 performance year will vest at 85% on 13 April 2018. Executive Directors will also receive dividend equivalents in the form of additional awards based on dividends paid during the three-year performance period. The estimated value of these awards is covered in the Executive Director remuneration table on page 68.

PSP awards granted during the 2017 financial year

On 7 April 2017, BE Masojada, RC Watson and HA Hussain were granted awards under the PSP.

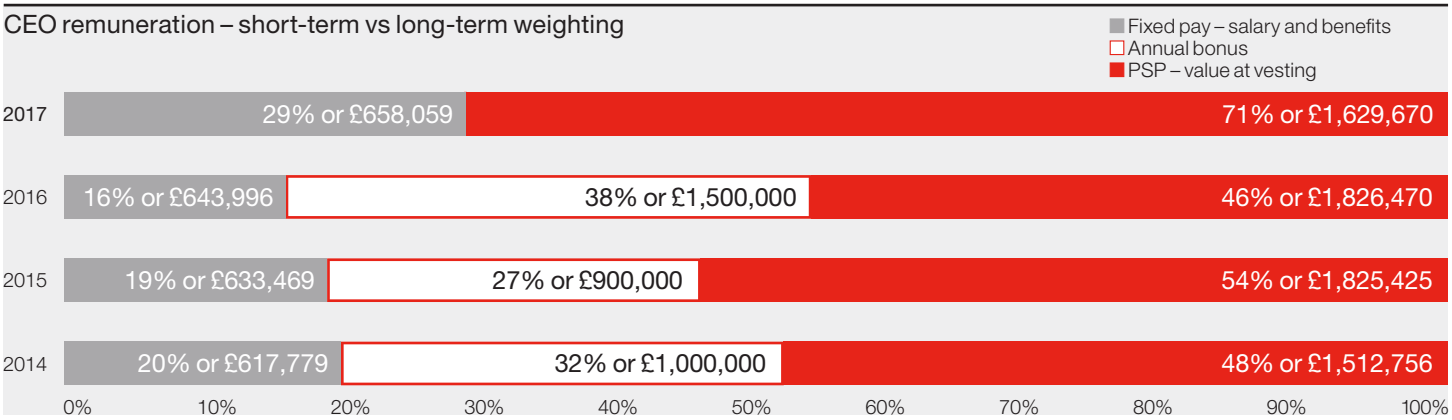
	Number of awards granted	Market price at date of grant	Market value at date of grant
BE Masojada	105,000	11.19	1,174,950
RC Watson	75,000	11.19	839,250
HA Hussain	75,000	11.19	839,250

The performance conditions for these awards are as follows:

	Required average post-tax ROE over three-year performance period %	Proportion of PSP vesting %
Minimum threshold vesting	Expected investment return + 5 = 7	25
Maximum vesting	Expected investment return + 12.5 =14.5	100

The ROE targets are set in order to outperform investment expectations and are reviewed annually to ensure they continue to motivate and drive the right behaviours within the management team.

Executive Directors will be required to retain any shares vesting (net of tax charges) at the end of the performance periods for a further two years (five years post the start of the performance period).



Balance between pay elements

The chart above shows the balance between fixed pay, annual variable pay and long-term variable pay for the CEO over the past four years. The value of vested PSPs has been the material element of the CEO's remuneration. Good performance and share price appreciation has increased the value of PSPs over time. For example, the PSP award with a performance period ending in 2016 had a value at grant of £1,082,640 and at vesting was £1,826,470.

Details of pension entitlements

All open Hiscox retirement schemes are based on defined contributions. BE Masojada, RC Watson and HA Hussain hold lifetime allowance protection certificates and have therefore opted out of the Company pension scheme. They receive a 10% cash allowance (less an offset for the employer's UK National Insurance liability) in lieu of the standard employer pension contribution. The value of this benefit is shown in the Executive Director remuneration table on page 68.

The table below details the legacy entitlements from the defined benefit pension plan. There are no further accruals under this plan.

Pensions	Normal retirement age	Increase in accrued pension during the year £000	Total accrued annual pension at 31 December 2017 £000	Increase in accrued pension net of inflation £000	Transfer value of accrued pension at 31 December 2016 £000	Transfer value of accrued pension at 31 December 2017 £000	Increase/ (decrease) in transfer value of accrued pension during the year £000
BE Masojada	60	2	52	–	1,961	2,073	112
RC Watson	60	6	166	–	6,604	6,978	374

In the event of early retirement the Directors receive a reduced pension to reflect early payment in accordance with the scheme rules.

Non Executive Director remuneration

The table below sets out the remuneration received by the Non Executive Directors for the financial years ending 31 December 2017 and 31 December 2016.

	2017					2016				
	Ltd Board fee £	Ltd Committee fee £	Subsidiary Board fee £	Benefits £	Total Hiscox fees £	Ltd Board fee £	Ltd Committee fee £	Subsidiary Board fee £	Benefits £	Total Hiscox fees £
L Carter	65,167	31,808	–	–	96,975	67,742	32,052	–	–	99,794
RS Childs	140,000	–	140,000	11,203*	291,203	140,000	–	140,000	9,430*	289,430
C Foulger	65,167	34,135	86,126	–	185,428	67,742	36,356	83,984	–	188,082
M Goodwin**	8,146	3,297	–	–	11,443	–	–	–	–	–
T Hürlimann**	8,146	3,297	–	–	11,443	–	–	–	–	–
ER Jansen†	57,198	26,556	–	–	83,754	67,742	31,452	–	–	99,194
C Keogh	77,580	32,196	–	–	109,776	80,645	33,468	–	–	114,113
A MacDonald	65,167	26,377	–	–	91,544	67,742	27,419	–	–	95,161
R McMillan	65,167	26,877	62,064	–	154,108	67,742	27,419	64,516	–	159,677
C Miranthis**	8,146	3,297	–	–	11,443	–	–	–	–	–
G Stokholm†	57,198	23,151	46,000	–	126,349	67,742	27,419	69,387	–	164,548

*Benefits include life assurance and healthcare.
**Appointed effective 16 November 2017.
†Resigned effective 16 November 2017.
2017 fees that were paid in USD have been converted to GBP using an exchange rate of 1.289. 2016 fees were converted using 1.24.

Non Executive Director fees were reviewed in 2018, having been unchanged for the last three years. RS Childs' fee increased by 3.6%. The other Non Executive Directors' basic fees increased by 2.4%. The Remuneration Committee Chair fee increased by US$2,000 to US$17,000 and member fees by US$1,000 to US$8,500. The Risk Committee fees increased by US$2,000 (Chair US$17,000, member US$10,000).

Directors' shareholding and share interests

We believe that senior managers within Hiscox should be aligned with Hiscox shareholders by owning a minimum number of Hiscox shares. Formal shareholding guidelines are in place and were increased in 2017 to reflect our long-standing culture of share ownership among Executives. Executive Directors are now expected to own Hiscox shares valued at 200% of salary (previously 150%) within five years of becoming an Executive Director. BE Masojada and RC Watson have over 20 and 30 years' service respectively and as such their shareholdings far exceed the guidelines. HA Hussain was appointed to the Board in September 2016 and will be expected to a build a shareholding in the Company over the course of his tenure. There have been no changes in the Director share interests between 31 December 2017 and 26 February 2018.

Directors	31 December 2017 6.5p ordinary shares number of shares beneficial	31 December 2016 6.5p ordinary shares number of shares beneficial
Executive Directors		
BE Masojada	3,064,702	3,212,777*
RC Watson	691,973	700,000
HA Hussain	19,700	–
Non Executive Directors		
L Carter	–	–
RS Childs	1,379,610	1,511,866
C Foulger	8,077	7,894
M Goodwin	4,950	–
T Hürlimann	–	–
C Keogh	17,016	11,242
A MacDonald	22,185	14,450
R McMillan	–	–
C Miranthis	–	–

*Restated to include 1,744 shares.

Performance Share Plan (PSP)

The interests of Executive Directors under the PSP are set out below:

	Number of awards at 1 January 2017	Number of awards granted	Number of awards lapsed	Number of awards exercised	Number of awards at 31 December 2017	Market price at date of grant £	Market price at date of exercise £	Date from which released
HA Hussain	50,787	–	–	–	50,787	10.46†		17-Mar-17
	39,709	–	–	–	39,709	10.46†		13-Apr-18
	75,000	–	–	–	75,000	10.46†		08-Apr-19
	–	75,000	–	–	75,000	11.19		07-Apr-20
BE Masojada	156,000	12,450*	–	–	168,450	6.94		17-Mar-17
	130,000	–	–	–	130,000	8.82		13-Apr-18
	120,000	–	–	–	120,000	9.56		08-Apr-19
	–	105,000	–	–	105,000	11.19		07-Apr-20
RC Watson	110,000	8,779*	–	(108,779)	10,000	6.94	11.22 - 11.34	17-Mar-17
	97,200	–	–	–	97,200	8.82		13-Apr-18
	82,800	–	–	–	82,800	9.56		08-Apr-19
	–	75,000	–	–	75,000	11.19		07-Apr-20
Total	861,496	276,229	–	(108,779)	1,028,946			

*Accrued dividends.
†Grants made on 12 September 2016. Details of HA Hussain's joining package are in the 2016 remuneration report.

Share options

The interests of Executive Directors under the Sharesave Schemes are set out below:

	Number of options at 1 January 2017	Number of options granted	Number of options lapsed	Number of options exercised	Number of options at 31 December 2017	Exercise price* £	Market price at date of exercise £	Date from which exercisable	Expiry date
HA Hussain	–	2,081	–	–	2,081	8.648		1-Jun-20	30-Nov-20
BE Masojada	1,649	–	–	(1,649)	–	5.456	12.34	1-Jun-17	30-Nov-17
	–	1,040	–	–	1,040	8.648		1-Jun-20	30-Nov-20
RC Watson	3,299	–	(3,299)	–	–	5.456		1-Jun-17	30-Nov-17
Total	4,948	3,121	(3,299)	(1,649)	3,121				

*The Scheme offers a three-year savings contract where the excise price of the options are calculated based on an average share price over five days prior to the invitation date, with a 20% discount.

External Non Executive Directorships

No external appointments may be accepted by an Executive Director where such appointment may give rise to a conflict of interest. The consent of the Chairman is required in any event. During the year BE Masojada held Directorships on the Board of the Association of British Insurers, Bajka Investments (Pty) Ltd, Heptagon Assets Ltd, Heptagon BIR Ltd and Pool Reinsurance Company Limited. He was not remunerated for his services. RC Watson held a Directorship at White Oak Underwriting Agency Limited. He was not remunerated for his services.

Table of historic data

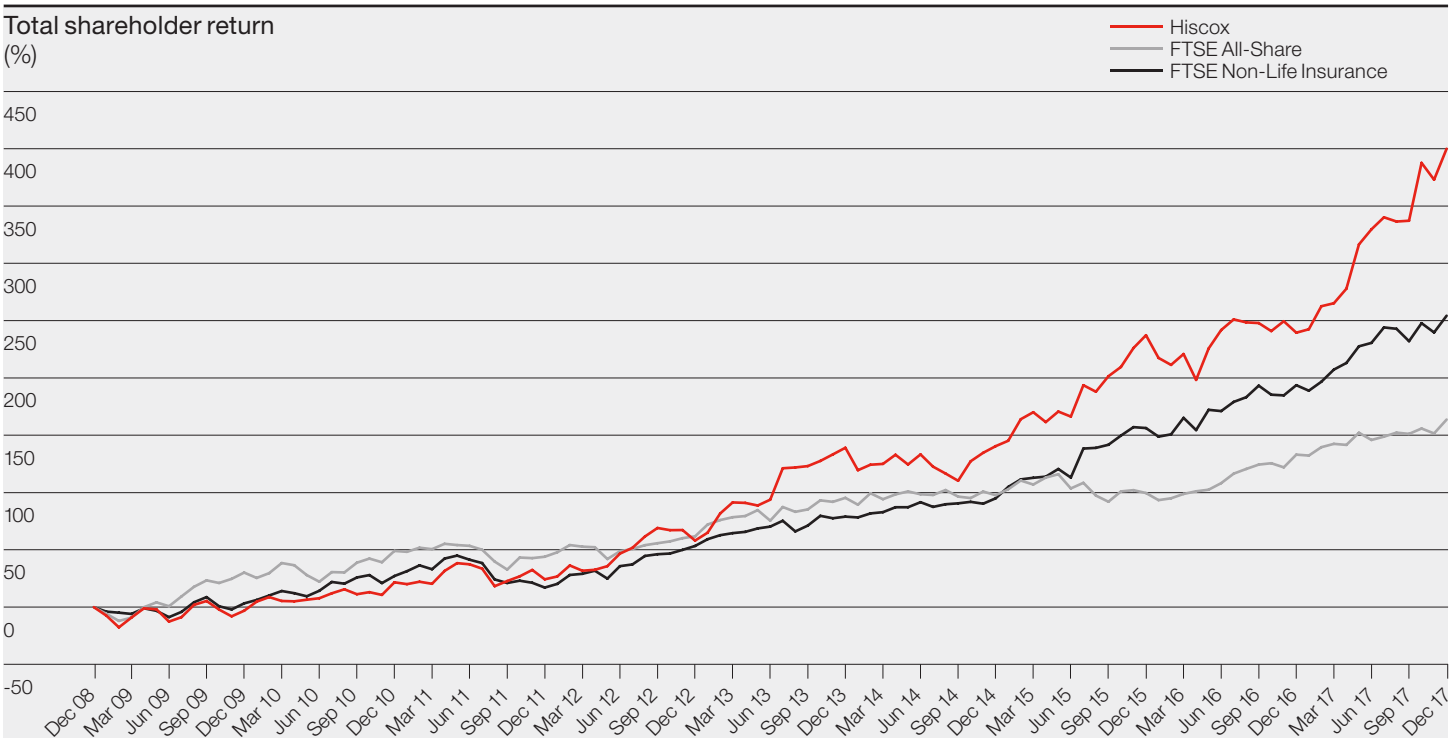
The table below shows the single total remuneration figure for the Chief Executive for the past nine years.

	2009	2010	2011	2012	2013	2014	2015	2016	2017
CEO single figure of remuneration (£)	2,536,943	1,759,123	1,509,248	1,938,759	2,341,737	3,130,535	3,358,894	3,970,466	2,287,729
Annual bonus as percentage of maximum opportunity*	71	29	0	46	51	44	39	64	0
PSP vesting as percentage of maximum opportunity	100	100	85	39	53	100	100	100	85

*Prior to 2015 annual bonus was operated on an uncapped basis. In order to facilitate comparison, the current 400% salary cap has been applied retrospectively.

Total shareholder return performance

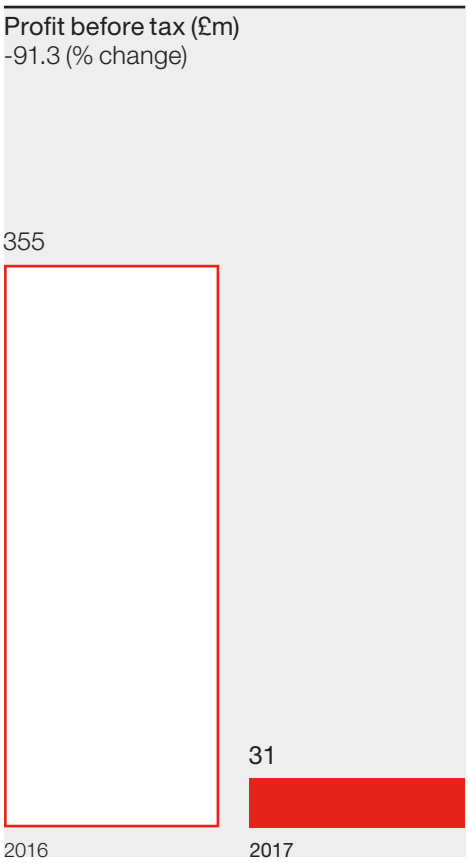
The graph below shows the total shareholder return of the Group against the FTSE All-Share and FTSE Non-Life Insurance indices. These reference points have been shown to assess performance against the general market and industry peers. Between December 2008 and 2017, Hiscox delivered total shareholder return of 400% – well above the FTSE All-Share and FTSE Non-Life Insurance indices.

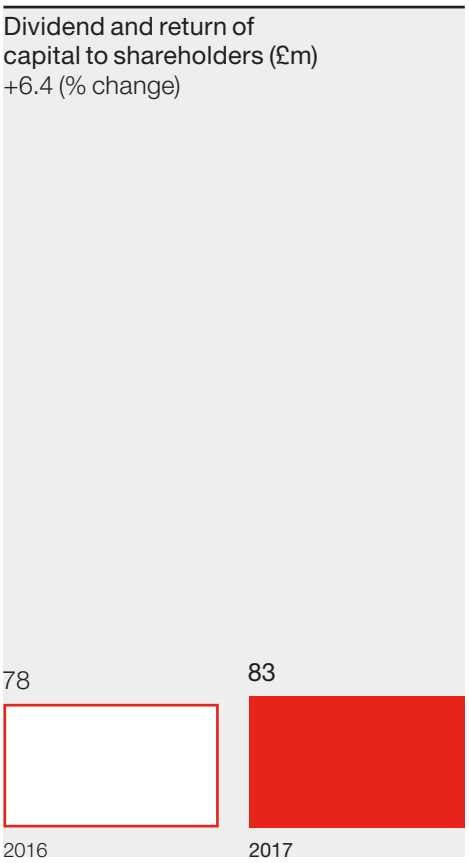


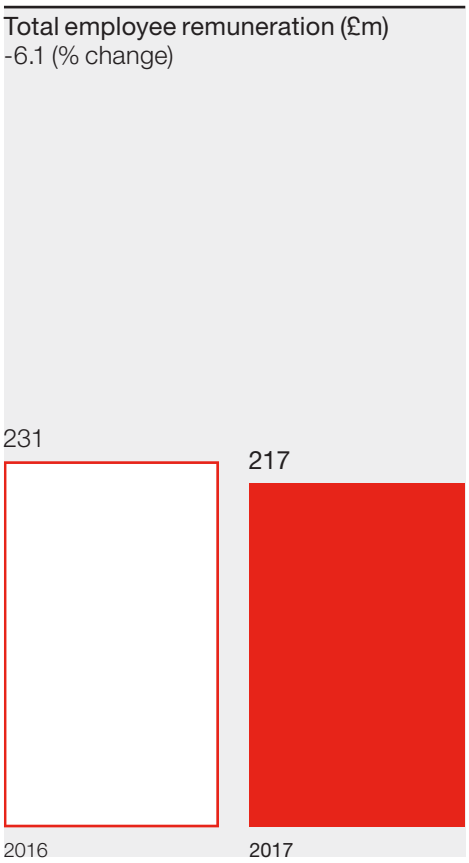
Percentage change in remuneration of Director undertaking the role of Chief Executive

The table below shows the percentage change in base salary, benefits and annual bonus of the Chief Executive between the 2016 and 2017 financial years. We have chosen UK-based employees as the comparator group for base salary and benefits as this is where the Chief Executive is based and this allows for the closest comparison in terms of salary increases which take into account country inflation and the benefits package provided. For bonus we have used Group employees as the comparator. The percentage change is based on employees who were employed and eligible for a salary review and bonus in both financial years.

	% change 2016 to 2017		% change 2015 to 2016	
	CEO	Employee	CEO	Employee
Base salary	2.5	3.0	1.7	3.0
Benefits (including retirement benefits)	3.4	8.0	1.3	2.9
Bonus	(100.0)	(77.8)	66.7	27.1







Relative importance of the spend on pay

The charts above show the relative movement in profit, shareholder returns and employee remuneration for the 2017 and prior financial year. Shareholder return for the year incorporates the distribution made in respect of that year. Employee remuneration includes salary, benefits, bonus, long-term incentives and retirement benefits. Profit is the ultimate driver behind the performance metrics of the bonus and long-term incentive schemes. Profit before tax can be located on page 96.

Remuneration for the wider workforce

The Remuneration Committee is mindful of pay practices in the wider Group, and during the course of the year is kept informed of trends and changes in practices for the wider employee population.

To support the Committee's deliberations, these updates include reference to a range of metrics including forecast and actual bonus pool analysis, levels of share plan participation and pay ratios between Executives and average employees. The Committee recognises that this is an area where new legislation or regulation may be published in the coming months which may impact reporting in future years. The Committee intends to comply with any new requirements applicable to UK companies in future years.

Implementation of remuneration policy for 2018

Salary

Annual salary reviews take effect from April each year. For 2018, salaries for Executive Directors will be increased by 3.4% in line with other UK-based employees. Salaries from April 2018 will be as follows:

	April 2018 £
BE Masojada	620,000
RC Watson	477,000
HA Hussain	477,000

Annual bonus
The maximum opportunity and overall bonus structure for the year ending 31 December 2018 will remain unchanged.

In determining the size of the Executive Director bonuses, the Committee uses the following framework to supports its decision making process:

Pre-tax return on equity	Indicative bonus range (% of max)
Less than RFR* +<5%	Nil
RFR +5% to RFR +12.5%	0-15%
RFR +10% to RFR +17.5%	15-40%
RFR +15% to RFR +22.5%	30-60%
RFR +20% to RFR +25%	50-70%
Greater than RFR +22.5%	60-100%

*Risk-free rate.

These ranges enable the Committee to exercise judgement and flex payments (including downwards) based on the delivery achievement of specific objectives and context in which performance has been delivered. Individual bonuses are determined based on the results of the relevant business area, individual performance and the size of the relevant bonus pool. The Remuneration Committee determines the bonuses to be paid to the Executive Directors based on judgement regarding the performance of the Group and a robust assessment of individual performance. In our 2018 Directors remuneration report, we will provide further disclosure of the individual performance factors considered for the determination of outcomes.

Long-term incentives
For 2018, PSP awards will be measured against growth in net asset value (NAV) plus dividends, measured on a per share basis. The Committee deems growth in NAV to be the most appropriate metric for the PSP given that our strategy is built around the objective of generating long-term shareholder value and NAV is aligned with shareholder value creation.

Awards will be subject to growth in net asset value plus dividends measured on a per share basis.

	Growth in net asset value plus dividend measured on a per share basis %	Proportion of PSP vesting %
Minimum threshold vesting	RFR + 6 = 7	20
Maximum vesting	RFR + 14 = 15	100
Straight-line vesting between these points		

The maximum opportunity for all Executive Directors will be 200% of salary. We expect that risk-free rate (RFR) will not drop below 1% before the Hiscox remuneration policy is next due for renewal in 2020.

Membership of the Remuneration Committee
The Committee members at 31 December 2017 were C Foulger, R McMillan, L Carter, A MacDonald, T Hürlimann, M Goodwin, C Miranthis and C Keogh (Chairman). No Director or Committee member was involved in determining their own remuneration during the year.

External advisors
The Committee received independent advice from Deloitte, an independent firm of remuneration consultants appointed by the Committee in 2013, following a competitive tender process. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under its code of conduct in relation to executive remuneration consulting in the UK. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance and institutional investor views and on the development of the Company's incentive arrangements. Total fees for advice provided to the Committee during the year were £57,150. The Committee regularly reviews advice received and is satisfied it has been objective and independent. During the year Deloitte also provided the Company with other tax and consulting services.

Statement of shareholder voting
At the AGM on 18 May 2017, the Directors' annual report on remuneration received the following votes from shareholders:

	Remuneration policy	Annual report on remuneration
For	177,072,418	164,615,533
%	84.46	80.74
Against	32,579,285	39,277,567
%	15.54	19.26
Withheld	1,016,024	6,774,627
Total votes	210,667,727	210,667,727

Remuneration policy

Hiscox has a forward-looking remuneration policy for its Board members. The policy was last approved at the 2017 AGM and is replicated below. For clarity we have updated the content to reference how arrangements will be implemented in the coming year; these are shown in italics. The original policy can be viewed in the 2016 Annual Report and Accounts at www.hiscoxgroup.com.

Future policy table

Executive Director remuneration

Base salary	
Purpose and link to strategy	Fixed pay elements enable the Company to be competitive in the recruitment market when looking to employ individuals of the calibre required by the business.
Operation	Base salary is normally reviewed annually taking into account a range of factors including inflation rate movements by country, relevant market data and the competitive position of Hiscox salaries by role. Individual salaries are set by taking into account the above information as well as the individual's experience, performance and skills, increases to salary levels across the wider Group and overall business performance. By exception an individual's salary may be amended outside of the annual review process.
Maximum potential value	The salaries for current Executive Directors are set out on page 68. Executive Directors' salary increases will normally be in line with overall employee salary increases in the relevant location. Increases above this level may be considered in other circumstances as appropriate (for example, address market competitiveness, development in the role, or a change in role size, scope or responsibility).
Performance metrics	Individual and business performance is taken into account when setting salary levels.
Application to broader employee population	Process for review of salaries is consistent for all employees.

Future policy table

Executive Director remuneration

Benefits (including retirement benefits)	
Purpose and link to strategy	Employee benefits enable the Company to be competitive in the recruitment market when looking to employ individuals of the calibre required by the business.
Operation	Retirement benefits These vary by local country practice but all open Hiscox retirement schemes are based on defined contributions or an equivalent cash allowance. This approach will be generally maintained for any new appointments other than in specific scenarios (for example, local market practice dictates other terms). For current Executive Directors, a cash allowance of up to 10% of salary is paid in lieu of the standard employer pension contribution. Certain Board members retain legacy interests in closed defined benefit schemes. However, there is no entitlement to any further accrual under these plans. Other benefits Benefits are set within agreed principles but reflect normal practice for each country. Hiscox benefits include, but are not limited to: health insurance, life insurance, long-term disability schemes and participation in all-employee share plans such as the Sharesave Scheme. For new hires and changes in role, the Committee may provide reasonable additional benefits based on the circumstances (for example, travel allowance and relocation expenses).
Maximum potential value	Set at an appropriate level by reference to the local market practice and reflecting individual and family circumstances.
Performance metrics	None.
Application to broader employee population	Executive Directors' benefits are determined on a basis consistent with all employees.

Future policy table
Executive Director remuneration

Annual bonus

Purpose and link to strategy	To reward for performance against key objectives and achievement of financial results over the financial year. Provides a direct link between reward and performance. To provide competitive compensation packages.
Operation	Executive Directors participate in profit-related bonus pools. Bonus pools are calculated at a business unit level and for the Group as a whole on the basis of Group financial results. For 2018, the bonus pool will be funded by a set percentage of profits on achievement of a hurdle rate of ROE. The bonus for prior years was determined on a similar basis. Further detail is set out on page 69. For Executive Directors, individual allocations from the pool are determined by the Remuneration Committee based on a judgement of various factors including: — size of the Group bonus pool; — results of business area (where relevant); and — individual performance. Amounts are paid in accordance with the bonus deferral mechanism described opposite. Bonus awards are non-pensionable. Bonus awards are subject to malus and clawback provisions as described in the notes to the policy table on page 82.
Maximum potential value	The maximum bonus opportunity for the Executive Directors will be as follows: — CEO and CFO – 400% of salary; — CUO – up to 500% of salary. The Company has a robust track record of paying bonuses which are proportionate to financial results, see page 69 of this report for further details. Where performance is deemed to be below a predetermined hurdle, payouts will be nil. The total of individual bonuses paid to Executive Directors for a year will not normally exceed 15% of the total pool. If the number of Executive Directors increased in the future, this percentage would be adjusted as required.
Performance metrics	Performance is measured over one financial year. Bonus pools are determined based on financial performance, therefore this is the main determinant of overall bonus payouts. A hurdle of financial performance is set annually. Performance above this hurdle is rewarded and where performance falls below this hurdle, payouts will be nil.
Application to broader employee population	The operation of the annual incentive is consistent for the majority of employees across the Group. Arrangements tailored to roles and responsibilities are operated for selected positions. Bonuses for more junior employees are calculated using a more formulaic approach. Further details are set out on page 69.

Future policy table
Executive Director remuneration

Bonus deferral

Purpose and link to strategy	Retention of employees. Facilitate and encourage share ownership in order to align senior employees with Hiscox shareholders.
Operation	Larger bonuses are normally deferred over a three-year period and paid subject to continuing service as explained in the table below. Deferral points are determined based on the currency in which the Executive Director's salary is paid and are normally as follows:

Bonus of £50,000, €75,000, US$100,000, and below	Paid shortly after the end of the financial year in which the bonus was achieved.
Bonus above £50,000 and below £100,000 Bonus above €75,000 and below €150,000 Bonus above US$100,000 and below US$200,000	£50,000, €75,000, US$100,000, paid shortly after the end of the financial year in which the bonus was achieved. Balance of bonus split 50% to be paid after year two (24 months after the start of the bonus year), and 50% after year three (36 months after the start of the bonus year).
Bonus above £100,000, €150,000, US$200,000	50% of bonus paid shortly after the end of the financial year. Balance of bonus split 50% to be paid after year two, and 50% after year three.

Participants are able to (subject to any local tax/legal/regulatory restrictions) draw deferred bonuses early in certain circumstances in order to enable the acquisition of Hiscox shares. Such amounts remain subject to continued employment.

The Remuneration Committee can agree to early payment of deferred bonuses to Executive Directors on an exceptional basis at their discretion.

Deferred awards are subject to malus and clawback provisions as described in the notes to the policy table on page 82.

Maximum potential value	N/A.
Performance metrics	N/A.
Application to broader employee population	Approach is consistent for all employees across the Group who are awarded a sizeable bonus.

Future policy table
Executive Director remuneration

Performance Share Plan (PSP)	
Purpose and link to strategy	To motivate and reward for the delivery of long-term objectives in line with business strategy. To encourage share ownership among participants and align interests with shareholders. To provide competitive compensation packages for senior employees.
Operation	Awards are granted under the PSP approved by shareholders in 2016 (with previous awards granted under the equivalent plan implemented in 2006). All awards are governed by the rules of the relevant plan under which they are granted. Share awards (typically structured as either conditional awards or nil cost options) are made at the discretion of the Remuneration Committee. Awards normally vest after a three-year period subject to the achievement of performance conditions. An additional holding period, which is currently two years, may also apply. Awards are generally subject to continued employment, however awards may vest to leavers in certain scenarios (for example, 'good' leaver circumstances). Dividends (or equivalents) may accrue on vested shares prior to release. Awards are subject to malus and clawback provisions as described in the notes to the policy table on page 82.
Maximum potential value	Maximum annual grant of up to 200% of salary in respect of any one financial year.
Performance metrics	The performance conditions for awards are set to align with the long-term objectives of the Company. The Committee reviews the targets prior to each grant to ensure that they remain appropriate. Currently, the performance measures are linked to the achievement of ROE performance over an agreed hurdle, during the performance period. *The 2018 PSP awards will be measured against growth in net asset value plus dividends measured on a per share basis. Further details are set out on page 75.* For delivery of the threshold hurdle up to 25% of the relevant award will vest. For full vesting, the stretch hurdle needs to be met in full. Usually, there will be straight-line vesting for performance between the threshold and stretch hurdle. *The minimum threshold vesting will be 20%, rather than 25%, for 2018 PSP awards.* Where the Committee considers it appropriate to do so, under the plan rules the Committee is able to modify performance criteria for outstanding awards on the occurrence of certain events (for example, major disposal).
Application to broader employee population	Participation in this plan is restricted to Executive Directors and other senior individuals.

Future policy table
Executive Director remuneration

Shareholding guidelines	
Purpose and link to strategy	To ensure Executive Directors are aligned with shareholder interests.
Operation	Within five years of becoming an Executive Director, individuals will normally be expected to own Hiscox shares valued at 150% of salary. *In 2018 this is increasing to 200%.*
Maximum potential value	N/A.
Performance metrics	N/A.
Application to broader employee population	Executive Directors are required to hold more shares than other senior managers.

Future policy table
Non Executive Director remuneration

General approach	The total aggregate fees payable are set within the limit specified by the Company's Bye-laws. The fees paid are determined by reference to the skills and experience required by the Company as well as the time commitment associated with the role. The decision-making process is informed by appropriate market data. Non Executive Directors are not eligible for participation in the Company's incentive plans. Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed to Non Executive Directors. Non Executive Directors are included on the directors and officers' indemnity insurance. The current fees payable to Non Executive Directors are set out on page 71.
Chairman	The Chairman typically receives an all-inclusive fee in respect of the role. In addition to his fees the Chairman may be provided with incidental benefits (for example, private healthcare and life assurance). The remuneration of the Chairman is determined by the Committee.
Non Executive Directors	Non Executive Directors receive an annual fee in respect of their Board appointments together with additional compensation for further duties (for example, Board Committee membership and chairmanship). The fees for the Non Executive Directors (excluding the Chairman) are determined by the Chairman.

The annual bonus and share plan awards to Executive Directors are intended to be closely aligned with the Company's short-term and long-term objectives.

Performance measure targets and target setting

Notes to the policy table

Performance measure targets and target setting

The performance targets for the annual bonus and share plan awards to Executive Directors are intended to be closely aligned with the Company's short-term and long-term objectives. The intention is to provide a direct link between reward levels and performance.

The Company operates a bonus pool approach for the annual incentive. This ensures that both individual bonus levels and overall spend are commensurate with the performance of the Company. The Committee applies judgement based on a range of factors (as described in the table on pages 76 to 81) to ensure that outcomes for Executive Directors are based on performance in-the-round rather than on a formulaic outcome. The profit pool approach currently used ensures that overall bonus amounts are aligned to the performance of the Company and remain appropriate and affordable.

The PSP performance measures are intended to motivate and reward to deliver long-term Company success. The Committee considers performance metrics and targets prior to the grant of each to ensure that these remain suitable and relevant. Recent awards have been based on ROE performance – the key indicator of the Company's long-term success.

Detailed provisions

The Committee may make minor changes to this remuneration policy to aid in its operation or implementation without seeking shareholder approval (for example, for regulatory or administrative purposes), provided that any such change is not to the material advantage of Directors. For the avoidance of doubt the Committee may continue to operate the share awards under the 2006 and 2016 Performance Share Plan in accordance with the rules (for example, the treatment of awards in the context of a change of control or other forms of corporate restructure).

The Committee may continue to satisfy remuneration payments and payments for loss of office (including the exercise of any discretions available to the Committee in connection with such payments) where the terms of the payment were: i) agreed before 15 May 2014 when the first approved remuneration policy came into effect; ii) agreed before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' remuneration policy in force at the time they were agreed; or iii) agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, such payments include the Committee satisfying awards of variable remuneration.

Malus and clawback provisions

In respect of unvested compensation, specifically deferred bonuses and unvested Performance Share Plan (PSP) awards, the Committee may, in its absolute discretion, determine at any time prior to the vesting of an award to reduce, cancel or impose further conditions in the following circumstances:

- a retrospective material restatement of the audited financial results of the Group for a prior period error in accordance with IAS 8;
- actions of gross misconduct, including fraud, by the participant or their team leading to the Company suffering significant reputational or financial damage.

For awards granted in respect of 2015 and future years, in the circumstances described above, annual bonus and PSP awards granted to Executive Directors shall also be subject to clawback provisions for up to two years after the end of the relevant performance period.

Recruitment policy

A new hire will ordinarily be remunerated in accordance with the policy described in the table on the previous pages. In order to define the remuneration for an incoming Executive Director, the Committee will take account of:

- prevailing competitive pay levels for the role;
- experience and skills of the candidate;
- awards (shares or earned bonuses) and other elements which will be forfeited by the candidate;
- transition implications on initial appointment.

The Committee will always aim to provide a remuneration package which is consistent with the overall Hiscox approach.

A 'buy-out' payment/award may be necessary in respect of arrangements forfeited on joining the Company. The size and structure of any such buy-out arrangement will take account of relevant factors in respect of the forfeited terms including potential value, time horizons and any performance conditions which apply. The objective of the Committee will be to suitably limit any buy-out to the commercial value forfeited by the individual.

On initial appointment (including interim Director appointments) the maximum level of variable remuneration (excluding any buy-outs) is capped at the maximum level set out in the policy table on pages 76 to 81. Within these limits and where appropriate the Committee may tailor the award (for example, time frame, form, performance criteria) based on the commercial circumstances. Shareholders would be informed of the terms for any such arrangements. Ordinarily, it would be expected that the package on recruitment would be consistent with the usual ongoing Hiscox incentive arrangements.

On the appointment of a new Non Executive Chairman or Non Executive Director, the fees will normally be consistent with the policy. Fees to Non Executives will not include share options or other performance-related elements.

Service contracts

It is the Company's policy that Executive Directors should have service contracts with an indefinite term which can be terminated by the Company by giving notice not exceeding 12 months or the Director by giving notice of six months. Non Executive Directors are appointed for a three-year term, which is renewable, with three months' notice on either side, no contractual termination payments being due and subject to retirement pursuant to the Bye-laws at the Annual General Meeting. The contract for the Chairman is subject to a six-month notice provision on either side.

Policy on payment for loss of office

Subject to the execution of an appropriate general release of claims an Executive Director may receive on termination of employment by the Company:

1. Notice period of up to 12 months
Executive to remain on the payroll but may be placed on gardening leave for the duration of the notice period (or until they leave early by mutual agreement, whichever is sooner). During this period they will be paid as normal, including base pay, pension contributions (or cash allowance as appropriate) and other benefits (for example, healthcare).

2. Bonus payment for the financial year of exit
The Committee may pay a bonus calculated in line with the normal bonus scheme timings and performance metrics. The bonus amount would normally be pro-rated depending on the proportion of the financial year which has been completed by the time of the termination date.

3. Release of any deferred bonuses
All outstanding bonuses deferred from the annual incentive scheme will normally be paid in full.

4. Unvested Performance Share Plan awards
Treatment would be in accordance with the plan rules and relevant grant documentation. The intended approach is summarised below.

- Awards will vest in line with the normal scheme vesting date (unless the Committee determines otherwise). Awards vest to the extent that the relevant performance target is considered to have been met.
- The award will normally be pro-rated to reflect the period which has elapsed from the commencement of the award to the date of termination unless the Committee determines otherwise.

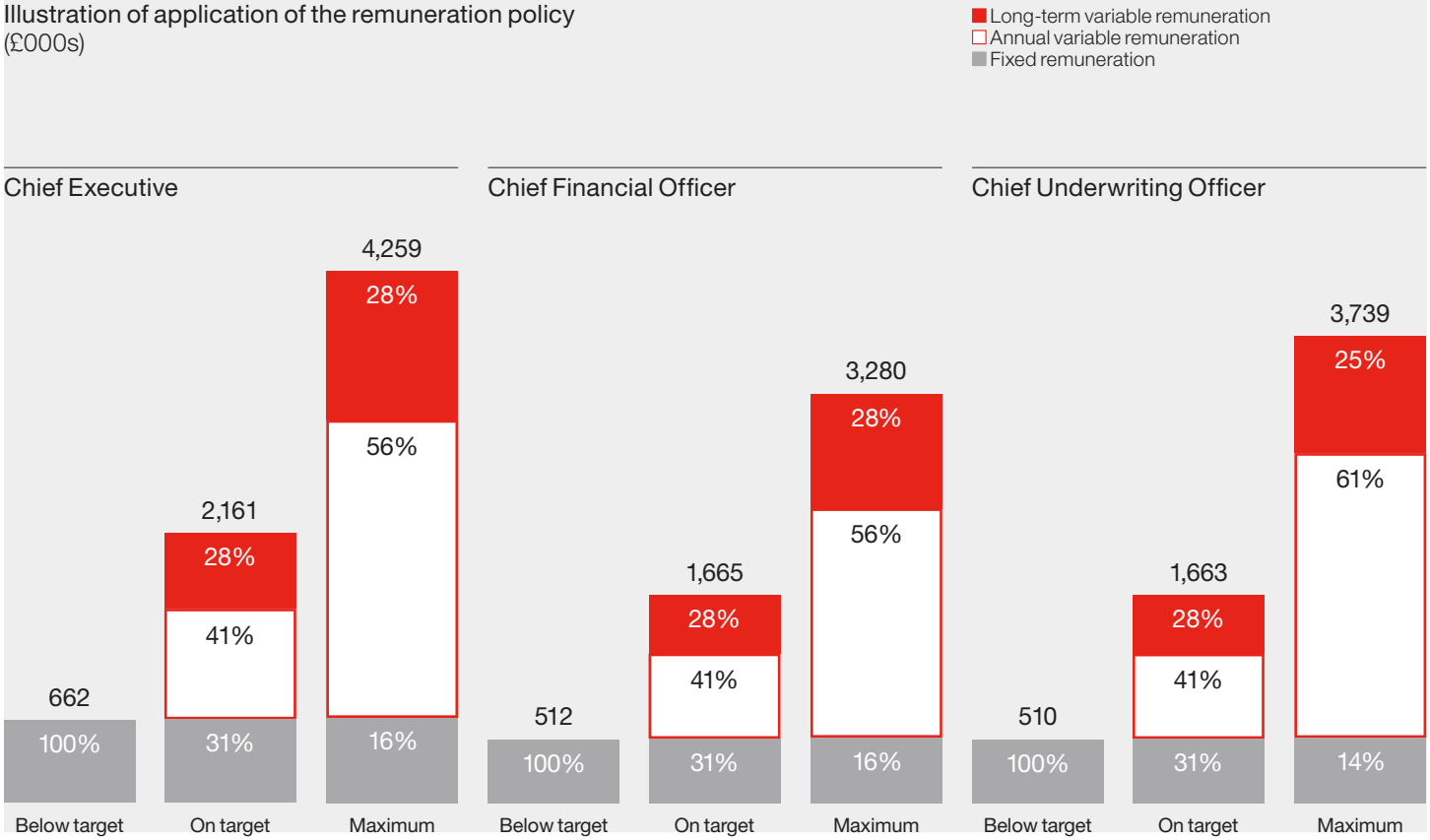
If the departing Executive Director does not sign a release of claims, they would normally be entitled to payments defined under point 1 only. In the event that the Executive is dismissed for gross misconduct, they would forfeit any payments under UK and Bermudian employment law. In the event of a voluntary resignation to join another company, no payments would normally be made other than remaining on the payroll, with associated benefits, during the contractual notice period of six months.

Consideration of shareholder views

Hiscox regularly discusses remuneration policy matters with a selection of shareholders. The Remuneration Committee takes into consideration the range of views expressed in making its decisions.

Through conversations with shareholders during the last AGM season, some themes emerged on how we could improve our approach and the Committee is proposing to make a number of changes to how the policy will be implemented in the future. These are summarised in the Chairman's letter on page 54.

Illustration of application of the remuneration policy
(£000s)



The charts above have been compiled using the following assumptions.

Fixed remuneration	Fixed reward (base salary, benefits and retirement benefit). — Salary with effect from 1 April 2017. — Benefits as received during 2017, as disclosed in the Executive Director remuneration table on page 68. — Retirement benefit as received during 2017, as disclosed in the Executive Director remuneration table on page 68.
Variable remuneration	Assumptions have been made in respect of the annual incentive and the PSP for the purpose of these illustrations. — Annual incentive: the amounts shown in the scenarios are for illustration only. In practice, the award would be determined based on a range of performance factors and therefore vary depending on the circumstances. The maximum award reflects the incentive caps described at the beginning of this report. — PSP: scenario analysis assumes awards are granted at the maximum level set out in the policy table on page 80. In practice, award levels are determined annually and are not necessarily granted at the plan maximum every year.

Performance scenarios

Below target performance	Fixed reward only.
On target performance	Fixed reward plus variable pay for the purpose of illustration as follows. — Annual incentive: assume a bonus equivalent to 150% of salary. — PSP: assume vesting of 50% of the maximum award.
Maximum performance	Fixed reward plus variable pay for the purpose of illustration as follows. — Annual incentive: maximum bonus equivalent to 400% of salary for the CEO and CFO and 500% of salary for the CUO. — PSP: assumes vesting of 100% of the maximum award.

Directors' report

The Directors have pleasure in submitting their Annual Report and consolidated financial statements for the year ended 31 December 2017.

Management report

The Company is a holding company for subsidiaries involved in the business of insurance and reinsurance in Bermuda, the USA, the UK, Guernsey, Europe and Asia. The information that fulfils the requirements of the management report as referred to in Chapter 4 of the Disclosure Guidance and Transparency Rules (DTR), including additional explanation of amounts included in the financial statements and the branches of the Group in different countries, can be found on pages 10 to 17, 38 to 47 and 96 to 151.

The key performance indicators are shown on page 2. Details of the use of financial instruments are set out in note 20 to the consolidated financial statements. An analysis of the development and performance of the business during the financial year, its position at the end of the year, any important events since the end of the year and the likely future development can be found within the Chief Executive's report on pages 10 to 17. The Chief Executive's report also describes the main trends and factors likely to affect the future development, performance and position of the Company's business and includes a description of the Company's strategy and business model. The Company's strategy is also described on page 3. A description of the principal risks and uncertainties and how they are managed or mitigated can be found in the risk management section on pages 38 to 47. In addition, note 3 to the consolidated financial statements provides a detailed explanation of the principal risks which are inherent to the Group's business and how those risks are managed.

The confirmation required by C.2.1 of the UK Corporate Governance Code can be found on page 59.

Corporate responsibility

Information on non-financial reporting disclosures including environmental, employee and community issues, anti-corruption, human rights and anti-bribery are set out in the corporate responsibility statement on pages 48 to 51. This also includes disclosure of greenhouse gas emissions.

Corporate governance statement

The information that fulfils the requirements of the corporate governance statement as referred to in DTR 7.2 can be found on pages 55 to 59 and in this report.

Diversity

The composition of the Board is described on pages 52 and 53. The percentage of persons of each gender who were i) Hiscox Partners and ii) employees of the Hiscox Group, excluding the Board, is set out in the table to the right. Hiscox's approach to inclusion and diversity is outlined on pages 48 and 49.

Financial results

The Group achieved a pre-tax profit for the year of £30.8 million (2016: £354.5 million). Detailed results for the year are shown in the consolidated income statement on page 96, and also within the Group financial performance section on pages 24 to 25.

Going concern

A review of the financial performance of the Group is set out on pages 24 to 25. The financial position of the Group, its cash flows and borrowing facilities are included therein. The Group has considerable financial resources and a well-balanced book of business.

After making enquiries, the Directors have an expectation that the Company and the Group have adequate resources to

Diversity

	Male %	Female %
Hiscox Partners*	77.6	22.4
Employees	50.9	49.1

*Hiscox Partner is an honorary title given to employees who make significant contributions to the development and profitability of the Group. The Partnerships encourages a proprietorial attitude, and up to 5% of the total workforce are Hiscox Partners.

29.0p

Total dividend payment for the year ended 31 December 2017.

continue in operational existence for the foreseeable future, a period of at least 12 months from the date of this report. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements.

Viability

The statement required to be included in the Annual Report under C.2.2 of the UK Corporate Governance Code can be found on page 59.

Dividends

An interim dividend of 9.5p (net) per ordinary 6.5p share (2016: 8.5p (net), per ordinary 6.5p share) was paid on 13 September 2017 in respect of the year ended 31 December 2017. The Directors are proposing payment of a final dividend in respect of the year ended 31 December 2017 of 19.5p which will be paid on 12 June 2018 to shareholders on the register at 11 May 2018. In the previous year a final dividend of 19p was paid. The Directors have decided to offer a scrip alternative.

Bye-laws

The Company's Bye-laws contain no specific provisions relating to their amendment and any such amendments are governed by Bermuda Company Law and subject to the approval of shareholders in a general meeting. A copy of the Company's Bye-laws is available for inspection at the Company's registered office.

Share capital

Details of the structure of the Company's share capital and changes in the share capital during the year are disclosed in note 23 to the consolidated financial statements. The ordinary shares of 6.5p each are the only class of shares presently in issue and carry voting rights. There is power under Bye-law 45 of the Company's Bye-laws for voting rights to be suspended if calls on shares are unpaid. However, there are no nil or partly paid shares in issue on which calls could be made. The Bye-laws also allow the Company to investigate interests in its shares and apply restrictions including suspending voting rights where information is not provided. No such restrictions are presently in place. The Company was authorised by shareholders at the 2017 Annual General Meeting to purchase in the market up to 10% of the Company's issued ordinary shares. No shares have been bought back under this authority as at the date of this report.

Major interests in shares

As at the year end, the Company had been notified of the following interests of 5% or more of voting rights in its ordinary shares:

	Number of shares	% of issued share capital as at 31 December 2017*
Invesco Limited[1]	37,662,240	13.12
Massachusetts Financial Services Company[1]	27,742,612	9.67
FMR LLC[1]	15,157,829	5.28
BlackRock, Inc.[1,2]	14,535,256	5.07

*Per RNS announcement there were 286,961,264 shares in issue (excluding Treasury shares) as at 31 December 2017.
[1]Indirect holdings.
[2]Notified on 29 January 2018.

Directors

The names and details of all Directors of the Company who served during the year and up to the date of this report are set out on pages 52 and 53. Details of the Chairman's professional commitments are included in his biography on page 52 and there were no changes during the year. The Bye-laws of the Company govern the appointment and replacement of Directors. Thomas Hürlimann, Michael Goodwin and Costas Miranthis were appointed by the Board with effect from 16 November 2017 and they will submit themselves for appointment as a Director by shareholders at the Annual General Meeting. In accordance with the UK Corporate Governance Code, all other Directors will submit themselves for re-appointment at the Annual General Meeting.

Biographical details of the Directors are set out on pages 52 and 53 and the reasons why the Board believes they should be appointed or re-appointed will be set out in the circular which will accompany the notice of Annual General Meeting.

Political and charitable contributions

The Group made no political contributions during the year (2016: £nil). Information concerning the Group's charitable activities is contained in the report on corporate responsibility on page 48 to 51.

Major interests in shares

As at the year end, the Company had been notified of the interests of 5% or more of voting rights in its ordinary shares outlined in the table above.

Any acquisitions or disposals of major shareholdings notified to the Company in accordance with DTR 5.1 are announced and those announcements are available on the Company's website, www.hiscoxgroup.com.

Power of Directors

The powers given to the Directors are contained in the Company's Bye-laws and are subject to relevant legislation and, in certain circumstances (including in relation to the issuing and buying back by the Company of its shares), approval by shareholders in a general meeting. At the Annual General Meeting in 2017, the Directors were granted authorities to allot and issue shares and to make market purchases of shares and intend to seek renewal of these authorities in 2018.

Disclosure under LR 9.8.4

The information that fulfils the reporting requirements relating to the following matters can be found at the pages identified below.

Details of long-term incentive schemes	Annual report on remuneration (page 80)
Allotment of shares for cash pursuant to employee share schemes	Note 23 to the consolidated financial statements on employee share schemes (page 135)

Annual General Meeting

The notice of the Annual General Meeting, to be held on 17 May 2018, will be contained in a separate circular to be sent to shareholders. The deadline for submission of proxies is 48 hours before the meeting.

By order of the Board
Marc Wetherhill
Secretary

Wessex House
45 Reid Street
Hamilton HM 12
Bermuda
26 February 2018

Directors' responsibilities statement

Directors' responsibilities statement

The Board is responsible for ensuring the maintenance of proper accounting records which disclose with reasonable accuracy the financial position of the Company. It is required to ensure that the financial statements present a fair view for each financial period. The Directors explain in the Annual Report their responsibility for preparing the Annual Report and Accounts.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors responsible for authorising the responsibility statement on behalf of the Board are the Chairman, Robert Childs, and the Chief Financial Officer, Hamayou Akbar Hussain. The statements were approved for issue on 26 February 2018.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

#4. Take risks and grasp opportunities

Financial summary

Independent auditor's report to the Board of Directors and the shareholders of Hiscox Ltd

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hiscox Ltd (the Company) and its subsidiaries (together 'the Group') as at 31 December 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

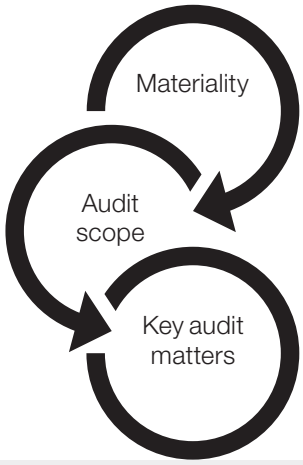
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the consolidated financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Our audit approach



Overview

- Overall group materiality: £19 million, which represents 0.75% of the gross earned premium for the year ended 31 December 2017.
- The Group is a global specialist insurer and reinsurer. The Group's financial reporting is based on financial information from subsidiary entities which we treat as 'components'.
- We performed full scope audit procedures over four financially significant components based in the United Kingdom and the United States.
- For other components, we identified certain account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the Group's consolidated financial statements, and scoped the audit of these by performing specified procedures.
- For the remaining components that were not inconsequential analytical procedures were performed by the Group engagement team.
- Valuation of incurred but not reported (IBNR) loss reserves and the associated reinsurers share of IBNR loss reserves.

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £959,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overall Group materiality	£19 million
How we determined it	0.75% of gross earned premium
Rationale for the materiality benchmark applied	In determining our materiality, we have considered financial metrics which we believe to be relevant to the primary users of the Group's consolidated financial statements. We concluded gross earned premium was the most relevant benchmark to these users. Gross earned premium provides a good representation of the size and complexity of the business and it is not distorted by insured catastrophe events to which the Group is exposed or the levels of external reinsurance purchased by the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of incurred but not reported (IBNR) loss reserves and the associated reinsurers share of IBNR loss reserves Total gross IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves are material estimates in the Group's consolidated financial statements and as at 31 December 2017 amount to £2,018 million and £744 million respectively as set out in note 25. The methodologies and assumptions used to develop gross IBNR loss reserves and the reinsurers' share of IBNR loss reserves involves a significant degree of judgement. The valuation can be materially impacted by numerous factors including: — the underlying volatility attached to estimates for the larger classes of business, such as errors and omissions, upstream energy and professional indemnity, where small changes in assumptions can lead to large changes in the levels of the estimate held and the reported profit; — the risk of inappropriate assumptions used in determining current year estimates. Given that limited data is available, especially for 'long-tailed' classes of business, there is greater reliance on expert judgement in their estimation; — the judgements made in significant areas of uncertainty, for example, liability and casualty classes of business; — the risk that IBNR loss reserve estimates in respect of natural catastrophes and other large claims losses are inappropriate. There is significant judgement involved in the estimation of such loss estimates, particularly as they are often estimated based on limited data.	We have understood, evaluated and tested the design and operational effectiveness of key controls in place in respect of the valuation of gross IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves, which included controls over the reconciliation of data from the underlying systems and the review and approval of the IBNR loss reserves as components of insurance liabilities and associated reinsurance assets. On a sample basis we have agreed the underlying source data back to supporting documentation. In performing our detailed audit work over the valuation of gross IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves we used actuarial specialists. Our procedures included the following. — Developing independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 30 September 2017 and performing roll-forward testing to 31 December 2017. For these classes, we compared our re-projected estimates to those booked by management to form part of our determination as to whether the overall estimate of gross IBNR loss reserves represented a reasonable estimate. — Testing for the other classes of business (including those impacted by natural catastrophes and other large claims), the methodology and assumptions used by management to derive the gross IBNR loss reserve estimates and assessing whether these produced reasonable estimates based on underlying facts and circumstances. — Performing analytical review procedures over the remaining classes of business to ascertain the reasonableness of the gross IBNR loss reserves. — Applying gross to net ratios against the estimated gross IBNR loss reserves to calculate the estimated reinsurer's share of IBNR loss reserves. Based on the work performed, we found that the IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves were supported by the evidence we obtained.

How we tailored our Group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Hiscox Ltd is the parent of a group of entities. The financial information of this Group is included in the consolidated financial statements of Hiscox Ltd. The Group is structured into four segments (see Note 4 to the consolidated financial statements) and is a consolidation of over 50 separate legal entities.

The Group is a global specialist insurer and reinsurer. The Group's operations primarily consist of the legal entity operations in the United Kingdom, United States and Bermuda. A full scope audit was performed for four components located in the United Kingdom and United States. Specified audit procedures were also performed in the United Kingdom and Bermuda. Taken together this work gave us over 90% coverage of the Group's total assets and 90% of gross earned premium.

The four full scope audit components were: (i) Hiscox Dedicated Corporate Member Syndicate No. 33, (ii) Hiscox Dedicated Corporate Member Syndicate No. 3624, (iii) Hiscox Insurance Company Limited, and (iv) Hiscox Insurance Company Inc. For other components, we identified certain account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the Group's consolidated financial statements, and scoped the audit of these by performing specified procedures. Analytical procedures over the remaining components that were not inconsequential were performed by the Group engagement team.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component audit teams within the PwC United Kingdom, PwC United States and PwC Bermuda firms operating under our instruction. Where the work was performed by component audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained. The Group engagement team had regular interaction with the component teams, and the engagement leader visited the United Kingdom and Bermuda during the audit process. The engagement leader and senior members of the Group engagement team reviewed all reports with regards to the audit approach and findings of the component auditors in detail. This together with additional procedures performed at the Group level, as described above, gave us the evidence we needed for our opinion on the Group's consolidated financial statements as a whole.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Except as noted in the Report on other legal and regulatory requirements section, our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Going concern

The Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements, as explained on pages 85 and 86. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the balance sheet date. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Directors' remuneration

The Company voluntarily prepares a report on Directors' remuneration in accordance with the provisions of the UK Companies Act 2006. The Directors have requested that we audit the part of the report on Directors' remuneration specified by the UK Companies Act 2006 to be audited as if the Company were a UK registered company.

In our opinion, the part of the report on Directors' remuneration to be audited has been properly prepared in accordance with the UK Companies Act 2006.

Corporate governance statement

Under the United Kingdom's Listing Rules we are required to review the part of the Corporate Governance Statement on pages 55 to 59 relating to eleven provisions of the UK Corporate Governance Code and the Directors have requested that we also review their statements on going concern and the longer-term viability of the Company as required for UK registered companies with a premium listing on the London Stock Exchange. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

The engagement partner on the audit resulting in this independent auditor's report is Arthur Wightman.

PricewaterhouseCoopers Ltd.
Chartered Professional Accountants
Hamilton, Bermuda
26 February 2018

Consolidated income statement

For the year ended 31 December 2017	Note	2017 Total £000	2016* Total £000
Income			
Gross premiums written	4	2,549,279	2,402,579
Outward reinsurance premiums		(685,046)	(614,636)
Net premiums written	4	1,864,233	1,787,943
Gross premiums earned		2,556,993	2,220,853
Premiums ceded to reinsurers		(682,512)	(545,840)
Net premiums earned	4	1,874,481	1,675,013
Investment result	7	81,263	70,630
Other income	9	41,955	37,594
Total income		1,997,699	1,783,237
Expenses			
Claims and claim adjustment expenses	25.2	(1,931,417)	(1,004,601)
Reinsurance recoveries	25.2	914,416	264,829
Claims and claim adjustment expenses, net of reinsurance	25.2	(1,017,001)	(739,772)
Expenses for the acquisition of insurance contracts	16	(619,704)	(538,467)
Reinsurance commission income	16	163,599	128,627
Operational expenses	9	(410,380)	(411,358)
Net foreign exchange gains		(62,753)	152,408
Total expenses		(1,946,239)	(1,408,562)
Results of operating activities		51,460	374,675
Finance costs	10	(20,863)	(20,266)
Share of profit from associates after tax	15	201	134
Profit before tax		30,798	354,543
Tax expense	27	(4,488)	(17,557)
Profit for the year (all attributable to owners of the Company)		26,310	336,986
Earnings per share on profit attributable to owners of the Company			
Basic	30	9.3p	119.8p
Diluted	30	9.0p	116.0p

*Reclassification of investment fees, see note 2.1.

Consolidated statement of comprehensive income

For the year ended 31 December 2017	2017 Total £000	2016 Total £000
Profit for the year	26,310	336,986
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of the net defined benefit obligation	8,661	(46,531)
Income tax on the remeasurement of other comprehensive income	(1,768)	9,502
	6,893	(37,029)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(53,483)	111,094
Income tax on the remeasurement of other comprehensive income	–	–
	(53,483)	111,094
Other comprehensive (expense)/income net of tax	(46,590)	74,065
Total comprehensive (expense)/income for the year (all attributable to owners of the Company)	(20,280)	411,051

The notes on pages 100 to 151 are an integral part of these consolidated financial statements.

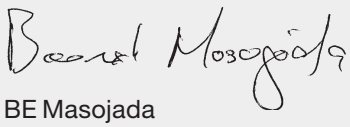
Consolidated balance sheet

At 31 December 2017	Note	2017 £000	2016 £000
Assets			
Goodwill and intangible assets	13	137,814	123,724
Property, plant and equipment	14	48,614	48,425
Investments in associates	15	7,943	13,835
Deferred tax	28	39,602	41,392
Deferred acquisition costs	16	330,466	346,592
Financial assets carried at fair value	18	3,807,143	3,792,033
Reinsurance assets	17, 25	1,357,966	805,649
Loans and receivables including insurance receivables	19	830,704	802,906
Current tax asset		4,235	2,406
Cash and cash equivalents	22	642,789	664,816
Total assets		7,207,276	6,641,778
Equity and liabilities			
Shareholders' equity			
Share capital	23	19,141	19,060
Share premium	23	27,128	18,035
Contributed surplus	23	89,864	89,864
Currency translation reserve	24	148,789	202,272
Retained earnings	24	1,468,639	1,488,306
Equity attributable to owners of the Company		1,753,561	1,817,537
Non-controlling interest		866	866
Total equity		1,754,427	1,818,403
Employee retirement benefit obligations	29	47,492	56,139
Deferred tax	28	–	17,030
Insurance liabilities	25	4,450,182	3,852,976
Financial liabilities	18	289,714	276,293
Current tax		7,004	21,735
Trade and other payables	26	658,457	599,202
Total liabilities		5,452,849	4,823,375
Total equity and liabilities		7,207,276	6,641,778

The notes on pages 100 to 151 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 26 February 2018 and signed on its behalf by:

HA Hussain
Chief Financial Officer



BE Masojada
Chief Executive Officer

Consolidated statement of changes in equity

	Note	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Equity attributable to owners of the Company £000	Non-controlling interest £000	Total equity £000
Balance at 1 January 2016		19,030	15,231	89,864	91,178	1,312,660	1,527,963	866	1,528,829
Profit for the year (all attributable to owners of the Company)		–	–	–	–	336,986	336,986	–	336,986
Other comprehensive income net of tax (all attributable to owners of the Company)		–	–	–	111,094	(37,029)	74,065	–	74,065
Employee share options:									
Equity settled share-based payments		–	–	–	–	26,274	26,274	–	26,274
Proceeds from shares issued	23	22	1,534	–	–	–	1,556	–	1,556
Deferred and current tax on employee share options	28	–	–	–	–	1,907	1,907	–	1,907
Shares purchased by Trust		–	–	–	–	(38,558)	(38,558)	–	(38,558)
Shares issued in relation to Scrip Dividend	23, 31	8	1,270	–	–	–	1,278	–	1,278
Dividends paid to owners of the Company	31	–	–	–	–	(113,934)	(113,934)	–	(113,934)
Balance at 31 December 2016		19,060	18,035	89,864	202,272	1,488,306	1,817,537	866	1,818,403
Profit for the year (all attributable to owners of the Company)		–	–	–	–	26,310	26,310	–	26,310
Other comprehensive income net of tax (all attributable to owners of the Company)		–	–	–	(53,483)	6,893	(46,590)	–	(46,590)
Employee share options:									
Equity settled share-based payments		–	–	–	–	25,186	25,186	–	25,186
Proceeds from shares issued	23	58	4,681	–	–	–	4,739	–	4,739
Deferred and current tax on employee share options	28	–	–	–	–	5,300	5,300	–	5,300
Net movements of treasury shares held by Trust		–	–	–	–	(2,900)	(2,900)	–	(2,900)
Shares issued in relation to Scrip Dividend	23, 31	23	4,412	–	–	–	4,435	–	4,435
Dividends paid to owners of the Company	31	–	–	–	–	(80,456)	(80,456)	–	(80,456)
Balance at 31 December 2017		**19,141**	**27,128**	**89,864**	**148,789**	**1,468,639**	**1,753,561**	**866**	**1,754,427**

The notes on pages 100 to 151 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2017	Note	2017 £000	2016* £000
Profit before tax		30,798	354,543
Adjustments for:			
Net foreign exchange losses/(gains)		62,753	(152,408)
Interest and equity dividend income		(63,296)	(54,789)
Interest expense		20,863	20,266
Net fair value losses/(gains) on financial assets		(26,656)	(13,786)
Depreciation, amortisation and impairment	9, 13, 14	21,651	28,162
Charges in respect of share-based payments	9, 23	25,186	26,274
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		223,794	251,836
Financial assets carried at fair value		(183,532)	(431,324)
Financial liabilities carried at fair value		13,311	458
Financial liabilities carried at amortised cost		110	156
Other assets and liabilities		(53,780)	3,687
Interest received		55,940	55,273
Equity dividends received		554	505
Interest paid		(19,910)	(21,852)
Current tax paid		(32,139)	(6,108)
Cash flows from subscriptions (paid)/received in advance		(6,918)	(4,000)
Net cash flows from operating activities		68,729	56,893
Cash flows from the sale of subsidiaries		14,571	(3,881)
Cash flows from the purchase of associates	15	–	(450)
Cash flows from sale of associates		23,770	2
Cash flows from the purchase of property, plant and equipment		(6,721)	(5,770)
Cash flows from the purchase of intangible assets		(28,575)	(20,909)
Net cash flows from investing activities		3,045	(31,008)
Proceeds from the issue of ordinary shares	23	4,739	1,556
Shares repurchased	23	(2,900)	(38,558)
Distributions made to owners of the Company	23, 31	(76,021)	(112,656)
Net cash flows from financing activities		(74,182)	(149,658)
Net decrease in cash and cash equivalents		(2,408)	(123,773)
Cash and cash equivalents at 1 January		664,816	727,880
Net decrease in cash and cash equivalents		(2,408)	(123,773)
Effect of exchange rate fluctuations on cash and cash equivalents		(19,619)	60,709
Cash and cash equivalents at 31 December	22	642,789	664,816

*£17,477,000 of cash derecognised on loss of control has been reclassified to cash flows from the sale of subsidiaries in 2016.

The purchase, maturity and disposal of financial assets is part of the Group's insurance activities and is therefore classified as an operating cash flow. The purchase, maturity and disposal of derivative contracts is also classified as an operating cash flow.

Included within cash and cash equivalents held by the Group are balances totalling £132 million (2016: £136 million) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held. Additionally, £11 million (2016: £38 million) is pledged cash held against Funds at Lloyd's, and £5 million (2016: £13 million) held within trust funds against reinsurance arrangements.

The notes on pages 100 to 151 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information

The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent Company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, Asia and the US with over 2,700 staff.

The Company is registered and domiciled in Bermuda and on 12 December 2006 its ordinary shares were listed on the London Stock Exchange. The address of its registered office is: 4th Floor, Wessex House, 45 Reid Street, Hamilton HM 12, Bermuda.

2 Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority (FCA) and in accordance with the provisions of the Bermuda Companies Act 1981.

The consolidated financial statements have been prepared under the historical cost convention, except that pension scheme assets included in the measurement of the employee retirement benefit obligation which is determined using actuarial analysis, and certain financial instruments including derivative instruments, are measured at fair value.

In accordance with IFRS 4 Insurance Contracts, the Group continues to apply the existing accounting policies that were applied prior to the adoption of IFRS ('grandfathered') or the date of the acquisition of the entity. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with accounting principles generally accepted in the UK.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated.

The balance sheet of the Group is presented in order of increasing liquidity. All amounts presented in the income statements and statement of comprehensive income relate to continuing operations.

The financial statements were approved for issue by the Board of Directors on 26 February 2018.

2.1 Significant accounting policies

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

Except as described below and overleaf, the accounting policies adopted are consistent with those of the previous financial year.

Changes in accounting policies

A number of new standards, amendments to standards and interpretations, as adopted by the European Union, are effective for annual periods beginning on or after 1 January 2017. They have been applied in preparing these consolidated financial statements. There were no new standards, amendments or interpretations that had a material impact on the Group.

The amendments included minor changes to the following standards:

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative. The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in the consolidated statement of cash flows.
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify the accounting for deferred tax assets on unrealised losses and state that deferred tax assets should be recognised when an asset is measured at fair value and that fair value is below the asset's tax base. It also provides further clarification on the estimation of probable future taxable profits that may support the recognition of deferred tax assets. The adoption of this amendment has no impact on the consolidated financial statements as the clarifications are consistent with our existing interpretation.

The following new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these financial statements.

- IFRS 15 Revenue from Contracts with Customers replaces IAS 18 and establishes principles for revenue recognition that apply to all contracts with customers except for insurance contracts, financial instruments, and lease contracts. It requires an entity to recognise revenue when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. In particular, it specifies that variable consideration is only recognised to the extent that it is highly probable that a significant reversal will not occur. The Group will adopt this standard on 1 January 2018 and expects no significant impact on the Group's financial statements. IFRS 15 has been endorsed by the EU.
- IFRS 9 Financial Instruments incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39 and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The hedge accounting requirements

2 Basis of preparation

2.1 Significant accounting policies

Changes in accounting policies continued

are more closely aligned with risk management practices and follow a more principle-based approach. The amendments to IFRS 4 Insurance Contracts issued in 2016 address the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17 Insurance Contracts. The amendments include an optional temporary exemption from applying IFRS 9 that is available to companies whose predominant activity is to issue insurance contracts until the earlier of the effective date of IFRS 17 or 2021. The Group meets the eligibility criteria and will adopt this approach. Based on a high-level impact assessment using currently available information, the Group expects no significant impact on its balance sheet and equity, except for the effect of applying the new impairment requirements. The Group expects a recognition of an earlier and higher loss allowance resulting in a slightly lower equity and will perform a detailed assessment in the future to determine the extent. IFRS 9 has been endorsed by the EU.

- IFRS 16 Leases replaces IAS 17 Leases and addresses the definition of a lease, recognition and measurement of leases. Leasee will be required to account for all operating leases in a similar manner to the current financial lease accounting recognising lease assets and liabilities on balance sheet. In addition, the current rental charge in the income statement will be replaced with a depreciation charge for the lease assets and the interest expense for the lease liabilities. The Group is currently assessing the impact of adopting the standard and will adopt it on 1 January 2019. IFRS 16 has been endorsed by the EU.
- IFRS 17 will replace IFRS 4 and sets out requirements relating to the measurement, presentation and disclosure of insurance contracts. It prescribes a general measurement model based on the discounted current estimates of future cash flows including an explicit risk adjustment and a contractual service margin which represents the unearned profit of the contracts. Application of a simplified premium allocation approach, which is similar to the current unearned premium approach, is permitted if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. IFRS 17 requires any expected losses arising from loss-making contracts to be accounted for in income statement when the entity determines that losses are expected. The Group plans to adopt the new standard on the required effective date of 1 January 2021. The Group is evaluating the impact of adopting IFRS 17 on the Group's financial statements. IFRS 17 has not been endorsed by the EU.

In 2017, the Group changed the presentation of investment result in the consolidated income statement to be investment result net of investment management fees. The prior year figures have been reclassified accordingly by an amount of £4.4 million from operational expenses to investment results.

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has power over an entity, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The consolidated financial statements include the assets, liabilities and results of the Group up to 31 December each year. The financial statements of subsidiaries are included in the consolidated financial statements only from the date that control commences until the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(b) Associates

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

(c) Transactions eliminated on consolidation

Intragroup balances, transactions and any unrealised gains arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. In accordance with IAS 21, foreign currency gains and losses on intragroup monetary assets and liabilities may not fully eliminate on consolidation when the intragroup monetary item concerned is transacted between two Group entities that have different functional currencies. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2 Basis of preparation continued

2.3 Foreign currency translation

(a) Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). Entities operating in France, Germany, The Netherlands, Spain, Portugal, Ireland and Belgium have functional currency of Euros; those subsidiary entities operating from the US, Bermuda, Guernsey and Syndicate 3624 have functional currency of US Dollars. Functional currencies of entities operating in Asia include US Dollars, Singapore Dollars and Thai Baht. All other entities have functional currency of Sterling.

(b) Transactions and balances

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

(c) Group companies

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the acquiring entity's assets and liabilities and are translated at the rate at acquisition. For each business combination, the Group measures any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance items are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite useful economic life. The cost of leasehold improvements is amortised over the unexpired term of the underlying lease or the estimated useful life of the asset, whichever is shorter. Depreciation on other assets is calculated using the straight-line method to allocate their cost, less their residual values, over their estimated useful lives.

The rates applied are as follows:

buildings	20–50 years
vehicles	3 years
leasehold improvements including fixtures and fittings	10–15 years
furniture, fittings and equipment	3–15 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.5 Intangible assets

(a) Goodwill

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

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous generally accepted accounting principles.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is not amortised but is tested at least annually for impairment and carried at cost less accumulated impairment losses.

Goodwill is allocated to the Group's cash generating units identified according to the smallest identifiable unit to which cash flows are generated.

The impairment review process examines whether or not the carrying value of the goodwill attributable to individual cash generating units exceeds its recoverable amount. Any excess of goodwill over the recoverable amount arising from the review process indicates impairment. Any impairment charges are presented as part of operational expenses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Other intangible assets

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside of goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Customer relationships, syndicate capacity and software acquired are capitalised at cost, being the fair value of the consideration paid. Software is capitalised on the basis of the costs incurred to acquire and bring it into use.

2 Basis of preparation

2.5 Intangible assets

(b) Other intangible assets continued

Intangible assets with infinite lives such as syndicate capacity are subsequently valued at cost and are subject to annual impairment assessment.

Intangible assets with finite useful lives are consequently carried at cost, less accumulated amortisation and impairment. The useful life of the asset is reviewed annually. Any changes in estimated useful lives are accounted for prospectively with the effect of the change being recognised in the current and future periods, if relevant.

Amortisation is calculated using the straight-line method to allocate the cost over the estimated useful lives of the intangible assets.

Subsequent expenditure on other intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

These intangible assets with finite lives will be assessed for indicators of impairment at each reporting date. Where there is an indication of impairment then a full impairment test is performed. An impairment loss recognised for an intangible asset in prior years should be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

2.6 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Group takes into account the asset's use that is physically possible, legally permissible and financially feasible. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 21.

2.7 Financial assets and liabilities including loans and receivables

The Group classifies its financial assets as a) financial assets designated at fair value through profit or loss, and b) loans and receivables. Management determines the classification of its financial assets based on the purpose for which the financial assets at initial recognition. The decision by the Group to designate debt and fixed income securities, equities and shares in unit trusts and deposits with credit institutions, at fair value through profit or loss reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair value basis.

Purchases and sales of investments are accounted for at the trade date. Financial assets and liabilities are initially recognised at fair value. Subsequent to initial recognition financial assets and liabilities are measured as described below. Financial assets are derecognised when the right to receive cash flows from them expires or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

(a) Financial assets at fair value through profit or loss

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

(b) Loans and receivables

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

(c) Long-term debt

All borrowings are initially recognised at fair value. Subsequent to initial recognition, borrowings are measured at amortised cost. Any difference between the value recognised at initial recognition and the ultimate redemption amount is recognised in the income statement over the period to redemption using the effective interest method.

2.8 Cash and cash equivalents

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

2.9 Impairment of assets

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

2.10 Derivative financial instruments

(a) Non-financial assets

Objective factors that are considered when determining whether a non-financial asset (such as goodwill, an intangible asset or item of property, plant and equipment) or group of non-financial assets may be impaired include, but are not limited to, the following:

- adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability;
- the likelihood of accelerated obsolescence arising from the development of new technologies and products; and
- the disintegration of the active market(s) to which the asset is related.

2 Basis of preparation continued

2.10 Derivative financial instruments continued

(b) Financial assets

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

- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

(c) Impairment loss

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). For financial assets, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately. Impairment losses recognised in respect of goodwill are not subsequently reversed.

2.11 Derivative financial instruments

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

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

2.12 Own shares

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

2.13 Revenue

Revenue comprises insurance and reinsurance premiums earned on the rendering of insurance protection, net of reinsurance, together with profit commission, investment returns, agency fees and other income. The Group's share of the results of associates is reported separately. The accounting policies for insurance premiums are outlined below. Profit commission, investment income and other sources of income are recognised on an accruals basis net of any discounts and amounts such as sales-based taxes collected on behalf of third parties. Profit commission is calculated and accrued based on the results of the managed syndicate.

2.14 Insurance contracts

(a) Classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. The Group issues short-term casualty and property insurance contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

(b) Recognition and measurement

Gross premiums written comprise premiums on business incepting in the financial year together with adjustments to estimates of premiums written in prior accounting periods. Estimates are included for pipeline premiums and an allowance is also made for cancellations. Premiums are stated before the deduction of brokerage and commission but net of taxes and duties levied. Premiums are recognised as revenue (premiums earned) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability.

Claims and associated expenses are charged to profit or loss as incurred, based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group.

The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are determined based on the best estimate of the cost of future claim payments plus an allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes using, as inputs, the assessments for individual cases reported to the Group, statistical analysis for the claims incurred but not reported, an estimate of the expected ultimate cost of more complex claims that may be affected by external factors, for example, court decisions and an allowance for quantitive uncertanties not otherwise approved.

2 Basis of preparation

2.14 Insurance contracts continued

(c) Deferred acquisition costs (DAC)

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

(d) Liability adequacy tests

At each balance sheet date, liability adequacy tests are performed by each business unit to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is charged to profit or loss initially by writing-off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('the unexpired risk provision'). Any DAC written-off as a result of this test cannot subsequently be reinstated.

(e) Outwards reinsurance contracts held

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

The benefits to which the Group is entitled under outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

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

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

(f) Retroactive reinsurance transactions

Reinsurance transactions that transfer risk but are retroactive are included in reinsurance assets. The excess of estimated liabilities for claims and claim expenses over the consideration paid is established as a deferred credit at inception. The deferred amounts are subsequently amortised using the recovery method over the settlement period of the reserves and reflected through the claims and claim adjustment expenses line. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim adjustment expenses a loss is recognised immediately. If the adverse development exceeds the original loss, deferred gains are recorded. The deferred gains are subsequently recognised into earnings over the settlement period of the reserves.

(g) Reinsurance commission income

Reinsurance commission income represents commission earned from ceding companies which is earned over the terms of the underlying reinsurance contracts and presented separately in the consolidated income statement.

(h) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the income statement.

(i) Salvage and subrogation reimbursements

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

2.15 Deferred tax

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

2.16 Employee benefits

(a) Pension obligations

The Group operated both defined contribution and defined benefit pension schemes during the year under review. The defined benefit scheme closed to future accrual with effect from 31 December 2006 and active members were offered membership of the defined contribution scheme from 1 January 2007. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity and has no further obligation beyond the agreed contribution rate. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

2 Basis of preparation

2.16 Employee benefits

(a) Pension obligations continued

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

The amount recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. Plan assets include insurance contracts issued by the Group. The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit method. As the plan is closed to all future benefit accrual, each participant's benefits under the plan are based on their service to the date of closure or earlier leaving, their final pensionable earnings at the measurement date and the service cost is the expected administration cost during the year. Past service costs are recognised immediately in income.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the income statement through operating expenses.

To the extent that a surplus emerges on the defined benefit obligation, it is only recognisable on the asset side of the balance sheet when it is probable that future economic benefits will be recovered by the scheme sponsor in the form of refunds or reduced future contributions.

(b) Other long-term employee benefits

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

(c) Share-based compensation

The Group operates a number of equity settled share-based employee compensation plans. These include the share option schemes, and the Group's Performance Share Plans, outlined in the Directors' remuneration report together with the Group's Save as You Earn (SAYE) schemes. The fair value of the employee services received, measured at grant date, in exchange for the grant of the awards is recognised as an expense, with the corresponding credit being recorded in retained earnings within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted, excluding the impact of any non-market vesting conditions (for example, profitability or net asset growth targets). Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of awards that are expected to vest.

The Group recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity, over the remaining vesting period.

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

(d) Termination benefits

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

(e) Profit sharing and bonus plans

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

(f) Accumulating compensation benefits

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

2.17 Net investment hedge accounting

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each period end to ensure that the hedge remains highly effective. The Group hedged elements of its net investment in certain foreign entities through foreign currency borrowings that qualified for hedge accounting from 3 January 2007 until their replacement on 6 May 2008; accordingly gains or losses on retranslation are recognised in equity to the extent that the hedge relationship was effective during this period. Accumulated gains or losses will be recycled to the income statement only when the foreign operation is disposed of. The ineffective portion of any hedge is recognised immediately in the income statement.

2 Basis of preparation continued

2.18 Finance costs

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

2.19 Provisions

Provisions are recognised where there is a present obligation (legal or constructive) as a result of a past event that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle that obligation.

2.20 Leases

(a) Hiscox as lessee

Leases in which significantly all of the risks and rewards of ownership are transferred to the Group are classified as finance leases. At the commencement of the lease term, finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. The minimum lease payments are apportioned between finance charges and repayments of the outstanding liability, finance charges being charged to each period of the lease term so as to produce a constant rate of interest on the outstanding balance of the liability. All other leases are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) Hiscox as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant contractual agreement.

2.21 Dividend distribution

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

2.22 Use of significant estimates, judgements and assumptions

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

The most critical estimate included within the Group's balance sheet is the estimate for losses incurred but not reported. The total gross estimate as at 31 December 2017 is £2,018 million (2016: £1,588 million) and is included within total insurance liabilities on the balance sheet.

Estimates of losses incurred but not reported are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. Although the possibility exists for material changes in estimates to have a critical impact on the Group's reported performance and financial position, it is anticipated that the scale and diversity of the Group's portfolio of insurance business considerably lessens the likelihood of this occurring. The overall reserving risk is discussed in more detail in note 3.1 and the procedures used in estimating the cost of settling insured losses at the balance sheet date including losses incurred but not reported are detailed in note 25.

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

Note 3.2 to the financial statements discusses the reliability of the Group's fair values.

With regard to employee retirement benefit scheme obligations, the amounts disclosed in these consolidated financial statements are sensitive to judgemental assumptions regarding mortality, inflation, investment returns and interest rates on corporate bonds, many of which have been subject to specific recent volatility. This complex set of economic variables may be expected to influence the liability obligation element of the reported net balance amount to a greater extent than the reported value of the scheme assets element, as shown in note 29.

Legislation concerning the determination of taxation assets and liabilities is complex and continually evolving. In preparing the Group's financial statements, the Directors estimate taxation assets and liabilities after taking appropriate professional advice, as shown in note 28. To the extent that taxable losses carried forward by the Group exceed taxable temporary differences relating to the same taxation authority and taxable entity, which will result in amounts against which the losses can be utilised, the Group uses estimates of probable future taxable profits available to determine whether recognition of a deferred tax asset is appropriate. The determination and finalisation of agreed taxation assets and liabilities may not occur until several years after the balance sheet date and consequently the final amounts payable or receivable may differ from those presently recorded in these financial statements.

2.23 Reporting of additional performance measures

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

3 Management of risk

The Group's overall appetite for accepting and managing varying classes of risk is defined by the Group's Board. The Board has developed a governance framework and has set Group-wide risk management policies and procedures which include risk identification, risk management and mitigation and risk reporting. The objective of these policies and procedures is to protect the Group's shareholders, policyholders and other stakeholders from negative events that could hinder

3 Management of risk continued

the Group's delivery of its contractual obligations and its achievement of sustainable profitable economic and social performance.

The Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the Risk Committee and ongoing compliance therewith, through a dedicated internal audit function, which has operational independence, clear terms of reference influenced by the Board's Non Executive Directors and a clear upwards reporting structure back into the Board. The Group, in common with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Group's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is reasonably predictable. In addition, the majority of material cash outflows are typically triggered by the occurrence of insured events non-correlated to financial markets, and not by the inclination or will of policyholders.

The principal sources of risk relevant to the Group's operations and its financial statements fall into two broad categories: insurance risk and financial risk, which are described in notes 3.1 and 3.2 below. The Group also actively manages its capital risks as detailed in note 3.3 and tax risks as detailed in note 3.4. Additional unaudited information is also provided in the corporate governance, risk management and capital sections of this Report and Accounts.

3.1 Insurance risk

The predominant risk to which the Group is exposed is insurance risk which is assumed through the underwriting process. Insurance risk can be sub-categorised into i) underwriting risk including the risk of catastrophe and systemic insurance losses and the insurance competition and cycle, and ii) reserving risk.

i) Underwriting risk

The Board sets the Group's underwriting strategy and risk appetite seeking to exploit identified opportunities in the light of other relevant anticipated market conditions.

The Board requires all underwriters to operate within an overall Group appetite for individual events. This defines the maximum exposure that the Group is prepared to retain on its own account for any one potential catastrophe event or disaster. The Group's underwriting risk appetite seeks to ensure that it should not lose more than 12.5% of core capital plus 100% of buffer capital (£100 million) with an allowance for expected investment income, as a result of a 1 in 200 aggregate bad underwriting year.

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures and line of business diversification parameters are prepared and reviewed by the Chief Underwriting Officer in order to translate the Board's summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved by the Board in advance of each underwriting year. The Board continually reviews its underwriting strategy throughout each underwriting year in light of the evolving market pricing and loss conditions and as opportunities present themselves. The Group's underwriters and management consider underwriting risk at an individual contract level, and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors. To assist with the process of pricing and managing underwriting risk the Group routinely performs a wide range of activities including the following:

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

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

The Group compiles estimates of losses arising from realistic disaster events using statistical models alongside input from its underwriters. These require significant management judgement. Realistic disaster scenarios, shown on page 21, are extreme hypothetical events selected to represent major events occurring in areas with large insured values. They also reflect the areas that represent significant exposures for Hiscox.

The selection of realistic disaster scenario events is adjusted each year and they are not therefore necessarily directly comparable from one year to the next. The events are extreme and unprecedented, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodeled risks. This means that should a realistic disaster actually eventuate, the Group's final ultimate losses could materially differ from those estimates modeled by management. The Group's insurance contracts include provisions to contain losses, such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Group's exposure to repeated catastrophic events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period.

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

3 Management of risk
3.1 Insurance risk
i) Underwriting risk continued

Below is a summary of the gross and net insurance liabilities for each category of business.

Estimated concentration of gross and net insurance liabilities on balance sheet by territory coverage of premium written 31 December 2017		Types of insurance risk in the Group						
		Reinsurance inwards £000	Property – marine and major assets £000	Property – other assets £000	Casualty – professional indemnity £000	Casualty – other risks £000	Other* £000	Total £000
Total	Gross	1,109,392	235,541	853,195	1,389,679	474,753	387,622	4,450,182
	Net	346,899	187,936	543,136	1,292,317	385,597	336,331	3,092,216

Estimated concentration of gross and net insurance liabilities on balance sheet by territory coverage of premium written 31 December 2016		Types of insurance risk in the Group						
		Reinsurance inwards £000	Property – marine and major assets £000	Property – other assets £000	Casualty – professional indemnity £000	Casualty – other risks £000	Other* £000	Total £000
Total	Gross	669,697	351,355	800,738	1,217,956	455,021	358,209	3,852,976
	Net	414,442	257,926	540,040	1,162,338	373,776	298,805	3,047,327

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

The estimated liquidity profile to settle the gross claims liabilities is given in note 3.2(e).

The specific insurance risks accepted by the Group fall broadly into the following main categories: reinsurance inwards, marine and major asset property, other property risks, professional indemnity casualty and casualty other insurance risks. These specific categories are defined for risk review purposes only, as each contains risks specific to the nature of the cover provided. They are not exclusively aligned to any specific reportable segment in the Group's operational structure or the primary internal reports reviewed by the chief operating decision-maker. The following describes the policies and procedures used to identify and measure the risks associated with each individual category of business.

Reinsurance inwards

The Group's reinsurance inwards acceptances are primarily focused on large commercial property, homeowner and marine and crop exposures held by other insurance companies predominantly in North America and other developed economies. This business is characterised more by large claims arising from individual events or catastrophes than the high-frequency, low-severity attritional losses associated with certain other business written by the Group. Multiple insured losses can periodically arise out of a single natural or man-made occurrence. The main circumstances that result in claims against the reinsurance inwards book are conventional catastrophes, such as earthquakes or storms, and other events including fires and explosions. The occurrence and impact of these events are very difficult to model over the short term which complicates attempts to anticipate loss frequencies on an annual basis. In those years where there is a low incidence of severe catastrophes, loss frequencies on the reinsurance inwards book can be relatively low.

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

The Group writes reinsurance risks for periods of mainly one year so that contracts can be assessed for pricing and terms and adjusted to reflect any changes in market conditions.

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

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

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

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

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

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

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

Casualty insurance risks
The casualty underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of potential hazard, industry and geography. However, the Group's exposure is more focused towards marine and professional and technological liability risks rather than human bodily injury risks, which are only accepted under limited circumstances. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence and specific losses suffered as a result of electronic or technological failure of software products and websites.

The provision of insurance to cover allegations made against individuals acting in the course of fiduciary or managerial responsibilities, including directors and officers' insurance, is one example of a casualty insurance risk. The Group's casualty insurance contracts mainly experience low severity attritional losses. By nature, some casualty losses may take longer to settle than the other categories of business.

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

ii) Reserving risk
The Group's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 25.

The Group's provision estimates are subject to rigorous review by senior management from all areas of the business. The managed syndicates receive a review of their estimates from independent actuaries. The final provision is approved by the relevant boards on the recommendation of dedicated reserving committees.

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

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

Certain marine and property insurance contracts, such as those relating to subsea and other energy assets and the

3 Management of risk
3.1 Insurance risk
ii) Reserving risk continued

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

For the inwards reinsurance lines, there is often a time lag between the establishment and re-estimate of case reserves and reporting to the Group. The Group works closely with the reinsured to ensure timely reporting and also centrally analyses industry loss data to verify the reported reserves.

3.2 Financial risk
Overview

The Group is exposed to financial risk through its ownership of financial instruments including financial liabilities. These items collectively represent a significant element of the Group's net shareholder funds. The Group invests in financial assets in order to fund obligations arising from its insurance contracts and financial liabilities.

The key financial risk for the Group is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the obligations. The most important elements and economic variables that could result in such an outcome relate to the reliability of fair value measures, equity price risk, interest rate risk, credit risk, liquidity risk and currency risk. The Group's policies and procedures for managing exposure to these specific categories of risk are detailed below.

(a) Reliability of fair values

The Group has elected to carry loans and receivables at amortised cost and all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy. With the exception of unquoted equity investments and the insurance-linked funds shown in note 21, all of the financial investments held by the Group are available to trade in markets and the Group therefore seeks to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade. The fair value of financial assets is measured primarily with reference to their closing bid market prices at the balance sheet date. The ability to obtain quoted bid market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Group. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely related instruments occurring before the balance sheet date but updated for relevant perceived changes in market conditions.

At 31 December 2017, the Group holds asset-backed and mortgage-backed fixed income instruments in its investment portfolio, but has minimal direct exposure to sub-prime asset classes. Together with the Group's investment managers, management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant factors such as credit ratings, collateral, subordination levels and default rates in relation to the securities held. The Group did not experience any material defaults on debt securities during the year.

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

Note 21 provides an analysis of the measurement attributes of the Group's financial instruments.

(b) Equity price risk

The Group is exposed to equity price risk through its holdings of equity and unit trust investments. This is limited to a relatively small and controlled proportion of the overall investment portfolio and the equity and unit trust holdings involved are diversified over a number of companies and industries. The fair value of equity assets in the Group's balance sheet at 31 December 2017 was £334 million (2016: £305 million). These may be analysed as follows:

Nature of equity and unit trust holdings	2017 % weighting	2016 % weighting
Directly held equity securities	3	3
Units held in funds – traditional long only	67	66
Units held in funds – long and short and special strategies	30	31
Geographic focus		
Specific UK mandates	43	41
Global mandates	57	59

The allocation of equity risk is not heavily confined to any one market index so as to reduce the Group's exposure to individual sensitivities. We make an allocation to less volatile, absolute return strategies within our risk assets, so as to balance our desire to maximise returns with the need to ensure capital is available to support our underwriting throughout any downturn in financial markets. A 10% downward correction in equity prices at 31 December 2017 would have been expected to reduce Group equity and profit after tax for the year by approximately £30.5 million (2016: £28.0 million) assuming that the only area impacted was equity financial assets. A 10% upward movement is estimated to have an equal but opposite effect.

(c) Interest rate risk

Fixed income investments represent a significant proportion of the Group's assets and the Board continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Group is able to underwrite or its ability to settle claims as they fall due. The fair value of the Group's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Group's debt and fixed income investments would tend to fall and vice versa if credit spreads remained constant. Debt and fixed income assets are predominantly invested in high-quality corporate, government and asset-backed bonds. The investments typically have relatively short durations and terms to maturity. The portfolio is managed to minimise the impact of interest rate risk on anticipated Group cash flows.

3 Management of risk
3.2 Financial risk
(c) Interest rate risk continued

The Group may also, from time to time, enter into interest rate future contracts in order to reduce interest rate risk on specific portfolios. The fair value of debt and fixed income assets in the Group's balance sheet at 31 December 2017 was £3,430 million (2016: £3,415 million). These may be analysed below as follows:

Nature of debt and fixed income holdings	2017 % weighting	2016 % weighting
Government issued bonds and instruments	34	30
Agency and government supported debt	14	13
Asset-backed securities	3	5
Mortgage-backed instruments – agency	4	5
Mortgage-backed instruments – non-agency	1	2
Mortgage-backed instruments – commercial	1	1
Corporate bonds	40	41
Lloyd's deposits and bond funds	3	3

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity-based sensitivity analysis, if market interest rates had risen by 100 basis points at the balance sheet date, the Group equity and profit after tax for the year might have been expected to decrease by approximately £53 million (2016: £61 million) assuming that the only balance sheet area impacted was debt and fixed income financial assets. Duration is the weighted average length of time required for an instrument's cash flow stream to be recovered, where the weightings involved are based on the discounted present values of each cash flow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity. Convexity measures the sensitivity of modified duration to changes in the yield to maturity. Using these three concepts, scenario modeling derives the above estimated impact on instruments' fair values for a 100 basis point change in the term structure of market interest rates.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. The Group's debt and fixed income assets are further detailed at note 18.

At 31 December 2017, no amounts were outstanding on the Group's borrowing facility (2016: £nil). At 31 December 2017, the Group had long-term debt of £275 million (2016: £275 million) being fixed-to-floating rate notes, as explained in note 18. The floating rate becomes effective from November 2025. The Group has no other significant borrowings or other assets or liabilities carrying interest rate risk, other than the facilities and Letters of Credit outlined in note 32.

(d) Credit risk

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

Key areas of exposure to credit risk include:

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

The Group's maximum exposure to credit risk is represented by the carrying values of financial assets and reinsurance assets included in the consolidated balance sheet at any given point in time. The Group does not use credit derivatives or other products to mitigate maximum credit risk exposures on reinsurance assets, but collateral may be requested to be held against these assets. The Group structures the levels of credit risk accepted by placing limits on their exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors with unrelated operations. Reinsurance is used to contain insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The Group Credit Committee assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance as well as detailed analysis from our internal credit analysis team. The financial analysis of reinsurers produces an assessment categorised by S&P rating (or equivalent when not available from S&P).

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

The Committee considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any ongoing negotiations between Group companies and these third parties.

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

3 Management of risk
3.2 Financial risk
(d) Credit risk continued

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

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

As at 31 December 2017	Note	AAA £000	AA £000	A £000	Other/ non-rated £000	Total £000
Debt and fixed income securities	18	600,567	1,635,200	691,056	503,420	3,430,243
Deposits with credit institutions	18	–	1,892	2,595	833	5,320
Reinsurance assets	17	365,071	214,635	774,749	3,511	1,357,966
Cash and cash equivalents	22	117,544	33,700	472,547	18,998	642,789
Total		1,083,182	1,885,427	1,940,947	526,762	5,436,318
Amounts attributable to largest single counterparty		177,715	929,153	87,357	16,602	

As at 31 December 2016	Note	AAA £000	AA £000	A £000	Other/ non-rated £000	Total £000
Debt and fixed income securities	18	631,414	1,577,814	651,362	554,359	3,414,949
Deposits with credit institutions	18	–	5,194	5,252	14,146	24,592
Reinsurance assets	17	196,484	165,708	419,598	23,859	805,649
Cash and cash equivalents	22	21,188	87,641	531,178	24,809	664,816
Total		849,086	1,836,357	1,607,390	617,173	4,910,006
Amounts attributable to largest single counterparty		155,887	793,654	179,857	23,756	

Within the fixed income portfolios, which include debt securities, deposits with credit institutions and cash equivalent assets, there are exposures to a range of government borrowers, on either a direct or guaranteed basis, and banking institutions. The Group, together with its investment managers, closely manages its geographical exposures across government issued and supported debt.

The largest counterparty exposure within the AAA rating at 31 December 2017 is a fully collateralised recoverable from Kiskadee (2016: German government). For the AA rating it is with the US Treasury at both 31 December 2017 and 2016. Other/non-rated assets include £462 million rated as BBB (2016: £511 million).

At 31 December 2017 and 2016 the Group held no material debt or fixed income assets that were past due or impaired beyond their reported fair values. For the current period and prior period, the Group did not experience any material defaults on debt securities.

The Group's AAA rated reinsurance assets include fully collateralised positions at 31 December 2017 and 2016.

(e) Liquidity risk

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

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

3 Management of risk
3.2 Financial risk
(e) Liquidity risk continued

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

Fair values at balance sheet date analysed by contractual maturity	Debt and fixed income securities £000	Deposits with credit institutions £000	Cash and cash equivalents £000	**2017 Total £000**	2016 Total £000
Less than one year	796,587	4,030	642,789	**1,443,406**	1,392,555
Between one and two years	1,065,768	1,290	–	**1,067,058**	1,007,139
Between two and five years	1,174,164	–	–	**1,174,164**	1,183,179
Over five years	393,724	–	–	**393,724**	521,484
Total	3,430,243	5,320	642,789	**4,078,352**	4,104,357

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

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

Average contractual maturity analysed by denominational currency of investments as at 31 December	**2017 Years**	2016 Years
Pound Sterling	**3.67**	3.37
US Dollar	**3.63**	4.07
Euro	**2.39**	3.96
Canadian Dollar	**1.92**	1.90

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

Liquidity requirements to settle estimated profile of gross claim liabilities on balance sheet	Within one year £000	Between one and two years £000	Between two and five years £000	Over five years £000	**2017 Total £000**
Reinsurance inwards	434,435	270,428	205,379	46,879	**957,121**
Property – marine and major assets	85,099	52,171	43,371	11,385	**192,026**
Property – other assets	264,684	154,113	70,514	8,251	**497,562**
Casualty – professional indemnity	299,922	287,940	266,957	101,673	**956,492**
Casualty – other risks	115,755	86,990	140,687	54,471	**397,903**
Other*	149,488	38,322	27,333	6,393	**221,536**
Total	**1,349,383**	**889,964**	**754,241**	**229,052**	**3,222,640**

Liquidity requirements to settle estimated profile of gross claim liabilities on balance sheet	Within one year £000	Between one and two years £000	Between two and five years £000	Over five years £000	2016 Total £000
Reinsurance inwards	227,438	117,669	123,975	42,663	511,745
Property – marine and major assets	119,114	73,272	78,464	27,488	298,338
Property – other assets	202,617	84,902	41,573	11,223	340,315
Casualty – professional indemnity	231,754	243,872	279,303	117,541	872,470
Casualty – other risks	86,609	72,901	138,789	63,555	361,854
Other*	103,556	31,794	29,051	16,701	181,102
Total	971,088	624,410	691,155	279,171	2,565,824

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

Details of the payment profile of the Group's borrowings, derivative instruments and other liabilities are given in notes 20 and 26.

(f) Currency risk

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

- structural foreign exchange risk through consolidation of net investments in subsidiaries with different functional currencies within the Group results; and
- operational foreign exchange risk through routinely entering into insurance, investment and operational contracts, as a Group of international insurance entities serving international communities, where rights and obligations are denominated in currencies other than each respective entity's functional currency.

3 Management of risk
3.2 Financial risk
(f) Currency risk continued

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

At a consolidated level, the Group is exposed to foreign exchange gains or losses on balances held between Group companies where one party to the transaction has a functional currency other than Pound Sterling. To the extent that such gains or losses are considered to relate to economic hedges and intragroup borrowings, they are disclosed separately in order for users of the financial statements to obtain a fuller understanding of the Group's financial performance (note 12).

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

Operational foreign exchange risk is controlled within the Group's individual entities. The assets of the Group's overseas operations are generally invested in the same currencies as their underlying insurance and investment liabilities, intended to produce a natural hedge. Due attention is paid to local regulatory solvency and risk-based capital requirements. Details of all foreign currency derivative contracts entered into with external parties are given in note 20. All foreign currency derivative transactions with external parties are managed centrally. Included in the tables below are net non-monetary liabilities of £205 million (2016: £249 million) which are denominated in foreign currencies.

As a result of the accounting treatment for non-monetary items, the Group may also experience volatility in its income statement during a period when movements in foreign exchange rates fluctuate significantly. In accordance with IFRS, non-monetary items are recorded at original transaction rates and are not remeasured at the reporting date. These items include unearned premiums, deferred acquisition costs and reinsurers' share of unearned premiums. Consequently, a mismatch arises in the income statement between the amount of premium recognised at historical transaction rates, and the related claims which are retranslated using currency rates in force at the reporting date. The Group considers this to be a timing issue which can cause significant volatility in the income statement.

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

As at 31 December 2017	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	123,762	12,328	–	1,724	137,814
Property, plant and equipment	40,445	4,136	3,035	998	48,614
Investments in associates	7,387	153	403	–	7,943
Deferred income tax	5,084	33,917	601	–	39,602
Deferred acquisition costs	98,557	179,461	45,766	6,682	330,466
Financial assets carried at fair value	797,714	2,610,476	331,724	67,229	3,807,143
Reinsurance assets	120,261	1,172,615	41,853	23,237	1,357,966
Loans and receivables including insurance receivables	267,667	466,335	67,392	29,310	830,704
Current tax asset	4,210	–	25	–	4,235
Cash and cash equivalents	157,697	329,065	110,987	45,040	642,789
Total assets	1,622,784	4,808,486	601,786	174,220	7,207,276

	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Employee retirement benefit obligations	47,492	–	–	–	47,492
Deferred tax	–	–	–	–	–
Insurance liabilities	885,937	3,045,456	438,397	80,392	4,450,182
Financial liabilities carried at fair value	275,944	13,770	–	–	289,714
Current tax	–	–	6,951	53	7,004
Trade and other payables	177,487	401,544	45,137	34,289	658,457
Total liabilities	1,386,860	3,460,770	490,485	114,734	5,452,849
Total equity	235,924	1,347,716	111,301	59,486	1,754,427

3 Management of risk
3.2 Financial risk
(f) Currency risk continued

As at 31 December 2016	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	114,853	6,647	–	2,224	123,724
Property, plant and equipment	38,997	6,006	2,327	1,095	48,425
Investments in associates	13,383	452	–	–	13,835
Deferred tax	–	40,572	820	–	41,392
Deferred acquisition costs	97,133	200,277	39,918	9,264	346,592
Financial assets carried at fair value	786,614	2,618,118	323,460	63,841	3,792,033
Reinsurance assets	91,211	601,705	60,473	52,260	805,649
Loans and receivables including insurance receivables	254,612	454,752	59,517	34,025	802,906
Current tax asset	2,180	–	226	–	2,406
Cash and cash equivalents	232,225	281,687	94,131	56,773	664,816
Total assets	1,631,208	4,210,216	580,872	219,482	6,641,778

	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Employee retirement benefit obligations	56,139	–	–	–	56,139
Deferred tax	17,030	–	–	–	17,030
Insurance liabilities	847,600	2,480,997	402,105	122,274	3,852,976
Financial liabilities	276,176	–	117	–	276,293
Current tax	17,986	–	3,749	–	21,735
Trade and other payables	200,905	303,595	45,688	49,014	599,202
Total liabilities	1,415,836	2,784,592	451,659	171,288	4,823,375
Total equity	215,372	1,425,624	129,213	48,194	1,818,403

Sensitivity analysis
As at 31 December 2017, the Group used closing rates of exchange of £1:€1.13 and £1:$1.35 (2016: £1:€1.17 and £1:$1.24). The Group performs sensitivity analysis based on a 10% strengthening or weakening of Pound Sterling against the Euro and US Dollar. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities together with the impact on the retranslation of those Group entities with non-Sterling functional currency financial statements. During the year, the Group transacted in a number of over-the-counter forward currency derivative contracts. The impact of these contracts on the sensitivity analysis is negligible.

As at 31 December 2017	December 2017 effect on equity after tax £m	December 2017 effect on profit before tax £m	December 2016 effect on equity after tax £m	December 2016 effect on profit before tax £m
Strengthening of US Dollar	142.8	89.4	149.8	88.4
Weakening of US Dollar	(116.8)	(73.1)	(122.6)	(72.3)
Strengthening of Euro	9.6	11.1	13.3	15.5
Weakening of Euro	(7.9)	(9.1)	(10.9)	(12.7)

(g) Limitations of sensitivity analysis
The sensitivity information given in notes 3.2(a) to (f) demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The same limitations exist in respect to the retirement benefit scheme sensitivities presented in note 29 to these financial statements. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk-free interest rates fall towards zero.

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

3 Management of risk continued
3.3 Capital risk management

The Group's primary objectives when managing its capital position are:

- to safeguard its ability to continue as a going concern, so that it can continue to provide long-term growth and progressive dividend returns for shareholders;
- to provide an adequate return to the Group's shareholders by pricing its insurance products and services commensurately with the level of risk;
- to maintain an efficient cost of capital;
- to comply with all regulatory requirements by a significant margin;
- to maintain financial strength ratings of A in each of its insurance entities; and
- to settle policyholders' claims as they arise.

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

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

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

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

Gearing

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

- Letter of Credit and revolving credit facility – the Group's main facility of US$500 million may be drawn as cash (under a revolving credit facility), utilised as Letter of Credit or a combination thereof. This facility was reduced to $500 million from US$875 million in December 2015 by the Company's subsidiary Hiscox plc with the maximum cash portion reduced from US$400 million to US$300 million. This enables the Group to utilise the Letter of Credit as Funds at Lloyd's to support underwriting on the 2016, 2017 and 2018 years of account. The revolving credit facility has a maximum three-year contractual period for repayment. At 31 December 2017 US$10 million was utilised by way of Letter of Credit to support the Funds at Lloyd's requirement and there were no cash drawings outstanding (2016: US$10 million and £nil respectively) to support general trading activities. The funds raised through Letters of Credit and loan facilities have been applied to support both the 2017 year of account for Syndicates 33 and 3624;
- £275 million of fixed-to-floating rate subordinated notes that are classified as Tier 2 debt. This was raised in November 2015 and matures in 2045. The debt is rated BBB- by S&P and Fitch;
- external Names – 27.4% of Syndicate 33's capacity is capitalised by third parties paying a profit share of approximately 20%;
- Syndicate 6104 at Lloyd's – with a capacity of £56 million for the 2018 year of account (2017 year of account: £56 million). This Syndicate is wholly backed by external members and takes pure years of account quota share of Syndicate 33's international property catastrophe reinsurance account;
- gearing quota shares – historically the Group has used reinsurance capital to fund its capital requirement for short-term expansions in the volume of business underwritten by the Syndicate; and
- qualifying quota shares – these are reinsurance arrangements that allow the Group to increase the amount of premium it writes.

Financial strength

The financial strength ratings of the Group's significant insurance company subsidiaries are outlined below:

	A.M. Best	Fitch	S&P
Hiscox Insurance Company Limited	A (Excellent)	A+	A (Strong)
Hiscox Insurance Company (Bermuda) Limited	A (Excellent)	A+	A (Strong)
Hiscox Insurance Company (Guernsey) Limited	A (Excellent)	A+	–
Hiscox Insurance Company Inc.	A (Excellent)	–	–
Hiscox Société Anonyme	–	–	A (Strong)

Syndicate 33 benefits from an A.M. Best rating of A (Excellent). In addition, the Syndicate also benefits from the Lloyd's ratings of A (Excellent) from A.M. Best, A+ (Strong) from S&P and AA- (Very strong) from Fitch.

Capital performance

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

Capital modeling and regulation

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

The Group's capital requirements are managed both centrally and at a regulated entity level. The assessed capital requirement for the business placed through Hiscox Insurance Company Limited, Hiscox Insurance Company (Bermuda) Limited, Hiscox Insurance Company (Guernsey) Limited, Hiscox Insurance Company Inc. and Hiscox Société Anonyme is driven by the level of resources necessary to maintain both regulatory requirements and the capital necessary to maintain financial strength of an A rating.

3 Management of risk

3.3 Capital risk management

Capital modeling and regulation continued

The Group's regulatory capital is supervised by the Bermuda Monetary Authority (BMA). The BMA's new regulatory capital requirements became effective on 1 January 2013. The Group had sufficient capital at all times throughout the year to meet these requirements. The BMA is currently trialling changes to its capital requirements. These are expected to be phased in between the 2019 and 2021 year-ends. We are actively monitoring these changes and will take any action necessary to deal with those changes.

The Solvency II regime came into force in the UK on 1 January 2016. This requires insurance companies to calculate their capital requirements using either an internal model or a standard formula. Hiscox Insurance Company Limited uses the standard formula to calculate its regulatory capital requirement. Its risk profile is sufficiently well represented by the standard formula not to warrant going through the internal model approval process. Hiscox's Lloyd's operations use the internal model that has been built to meet the requirements of the Solvency II regime. The model is concentrated specifically on the particular product lines, market conditions and risk appetite of each risk carrier.

For Syndicate 33 and Syndicate 3624, internal model results are uplifted by Lloyd's to the level of capital required to support its ratings. Capital models are used more widely across the Group to monitor exposure to key risk types, inform decision-making and measure ROE across different segments of the business.

From the 2016 year end, the Group has been required to publish a financial condition report, as part of its regulatory filing with the BMA. This is a public document and sets out the financial performance and solvency position of the Group in accordance with the economic balance sheet return filed with the BMA.

It is intended to provide the public with certain information to be able to make informed assessments about the Group.

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

3.4 Tax risk

The Group is subject to income taxes levied by the various jurisdictions in which the Group operates, and the division of taxing rights between these jurisdictions results in the Group tax expense and effective rate of income tax disclosed in these financial statements. Due to the Group's operating model, there is an unquantifiable risk that this division of taxing rights could be altered materially, either by a change to the tax residence, or permanent establishment profile, of Hiscox Ltd or its principal subsidiaries; or due to the re-pricing or re-characterisation for tax purposes of transactions between members of the Group, under local transfer pricing or related tax legislation. The Group seeks to manage this risk by:

- maintaining appropriate internal policies and controls over its operations worldwide;
- monitoring compliance with these policies on an ongoing basis;
- adhering to internationally recognised best practice in determining the appropriate division of profits between taxing jurisdictions.

4 Operating segments

The Group's operating segment reporting follows the organisational structure and management's internal reporting systems, which form the basis for assessing the financial reporting performance of, and allocation of resource to each business segment. The Group's four primary business segments are identified as follows:

- **Hiscox Retail** brings together the results of the UK and Europe, and Hiscox International being the USA, Special Risks and Asia retail business divisions. Hiscox UK and Europe underwrite European personal and commercial lines of business through Hiscox Insurance Company Limited, together with the fine art and non-US household insurance business written through Syndicate 33. In addition, the UK includes elements of specialty and international employees and officers' insurance written by Syndicate 3624 and Hiscox Europe excludes the kidnap and ransom business written by Hiscox Insurance Company Limited. Hiscox International comprises the specialty and fine art lines written through Hiscox Insurance Company (Guernsey) Limited, and the motor business written via DirectAsia, together with US commercial, property and specialty business written by Syndicate 3624 and Hiscox Insurance Company Inc. via the Hiscox USA business division. It also includes the European kidnap and ransom business written by Hiscox Insurance Company Limited and Syndicate 33.
- **Hiscox London Market** comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines, excluding the kidnap and ransom business. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage and aviation business.
- **Hiscox Re & ILS** is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda, London and Paris. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are included. The segment also includes the performance and fee income from the ILS funds, along with the gains or losses made as a result of our investment in the funds.
- **Corporate Centre** comprises the investment return, finance costs and administrative costs associated with Group management activities. Corporate Centre also includes the majority of foreign currency items on economic hedges and intragroup borrowings. These relate to certain foreign currency items on economic hedges and intragroup borrowings. Further details of these can be found in note 12. Corporate Centre forms a reportable segment due to its investment activities which earn significant external returns.

4 Operating segments continued

All amounts reported below represent transactions with external parties only. In the normal course of trade, the Group's entities enter into various reinsurance arrangements with one another. The related results of these transactions are eliminated on consolidation and are not included within the results of the segments. This is consistent with the information used by the chief operating decision-maker when evaluating the results of the Group. Performance is measured based on each reportable segment's profit before tax.

(a) Profit before tax by segment

	Year to 31 December 2017					Year to 31 December 2016*				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000	Total £000
Gross premiums written	1,423,916	581,686	543,677	–	2,549,279	1,181,384	726,045	495,150	–	2,402,579
Net premiums written	1,298,865	376,217	189,151	–	1,864,233	1,091,969	469,143	226,831	–	1,787,943
Net premiums earned	1,229,859	435,664	208,958	–	1,874,481	1,020,531	443,129	211,353	–	1,675,013
Investment result	22,777	11,256	21,677	25,553	81,263	30,390	12,289	10,058	17,893	70,630
Other income	27,425	10,790	3,375	365	41,955	14,075	9,121	13,704	694	37,594
Total income	1,280,061	457,710	234,010	25,918	1,997,699	1,064,996	464,539	235,115	18,587	1,783,237
Claims and claim adjustment expenses, net of reinsurance	(560,008)	(310,495)	(146,498)	–	(1,017,001)	(396,137)	(260,468)	(83,167)	–	(739,772)
Expenses for the acquisition of insurance contracts	(311,143)	(123,987)	(20,975)	–	(456,105)	(262,545)	(137,177)	(10,118)	–	(409,840)
Operational expenses	(298,440)	(47,690)	(41,345)	(22,905)	(410,380)	(286,704)	(56,871)	(47,644)	(20,139)	(411,358)
Foreign exchange gains/(losses)	(411)	(11,771)	(4,075)	(46,496)	(62,753)	37,248	34,991	22,959	57,210	152,408
Total expenses	(1,170,002)	(493,943)	(212,893)	(69,401)	(1,946,239)	(908,138)	(419,525)	(117,970)	37,071	(1,408,562)
Results of operating activities	110,059	(36,233)	21,117	(43,483)	51,460	156,858	45,014	117,145	55,658	374,675
Finance costs	(8)	–	(1,331)	(19,524)	(20,863)	–	–	(1,654)	(18,612)	(20,266)
Share of profit of associates after tax	(192)	–	–	393	201	1,137	(1,003)	–	–	134
Profit before tax	109,859	(36,233)	19,786	(62,614)	30,798	157,995	44,011	115,491	37,046	354,543
Profit before tax and foreign exchange gains /(losses)	110,270	(24,462)	23,861	(16,118)	93,551	120,747	9,020	92,532	(20,164)	202,135

*Investment fees have been reclassified from operational expenses to investment result, to record investment result on a net basis.

The following charges are included within the consolidated income statement:

	Year to 31 December 2017					Year to 31 December 2016				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000	Total £000
Depreciation	3,882	756	589	324	5,551	3,105	397	167	249	3,918
Amortisation of intangible assets	11,056	2,964	465	96	14,581	14,555	2,694	572	77	17,898
Impairment of intangible assets	1,519	–	–	–	1,519	6,346	–	–	–	6,346
Total	16,457	3,720	1,054	420	21,651	24,006	3,091	739	326	28,162

4 Operating segments

(a) Profit before tax by segment continued

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

	Year to 31 December 2017					Year to 31 December 2016*				
100% ratio analysis	Hiscox Retail	Hiscox London Market	Hiscox Re & ILS	Corporate Centre	Total	Hiscox Retail	Hiscox London Market	Hiscox Re & ILS	Corporate Centre	Total
Claims ratio (%)	45.2	70.1	71.0	–	54.9	38.4	57.4	39.1	–	44.2
Expense ratio (%)	49.3	38.6	27.9	–	43.9	53.4	42.0	25.8	–	46.4
Combined ratio excluding foreign exchange impact (%)	94.5	108.7	98.9	–	98.8	91.8	99.4	64.9	–	90.6
Foreign exchange impact (%)	0.1	2.9	2.4	–	1.1	(3.8)	(8.7)	(11.9)	–	(6.4)
Combined ratio (%)	94.6	111.6	101.3	–	99.9	88.0	90.7	53.0	–	84.2

*Investment fees have been reclassified from operational expenses to investment return, to record investment return on a net basis.

The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts, and operational expenses, including profit-related pay, as a proportion of net premiums earned. The foreign exchange impact ratio is calculated as the foreign exchange gains or losses as a proportion of net premiums earned. The combined ratio is the total of the claims, expenses and foreign exchange impact ratios. All ratios are calculated using the 100% results.

Costs allocated to the Corporate Centre are non-underwriting related costs and are not included within the combined ratio. The impact on profit before tax of a 1% change in each component of the segmental combined ratios is shown in the following table. Any further ratio change is linear in nature.

	Year to 31 December 2017				Year to 31 December 2016			
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000
At 100% level (note 4b)								
1% change in claims or expense ratio	12,585	5,459	2,438	–	10,468	5,502	2,425	–
At Group level								
1% change in claims or expense ratio	12,299	4,357	2,090	–	10,205	4,431	2,114	–

(b) 100% operating result by segment

	Year to 31 December 2017					Year to 31 December 2016*				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000	Total £000
Gross premiums written	1,457,519	757,827	618,085	–	2,833,431	1,212,774	894,825	565,006	–	2,672,605
Net premiums written	1,329,426	482,533	224,203	–	2,036,162	1,119,546	581,322	263,452	–	1,964,320
Net premiums earned	1,258,474	545,894	243,759	–	2,048,127	1,046,838	550,229	242,462	–	1,839,529
Investment result	23,415	14,684	22,645	25,553	86,297	31,428	16,190	11,174	17,893	76,685
Other income	23,847	2,722	1,935	365	28,869	8,693	2,331	8,754	694	20,472
Claims and claim adjustment expenses, net of reinsurance	(569,558)	(382,623)	(172,966)	–	(1,125,147)	(402,508)	(315,951)	(94,819)	–	(813,278)
Expenses for the acquisition of insurance contracts	(320,516)	(153,320)	(22,101)	–	(495,937)	(270,986)	(165,131)	(10,337)	–	(446,454)
Operational expenses	(299,519)	(57,317)	(45,977)	(22,905)	(425,718)	(288,039)	(65,898)	(52,135)	(20,139)	(426,211)
Foreign exchange (losses)/gains	(869)	(15,928)	(5,846)	(46,496)	(69,139)	40,115	48,101	28,927	57,210	174,353
Results of operating activities	115,274	(45,888)	21,449	(43,483)	47,352	165,541	69,871	134,026	55,658	425,096

*Investment fees have been reclassified from operational expenses to investment return, to record investment return on a net basis.

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

4 Operating segments continued

(c) Geographical information

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

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

	Year to 31 December 2017					Year to 31 December 2016				
Gross premium revenues earned from external parties	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re & ILS £000	Corporate Centre £000	Total £000
UK and Ireland	482,679	17,191	8,169	–	508,039	414,060	4,999	3,505	–	422,564
Europe	271,892	43,291	9,988	–	325,171	202,358	22,992	10,572	–	235,922
United States	515,191	493,244	396,657	–	1,405,092	398,678	377,945	312,762	–	1,089,385
Rest of world	64,632	115,047	139,012	–	318,691	86,351	243,292	143,339	–	472,982
	1,334,394	668,773	553,826	–	2,556,993	1,101,447	649,228	470,178	–	2,220,853

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

The following table provides an analysis of the Group's non-current assets by material geographical location excluding financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts:

Non-current assets	2017 total £000	2016 total £000
UK and Ireland	171,604	167,065
Europe	3,617	2,921
United States	16,421	12,333
Rest of world	2,729	3,665
	194,371	185,984

5 Net asset value per share

	2017		2016	
	Net asset value (total equity) £000	Net asset value per share pence	Net asset value (total equity) £000	Net asset value per share pence
Net asset value	1,754,427	618.6	1,818,403	649.9
Net tangible asset value	1,616,613	570.0	1,694,679	605.7

The net asset value per share is based on 283,600,709 shares (2016: 279,805,393 shares), being the shares in issue at 31 December, less those held in treasury and those held by the Group Employee Benefit Trust.

Net tangible assets comprise total equity excluding intangible assets.

6 Return on equity

	2017 £000	2016 £000
Profit for the year (all attributable to owners of the Company)	26,310	336,986
Opening total equity	1,818,403	1,528,829
Adjusted for the time-weighted impact of capital distributions and issuance of shares	(33,766)	(60,742)
Adjusted opening total equity	1,784,637	1,468,087
Return on equity (%)	1.5	23.0

The return on equity is calculated by using profit for the period divided by the adjusted opening total equity. The adjusted opening total equity represents the equity on 1 January of the relevant year as adjusted for time weighted aspects of capital distributions and issuing of shares or treasury share purchases during the period. The time weighted positions are calculated on a daily basis with reference to the proportion of time from the transaction to the end of the period.

7 Investment result

The total result for the Group before taxation comprises:

	Note	2017 £000	2016* £000
Investment income including interest receivable		63,296	54,789
Net realised (losses)/gains on financial investments at fair value through profit or loss		(3,980)	6,416
Net fair value (losses)/gains on financial investments at fair value through profit or loss		27,971	13,631
Investment result – financial assets	8	87,287	74,836
Net fair value (losses)/gains on derivative financial instruments	20	(1,315)	155
Investment expenses		(4,709)	(4,361)
Total result		81,263	70,630

*Investment fees have been reclassified from operational expenses.

8 Analysis of return on financial investments

(a) The weighted average return on financial investments for the year by currency, based on monthly asset values, was:

	2017 %	2016 %
Sterling	2.6	3.2
US Dollar	2.1	1.5
Other	–	0.7

(b) Investment return

	2017		2016	
	£000	%	£000	%
Debt and fixed income securities	42,079	1.2	55,709	1.9
Equities and units in unit trusts	41,453	12.9	17,246	6.2
Deposits with credit institutions/cash and cash equivalents	3,755	0.5	1,881	0.3
Investment result – financial assets	87,287	2.0	74,836	1.9

9 Other income and operational expenses

	2017 £000	2016* £000
Agency-related income	12,549	11,743
Profit commission	9,113	11,720
Other underwriting income	(5,710)	3,666
Other income	26,003	10,465
Other income	41,955	37,594
Wages and salaries	130,517	145,997
Social security cost	23,291	23,288
Pension cost – defined contribution	9,903	8,243
Pension cost – defined benefit	1,756	172
Share-based payments	25,186	26,274
Marketing expenses	53,607	42,051
Depreciation, amortisation and impairment	21,651	28,162
Other expenses	144,469	137,171
Operational expenses	410,380	411,358

*Investment fees have been reclassified to be shown within the investment result in note 7.

Wages and salaries have been shown net of transfers to acquisition and claims expenses.

Other expenses include, but not limited to, legal and professional costs, computer costs, contractor-based costs and property costs. None of the items are individually material.

10 Finance costs

	Note	2017 £000	2016 £000
Interest charge associated with long-term debt	18	16,844	16,844
Interest and expenses associated with bank borrowing facilities		2,664	1,703
Interest and charges associated with Letters of Credit	32	705	580
Interest charges on experience account		650	1,139
		20,863	20,266

11 Auditor's remuneration

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

Group	2017 £000	2016 £000
Amounts receivable by the auditor and associates in respect of:		
The auditing of the accounts of any associate of the Group	1,934	1,349
All audit-related regulatory services	206	196
All non-audit-related assurance services	200	315
	2,340	1,860

The full audit fee payable for the Syndicate 33 audit has been included above, although an element of this is borne by the third-party participants in the Syndicate.

12 Foreign currency items on intragroup borrowings

The Group has loan arrangements, denominated in US Dollars and Euros, in place between certain Group companies. In most cases, as one party to each arrangement has a functional currency other than the US Dollar or the Euro, foreign exchange losses/(gains) arise which are not eliminated through the income statement on consolidation. Implicit offsetting gains/(losses) are reflected instead on retranslation of the counterparty company's closing balance sheet through other comprehensive income and into the Group's currency translation reserve within equity.

Impact as at 31 December 2017	Consolidated income statement 2017 £000	Consolidated other comprehensive income 2017 £000	Total impact on equity 2017 £000
Unrealised translation (losses)/gains on intragroup borrowings	(37)	37	–
Total (losses)/gains recognised	(37)	37	–

Impact as at 31 December 2016	Consolidated income statement 2016 £000	Consolidated other comprehensive income 2016 £000	Total impact on equity 2016 £000
Unrealised translation gains/(losses) on intragroup borrowings	8,146	(8,146)	–
Total gains/(losses) recognised	8,146	(8,146)	–

13 Goodwill and intangible assets

	Goodwill £000	Syndicate capacity £000	State authorisation licences £000	Software and development costs £000	Other £000	Total £000
At 1 January 2016						
Cost	10,165	24,505	6,308	90,205	43,902	175,085
Accumulated amortisation and impairment	(2,430)	–	–	(39,529)	(6,904)	(48,863)
Net book amount	7,735	24,505	6,308	50,676	36,998	126,222
Year ended 31 December 2016						
Opening net book amount	7,735	24,505	6,308	50,676	36,998	126,222
Acquisitions on purchase of subsidiary	–	–	–	20,735	844	21,579
Other additions	–	–	–	(333)	–	(333)
Amortisation charges	–	–	–	(9,766)	(8,132)	(17,898)
Impairment	(163)	–	–	(1,901)	(4,282)	(6,346)
Foreign exchange movements	–	–	–	500	–	500
Closing net book amount	7,572	24,505	6,308	59,911	25,428	123,724
At 31 December 2016						
Cost	10,165	24,505	6,308	110,191	44,746	195,915
Accumulated amortisation and impairment	(2,593)	–	–	(50,280)	(19,318)	(72,191)
Net book amount	7,572	24,505	6,308	59,911	25,428	123,724
Year ended 31 December 2017						
Opening net book amount	7,572	24,505	6,308	59,911	25,428	123,724
Other additions	–	–	–	25,248	5,245	30,493
Amortisation charges	–	–	–	(10,731)	(3,850)	(14,581)
Impairment	(1,245)	–	–	–	(274)	(1,519)
Foreign exchange movements	–	–	–	(303)	–	(303)
Closing net book amount	6,327	24,505	6,308	74,125	26,549	137,814
At 31 December 2017						
Cost	10,165	24,505	6,308	135,031	49,991	226,000
Accumulated amortisation and impairment	(3,838)	–	–	(60,906)	(23,442)	(88,186)
Net book amount	6,327	24,505	6,308	74,125	26,549	137,814

Goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the smallest identifiable unit to which cash flows are generated. £5,480,000 (2016: £5,480,000) is allocated to the Lloyd's corporate member entity CGU and £847,000 (2016: £2,092,000) is allocated to the CGUs within the Hiscox Retail business segment. Goodwill is considered to have an indefinite life and as such is tested annually for impairment based on the recoverable amount which is considered to be the higher of the fair value less cost to sell or value in use.

Value in use is considered to be the best indication of the recoverable amount for goodwill. Value in use calculations are performed using cash flow projections based on financial forecasts covering a five-year period. A discount factor, based on a weighted average cost of capital (WACC) for the Group of 6.7% (2016: 6.6%), has been applied to the projections to determine the net present value. The outcome of the value in use calculation is measured against the carrying value of the asset and, where the carrying value is in excess of the value in use, the asset is written down to this amount.

In 2017, the £1,245,000 impairment recognised in the year for goodwill and is included in operational expenses in the consolidated income statement and relates to Hiscox UK as a CGU (2016: £163,000).

Intangible assets

All intangible assets have a finite useful life except for the Syndicate capacity and US state authorisation licences.

(a) Syndicate capacity

The cost of purchasing the Group's participation in the Lloyd's insurance syndicates is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. Having considered the future prospects of the London insurance market, the Board believes that the Group's ownership of Syndicate capacity will provide economic benefits over an indefinite number of future periods. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life.

13 Goodwill and intangible assets

(a) Syndicate capacity continued

The Group's intangible asset relating to Syndicate capacity has been allocated, for impairment testing purposes, to one individual CGU, being the active Lloyd's corporate member entity. The asset is tested annually for impairment based on its recoverable amount which is considered to be the higher of the asset's fair value less costs to sell or its value in use. The fair value of Syndicate capacity can be determined from the Lloyd's of London Syndicate capacity auctions. Based on the average open market price witnessed in the recent autumn 2017 auction, the carrying value of Syndicate capacity recognised on the balance sheet is significantly below the market price.

(b) US state authorisation licences

US state authorisation licences acquired in business combinations are recognised initially at their fair value. The asset is not amortised, as the Board considers that economic benefits will accrue to the Group over an indefinite number of future periods due to the stability of the US insurance market. The licences are tested annually for impairment, and any accumulated impairment losses recognised are deducted from the historical cost amount to produce the net balance sheet carrying amount. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life.

As part of a business combination in 2007, the Group acquired insurance authorisation licences for 50 US states. This intangible asset has been allocated for impairment testing purposes to one individual CGU, being the Group's North American underwriting business.

The carrying value of this asset is tested for impairment based on its value in use to the Group's US insurer. The value in use is calculated using a discounted projected cash flow based on business plans approved by management, and discounted at the WACC rate. Key assumptions include new business growth, retention rates, market cycle and claims inflation. The results of that test show no impairment is due.

(c) Software and development costs

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

Internally developed computer software is only capitalised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Amortisation of internally developed computer software begins when the software is available for use and is allocated on a straight-line basis over the expected useful life of the asset.

The useful life of the asset is reviewed annually and, if different from previous estimates, is changed accordingly with the change being accounted for as a change in accounting estimates in accordance with IAS 8.

The carrying value of software and development costs is reviewed for impairment on an ongoing basis by reference to the stage and expectation of a project. Additionally, at the end of each reporting period, the Group reviews the positions for any indication of impairment, and as a result of this no impairment was provided for (2016: £1,901,000 relating to the DirectAsia CGU).

At 31 December 2017 there were £18,322,000 of assets under development on which amortisation has yet to be charged (2016: £24,797,000).

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

(d) Rights to customer contractual relationships (included in other)

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

Other intangible assets relate to the costs of acquiring rights to customer contractual relationships. At the end of each reporting period we assess whether there is any indication that customer contractual relationships may be impaired. Where indications of impairment are identified, the carrying value of customer contractual relationships is tested for impairment based on the recoverable amount which is considered to be the higher of the fair value less costs to sell or value in use. The asset's value in use is considered to be the best indication of its recoverable amount. Value in use is calculated for customer contractual relationships in the same manner as described above for goodwill and the same discount rate used. The results of this test led to £274,000 of impairment (2016: £4,282,000) being recognised.

14 Property, plant and equipment

	Land and buildings £000	Leasehold improvements £000	Vehicles £000	Furniture fittings and equipment and art £000	Total £000
At 1 January 2016					
Cost	22,874	6,738	146	52,032	81,790
Accumulated depreciation	(479)	(3,831)	(114)	(30,857)	(35,281)
Net book amount	22,395	2,907	32	21,175	46,509
Year ended 31 December 2016					
Opening net book amount	22,395	2,907	32	21,175	46,509
Additions	–	742	80	3,991	4,813
Disposals	–	–	(4)	(275)	(279)
Depreciation charge	(923)	(703)	(31)	(2,261)	(3,918)
Foreign exchange movements	–	406	2	892	1,300
Closing net book amount	21,472	3,352	79	23,522	48,425
At 31 December 2016					
Cost	22,874	8,549	146	46,691	78,260
Accumulated depreciation	(1,402)	(5,197)	(67)	(23,169)	(29,835)
Net book amount	21,472	3,352	79	23,522	48,425
Year ended 31 December 2017					
Opening net book amount	21,472	3,352	79	23,522	48,425
Additions	–	971	24	5,420	6,415
Disposals	–	(79)	(52)	(220)	(351)
Depreciation charge	(922)	(1,107)	(28)	(3,494)	(5,551)
Foreign exchange movements	–	(205)	–	(119)	(324)
Closing net book amount	20,550	2,932	23	25,109	48,614
At 31 December 2017					
Cost	22,874	8,727	35	51,325	82,961
Accumulated depreciation	(2,324)	(5,795)	(12)	(26,216)	(34,347)
Net book amount	20,550	2,932	23	25,109	48,614

The Group's land and buildings assets relate to freehold property in the UK. There was no impairment charge during the year (2016: £nil). Assets with a net book value of £nil were held under finance leases (2016: £nil).

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

15 Subsidiaries, associates and interests in other entities

This note provides details of the Syndicates and Special Purpose Insurers (SPI) managed by the Group, the acquisition and disposal of subsidiaries and associates during the year, investments in associates, together with details of business held for sale at the year-end.

(a) Subsidiaries

Hiscox Dedicated Corporate Member Limited ('HDCM') underwrites as a corporate member of Lloyd's on the main Syndicates managed by Hiscox Syndicates Limited (the 'main managed Syndicates' numbered 33 and 3624).

As at 31 December 2017, HDCM owned 72.6% of Syndicate 33 (2016: 72.5%), and 100% of Syndicate 3624 (2016: 100%). In view of the several, but not joint liability of, underwriting members at Lloyd's for the transactions of Syndicates in which they participate, the Group's attributable share of the transactions, assets and liabilities of these Syndicates has been included in the financial statements. The Group manages the underwriting of, but does not participate as a member of, Syndicate 6104 at Lloyd's which provides reinsurance to Syndicate 33 on a normal commercial basis. Consequently, aside from the receipt of managing agency fees, defined profit commissions as appropriate and interest arising on effective assets included within the experience account, the Group has no share in the assets, liabilities or transactions of Syndicate 6104, nor is it controlled. The position and performance of that Syndicate is therefore not included in the Group's financial statements.

(b) Special Purpose Insurers

The Kiskadee Diversified Fund and Kiskadee Select Fund ('the Funds') were launched in 2014 to provide investment opportunities to institutional investors in property catastrophe reinsurance and insurance-linked strategies. The Group made an initial investment of £30.2 million in the Funds. The Funds are managed by Hiscox Re Insurance Linked Strategies Ltd (formerly known as Kiskadee Investment Managers Ltd) which is a wholly owned subsidiary of the Group. The majority of the Funds' exposures to reinsurance risk are fronted by the Group into two Bermuda Licensed Special Purpose Insurers ('SPI'), Kiskadee Reinsurance 1 Ltd and Kiskadee Reinsurance 2 Ltd which have been collateralised by the Funds.

Following a significant inflow of capital from third-party investors during 2015, the Group determined that it no longer met the criteria for consolidation of the Funds and SPIs from 1 July 2015 and deconsolidated them.

As at 31 December 2017, the Group recognised a financial asset at fair value of £37.0 million (2016: £46.8 million) in relation to its investment in the Funds (note 18). In assessing the maximum exposure to loss from its interest in the Funds and SPIs, the Group has determined it is no greater than the fair value recognised as at the balance sheet date. The total size of the funds were £606 million at 31 December 2017 (2016: £683 million). In addition to the return on the financial asset, the Group also receives fee income through Hiscox Re Insurance Linked Strategies Ltd and Hiscox Insurance Company (Bermuda) Ltd, both wholly owned subsidiaries, under normal commercial terms.

The Group is exposed to credit risk associated with reinsurance recoverables on risks fronted for the SPIs. Note 3.2(d) discusses how the Group manages credit risk associated with reinsurance assets. The operations of the Funds and SPIs are financed through the issuance of preference shares to external investors. The Group does not intend to provide any further financial support to the Funds or SPIs.

15 Subsidiaries, associates and interests in other entities continued

(c) Investments in associates

Year ended 31 December	2017 £000	2016 £000
At beginning of year	13,835	13,525
Additions during the year	–	450
Disposals during the year	(5,592)	(2)
Distributions received	(501)	(272)
Net profit from investments in associates	201	134
At end of year	7,943	13,835

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

				100% results	
	% interest held at 31 December	Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
2017					
Associates incorporated in the UK and USA	from 17 to 35%	13,102	9,651	15,049	1,103
Associates incorporated in Europe	from 10% to 26%	2,688	1,803	2,116	666
Total at the end of 2017		15,790	11,454	17,165	1,769

				100% results	
	% interest held at 31 December	Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
2016					
Associates incorporated in the UK	from 17 to 35%	53,731	30,456	43,037	3,905
Associates incorporated in Europe	from 10% to 26%	2,323	1,821	2,060	727
Total at the end of 2016		56,054	32,277	45,097	4,632

The equity interests held by the Group in respect of associates do not have quoted market prices and are not traded regularly in any active recognised market. The associates concerned have no material impact on the results or assets of the Group.

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

(d) Disposals

On 1 May 2017, the Group disposed of its subsidiary Blue Hill Specialty Insurance Company Inc. and on 18 September 2017, the Group completed the sale of its investment in Lark (2012) Limited.

As a result of the disposals, the Group has derecognised the assets and liabilities relating to the companies. Below is a table disclosing the impact to the consolidated financial statement following the disposal.

	£000
Total assets no longer recognised in the consolidated balance sheet	(24,556)
Total currency translation reserve no longer recognised in the consolidated balance sheet	1
Cash received on disposal	38,341
Profit recognised in the consolidated income statement	13,786

16 Deferred acquisition costs

	2017			2016		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance deferred at 1 January	346,592	(66,681)	279,911	271,517	(33,211)	238,306
Acquisition costs incurred in relation to insurance contracts written	618,176	(168,419)	449,757	586,115	(157,738)	428,377
Acquisition costs expensed to the income statement	(619,704)	163,599	(456,105)	(538,467)	128,627	(409,840)
Foreign exchange and other adjustments	(14,598)	3,497	(11,101)	27,427	(4,359)	23,068
Balance deferred at 31 December	330,466	(68,004)	(262,462)	346,592	(66,681)	279,911

The deferred amount of insurance contract acquisition costs attributable to reinsurers of £68,004,000 (2016: £66,681,000) is not eligible for offset against the gross balance sheet asset and is included separately within trade and other payables (note 26).

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

	2017 £000	2016 £000
Within one year	238,166	252,837
After one year	24,296	27,074
	262,462	279,911

17 Reinsurance assets

	Note	2017 £000	2016 £000
Reinsurers' share of insurance liabilities		1,358,547	806,245
Provision for non-recovery and impairment		(581)	(596)
Reinsurance assets	25	1,357,966	805,649

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

Within one year	685,781	466,041
After one year	672,185	339,608
	1,357,966	805,649

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 19). The Group recognised a gain during the year of £15,000 (2016: gain of £134,000) in respect of previously impaired balances.

18 Financial assets and liabilities

Financial assets designated at fair value through profit or loss are measured at their bid price values, with all changes from one accounting period to the next being recorded through the income statement.

	Note	2017 £000	2016 £000
Debt and fixed income securities		3,430,243	3,414,949
Equities and shares in unit trusts		334,300	305,342
Deposits with credit institutions		5,320	24,592
Total investments		3,769,863	3,744,883
Insurance-linked fund		36,976	46,821
Derivative financial instruments	20	304	329
Total financial assets carried at fair value		3,807,143	3,792,033

The effective maturity of the debt and fixed income securities due within and after one year are as follows:

	2017 £000	2016 £000
Within one year	796,587	706,700
After one year	2,633,656	2,708,249
	3,430,243	3,414,949

Equities and units in unit trusts do not have any maturity dates. The effective maturity of all other financial assets are due within one year.

An analysis of the credit risk and contractual maturity profiles of the Group's financial instruments is given in notes 3.2(d) and 3.2(e).

	Note	2017 £000	2016 £000
Amounts owed to credit institutions		13,664	–
Derivative financial liabilities	20	121	474
Total financial liabilities carried at fair value		13,785	474

	2017 £000	2016 £000
Long-term debt	274,129	274,019
Accrued interest on long-term debt	1,800	1,800
Total financial liabilities carried at amortised cost	275,929	275,819

All of the financial liabilities carried at fair value are due within one year. The amounts owed to credit institutions relate to outstanding investment trades in trust funds that are not available for offset against the same counterparty under cash and cash equivalents. These positions would be rated A had they have been recorded under cash and cash equivalents. The long-term debt is due after one year, with its accrued interest due within one year.

On 24 November 2015, the Group issued £275.0 million 6.125% fixed-to-floating rate callable subordinated notes due 2045, with a first call date of 2025.

The notes bear interest from and including 24 November 2015 at a fixed rate of 6.125% per annum payable annually in arrears starting 24 November 2016 up until the first call date in November 2025, and thereafter at a floating rate of interest equal to three-month LIBOR plus 5.076% payable quarterly in arrears on each floating interest payment date. The Group is exposed to cash flow interest rate risk on its long-term debt.

On 25 November 2015 the notes were admitted for trading on the London Stock Exchange's regulated market. The notes were rated BBB- by S&P as well as by Fitch.

The fair value of the long-term debt is estimated at £317.4 million (2016: £292.3 million). The fair value measurement is classified within Level 1 of the fair value hierarchy. The fair value is estimated by reference to the actively traded value on the London Stock Exchange.

The interest accrued on the long-term debt was £1.8 million (2016: £1.8 million) at the balance sheet date and is included in financial liabilities.

Note 10 includes details of the interest expense for the year included in financing costs.

18 Financial assets and liabilities continued

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

	2017 £000	2016 £000
Debt and fixed income securities		
Sterling	643,585	623,402
US Dollars	2,390,457	2,406,736
Euro and other currencies	396,201	384,811
	3,430,243	3,414,949
Equities and shares in unit trusts		
Sterling	151,562	159,199
US Dollars	182,738	146,143
Euro and other currencies	–	–
	334,300	305,342
Deposits with credit institutions		
Sterling	2,568	3,903
US Dollars	–	18,199
Euro and other currencies	2,752	2,490
	5,320	24,592
Total investments	3,769,863	3,744,883

19 Loans and receivables including insurance receivables

	2017 £000	2016 £000
Gross receivables arising from insurance and reinsurance contracts	743,727	699,768
Provision for impairment	(1,644)	(1,276)
Net receivables arising from insurance and reinsurance contracts	742,083	698,492
Due from contract holders, brokers, agents and intermediaries	481,888	524,958
Due from reinsurance operations	260,195	173,534
	742,083	698,492
Prepayments and accrued income	11,306	7,713
Other loans and receivables:		
Net profit commission receivable	17,008	21,232
Accrued interest	13,579	12,590
Share of Syndicates' other debtors' balances	22,451	30,223
Other debtors including related party amounts	24,277	32,656
Total loans and receivables including insurance receivables	830,704	802,906

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

Within one year	726,415	720,509
After one year	104,289	82,397
	830,704	802,906

There is no significant concentration of credit risk with respect to loans and receivables as the Group has a large number of internationally dispersed debtors. The Group has recognised a loss of £368,000 (2016: gain of £899,000) for the impairment of receivables during the year ended 31 December 2017. This is recorded under operational expenses in the consolidated income statement. The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

20 Derivative financial instruments

The Group entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2017. The Group had the right and intention to settle each contract on a net basis. The assets and liabilities of these contracts at 31 December 2017 all mature within one year of the balance sheet date and are detailed below:

31 December 2017 Derivative financial instruments included on balance sheet	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Foreign exchange forward contracts	30,196	138	(121)	17
Interest rate futures contracts	122,122	166	–	166
Equity index futures	–	–	–	–

The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below:

Gross fair value of assets	13,823	16,703	30,526
Gross fair value of liabilities	(13,685)	(16,824)	(30,509)
	138	(121)	17

31 December 2016 Derivative financial instruments included on balance sheet	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Foreign exchange forward contracts	26,591	312	(121)	191
Interest rate futures contracts	56,728	17	(106)	(89)
Equity index futures	10,223	–	(247)	(247)

The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below:

Gross fair value of assets	12,724	13,746	26,470
Gross fair value of liabilities	(12,412)	(13,867)	(26,279)
	312	(121)	191

Foreign exchange forward contracts

During the current and prior year the Group entered into a series of conventional over-the-counter forward contracts in order to secure translation gains made on Euro, US Dollar and other non-Pound Sterling denominated monetary assets. The contracts require the Group to forward sell a fixed amount of the relevant currency for Pound Sterling at pre-agreed future exchange rates. The Group made a loss on these forward contracts of £748,000 (2016: gain of £664,000) as included in investment result in note 7. There was no initial purchase cost associated with these instruments.

Interest rate futures contracts

During the year the Group continued short selling a number of government bond futures denominated in a range of currencies to informally hedge interest rate risk on specific long portfolios. All contracts are exchange traded and the Group made a loss on these futures contracts of £423,000 (2016: loss of £111,000) as included in investment result in note 7.

Equity index options

During the year, the Group purchased a number of equity index futures in order to economically hedge equity market exposure. All contracts were exchange traded and the Group made a loss on these future contracts of £144,000 (2016: loss of £398,000) as included in investment result in note 7.

21 Fair value measurements

In accordance with IFRS 13: Fair Value Measurement, the financial instruments carried at fair value, based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value, are provided below.

As at 31 December 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	1,192,934	2,237,309	–	3,430,243
Equities and shares in unit trusts	–	322,914	11,386	334,300
Deposits with credit institutions	5,320	–	–	5,320
Insurance-linked funds	–	–	36,976	36,976
Derivative financial assets	–	304	–	304
Total	1,198,254	2,560,527	48,362	3,807,143
Financial liabilities				
Derivative financial liabilities	–	121	–	121
Total	–	121	–	121

As at 31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	1,005,111	2,409,838	–	3,414,949
Equities and shares in unit trusts	–	293,187	12,155	305,342
Deposits with credit institutions	24,592	–	–	24,592
Insurance-linked fund	–	–	46,821	46,821
Derivative financial assets	–	329	–	329
Total	1,029,703	2,703,354	58,976	3,792,033
Financial liabilities				
Derivative financial liabilities	–	474	–	474
Total	–	474	–	474

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

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

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

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

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, long-term debt and exchange-traded equities which are measured based on quoted prices in active markets. The fair value of the long-term debt that is carried at amortised cost, is estimated at £317.4 million (2016: £292.3 million) and is considered as Level 1 in fair value hierarchy.

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

21 Fair value measurements continued

Level 3 contains investments in a limited partnership, unquoted equity securities and an insurance-linked fund which have limited observable inputs on which to measure fair value. Unquoted equities are carried at fair value. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant. At 31 December 2017, the insurance-linked funds of £36,976,000 represents the Group's investment in the Kiskadee Funds (2016: £46,821,000).

The fair value of the Kiskadee Funds is estimated to be the net asset value as at the balance sheet date. The net asset value is based on the fair value of the assets and liabilities in the Fund. The majority of the assets of the Funds are cash and cash equivalents. Significant inputs and assumptions in calculating the fair value of the assets and liabilities associated with reinsurance contracts written by the Kiskadee Funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the Kiskadee Funds if reasonably different inputs and assumptions were used and has found no significant changes in the valuation.

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred.

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

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

			Financial asset
31 December 2017	Equities and shares in unit trusts £000	Insurance linked fund £000	Total £000
Balance at 1 January	12,155	46,821	58,976
Fair value gains or losses through profit or loss*	(341)	(5,710)	(6,051)
Foreign exchange losses	(217)	(3,687)	(3,904)
Purchases	584	4,000	4,584
Settlements	(795)	(4,448)	(5,243)
Closing balance	11,386	36,976	48,362
Unrealised gains and losses in the year on securities held at the end of the year	(255)	(7,082)	(7,337)

*Fair value gains/(losses) are included within the investment result in the income statement for equities and shares in unit trusts and through other income for the insurance-linked fund.

			Financial asset
31 December 2016	Equities and shares in unit trusts £000	Insurance linked fund £000	Total £000
Balance at 1 January	13,640	40,045	53,685
Fair value gains or losses through profit or loss*	(279)	3,666	3,387
Foreign exchange gains	729	7,719	8,448
Purchases	305	–	305
Settlements	(2,240)	(4,609)	(6,849)
Closing balance	12,155	46,821	58,976
Unrealised gains and losses in the year on securities held at the end of the year	(1,397)	2,305	908

*Fair value gains/(losses) are included within the investment result in the income statement for equities and shares in unit trusts and through other income for the insurance-linked fund.

22 Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	525,002	568,186
Short-term deposits	117,787	96,630
	642,789	664,816

The Group holds its cash deposits with a well-diversified range of banks and financial institutions. Cash includes overnight deposits. Short-term deposits include debt securities with an original maturity date of less than three months and money market funds.

The presentation of the comparative in the cash flow statement in relation to cash derecognised on loss of control has been reclassified to cash inflows from the sale of subsidiaries.

23 Share capital

	31 December 2017		31 December 2016	
Group	Share capital £000	Number of shares 000	Share capital £000	Number of shares 000
Authorised ordinary share capital of 6.5p (2016: 6.5p)	240,000	3,692,308	240,000	3,692,308
Issued ordinary share capital of 6.5p (2016: 6.5p)	19,141	294,484	19,060	293,227

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

Changes in Group share capital and contributed surplus	Ordinary share capital £000	Share premium £000	Contributed surplus £000
At 1 January 2016	19,030	15,231	89,864
Employee share option scheme – proceeds from shares issued	22	1,534	–
Scrip dividends to owners of the Company	8	1,270	–
At 31 December 2016	19,060	18,035	89,864
Employee share option scheme – proceeds from shares issued	58	4,681	–
Scrip dividends to owners of the Company	23	4,412	–
At 31 December 2017	19,141	27,128	89,864

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

During the year, the Group offered its shareholders the option of receiving a scrip dividend alternative to the interim cash dividend. This resulted in the Company paying the shareholders, who opted for a scrip dividend, in shares of equal value to the cash dividend at a specified date. The full dividend was distributed from retained earnings, and the new shares issued for the scrip dividend were reflected in share capital and share premium.

The Company relies upon dividend streams from its subsidiary companies to provide the cash flow required for distributions to be made to shareholders. The ability of the subsidiaries to pay dividends is subject to regulatory restrictions within the jurisdiction from which they operate.

Share repurchase

The Trustees of the Group's Employee Benefit Trust did not purchase any Hiscox Ltd shares during the year. In 2016, shares to the value of £38,558,000 were purchased to facilitate the settlement of vesting awards under the Group's Performance Share Plan. As the trust is consolidated into the Group financial results, these purchases have been accounted for in the same way as treasury shares and have been charged against retained earnings. The shares are held by the Trustees for the beneficiaries of the Trust.

Equity structure of Hiscox Ltd	Note	Number of ordinary shares in issue (thousands) 2017	Number of ordinary shares in issue (thousands) 2016
At 1 January		293,227	292,776
Employee share option scheme – ordinary shares issued		897	332
Scrip dividends to owners of the Company	31	360	119
At 31 December		294,484	293,227

All issued shares are fully paid.

23 Share capital continued

Share options and Performance Share Plan awards

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

In accordance with IFRS 2 the Group recognises an expense for the fair value of share option and Performance Share Plan award instruments issued to employees, over their vesting period through the income statement. The expense recognised in the consolidated income statement during the year was £25,186,000 (2016: £26,274,000). This comprises charges of £24,390,000 (2016: £25,585,000) in respect of Performance Share Plan awards and £796,000 (2016: £689,000) in respect of share option awards. The Group has applied the principles outlined in the Black-Scholes option pricing model when determining the fair value of each share option instrument.

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

Assumptions affecting inputs to fair value models	2017	2016
Annual risk-free rates of return and discount rates (%)	0.19-0.26	0.16-0.55
Long-term dividend yield (%)	3.09	3.59
Expected life of options (years)	3.25	3.25
Implied volatility of share price (%)	22.0	22.0
Weighted average share price (p)	1,139.3	966.7

The weighted average fair value of each share option granted during the year was 223.6p (2016: 183.8p). The weighted average fair value of each Performance Share Plan award granted during the year was 1,127.1p (2016: 961.8p).

Movements in the number of share options and Performance Share Plan awards during the year and details of the balances outstanding at 31 December 2017 for the Executive Directors are shown in the annual report on remuneration. The total number of options and Performance Share Plan awards outstanding is 10,009,723 (2016: 10,848,727) of which 2,966,870 are exercisable (2016: 2,528,736). The total number of SAYE options outstanding is 1,580,570 (2016: 1,971,842).

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

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

24 Retained earnings and other reserves

	2017 £000	2016 £000
Currency translation reserve at 31 December	148,789	202,272
Retained earnings at 31 December	1,468,639	1,488,306

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

The Group did not purchase its own shares during 2017. In 2016, the Group purchased £38,558,000 of its own shares and placed them in the Trust for future utilisation on vesting of Performance Share Plan awards.

At 31 December 2017 Hiscox Ltd held 7,523,190 shares in treasury (2016: 7,523,190). Additional details are shown in note 34 to these financial statements in respect of additional Hiscox Ltd shares held by subsidiaries.

25 Insurance liabilities and reinsurance assets

	Note	2017 £000	2016 £000
Gross			
Claims reported and claim adjustment expenses		1,204,509	977,664
Claims incurred but not reported		2,018,131	1,588,160
Unearned premiums		1,227,542	1,287,152
Total insurance liabilities, gross		4,450,182	3,852,976
Recoverable from reinsurers			
Claims reported and claim adjustment expenses		361,657	159,141
Claims incurred but not reported		743,748	383,974
Unearned premiums		252,561	262,534
Total reinsurers' share of insurance liabilities	17	1,357,966	805,649
Net			
Claims reported and claim adjustment expenses		842,852	818,523
Claims incurred but not reported		1,274,383	1,204,186
Unearned premiums		974,981	1,024,618
Total insurance liabilities, net		3,092,216	3,047,327

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

	2017 £000	2016 £000
Within one year	1,778,462	1,674,538
After one year	1,313,754	1,372,789
	3,092,216	3,047,327

The gross claims reported, the claims adjustment expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2017 and 2016 are not material.

25 Insurance liabilities and reinsurance assets continued

25.1 Insurance contracts assumptions

(a) Process used to decide on assumptions

There are many risks associated with insurance contracts, and this means that there is a considerable amount of uncertainty in estimating the future settlement cost of claims. There is uncertainty in both the amounts and the timing of future claim payment cash flows.

Claims paid are claims transactions settled up to the reporting date including settlement expenses allocated to those transactions.

Unpaid claims reserves are made for known or anticipated liabilities which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims.

The Group relies on actuarial analysis to estimate the settlement cost of future claims. There is close communication between the actuaries and other key stakeholders, such as the underwriters, claims and finance teams when setting and validating the assumptions. The unpaid claims reserve is estimated based on past experience and current expectations of future cost levels. Allowance is made for the current premium rating and inflationary environment.

The claim reserves are estimated on a best estimate basis, taking into account current market conditions and the nature of risks being underwritten.

Under certain insurance contracts, the Group may be permitted to sell property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). If it is certain a recovery or reimbursement will be made at the valuation date, specific estimates of these salvage and/or subrogation amounts are included as allowances in the measurement of the insurance liability for unpaid claims. This is then recognised in insurance and reinsurance receivables when the liability is settled.

Estimates of where claim liabilities will ultimately settle are adjusted each reporting period to reflect emerging claims experience. Changes in expected claims may result in a reduction or an increase in the ultimate claim costs and a release or an increase in reserves in the period in which the change occurs.

Booked reserves are held above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy. This approach is consistent with last year.

(b) Claims development tables

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

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

25 Insurance liabilities and reinsurance assets

25.1 Insurance contracts assumptions

(b) Claims development tables continued

Insurance claims and claim adjustment expenses reserves – gross at 100%

Accident year	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:	1,266,621	949,379	1,149,653	1,478,091	1,235,048	989,712	1,082,686	1,163,310	1,444,780	2,521,450	13,280,730
one year later	1,069,702	779,112	971,422	1,331,894	1,098,396	865,236	919,764	1,039,545	1,282,020	–	9,357,091
two years later	1,041,562	714,642	905,958	1,291,195	1,016,367	770,982	852,869	957,756	–	–	7,551,331
three years later	997,119	710,704	892,030	1,301,401	1,013,920	720,272	817,362	–	–	–	6,452,808
four years later	959,217	709,616	868,533	1,281,243	1,005,456	719,687	–	–	–	–	5,543,752
five years later	920,888	705,018	853,705	1,244,585	998,221	–	–	–	–	–	4,722,417
six years later	910,027	691,149	832,477	1,193,663	–	–	–	–	–	–	3,627,316
seven years later	895,707	689,127	819,209	–	–	–	–	–	–	–	2,404,043
eight years later	885,864	672,197	–	–	–	–	–	–	–	–	1,558,061
nine years later	888,380	–	–	–	–	–	–	–	–	–	888,380
Current estimate of cumulative claims	888,380	672,197	819,209	1,193,663	998,221	719,687	817,362	957,756	1,282,020	2,521,450	10,869,945
Cumulative payments to date	(866,500)	(632,943)	(759,806)	(1,113,670)	(844,017)	(618,610)	(667,960)	(639,665)	(657,997)	(481,399)	(7,282,567)
Liability recognised at 100% level	21,880	39,254	59,403	79,993	154,204	101,077	149,402	318,091	624,023	2,040,051	3,587,378
Liability recognised in respect of prior accident years at 100% level											145,810
Total gross liability to external parties at 100% level											3,733,188

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2017.

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

Accident year	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
Current estimate of cumulative claims	888,380	672,197	819,209	1,193,663	998,221	719,687	817,362	957,756	1,282,020	2,521,450	10,869,945
Less: attributable to external Names	(170,298)	(116,337)	(128,818)	(174,624)	(129,405)	(78,888)	(90,645)	(103,769)	(143,092)	(346,420)	(1,482,296)
Group's share of current ultimate claims estimate	718,082	555,860	690,391	1,019,039	868,816	640,799	726,717	853,987	1,138,928	2,175,030	9,387,649
Cumulative payments to date	(866,500)	(632,943)	(759,806)	(1,113,670)	(844,017)	(618,610)	(667,960)	(639,665)	(657,997)	(481,399)	(7,282,567)
Less: attributable to external Names	167,206	109,944	115,793	158,677	109,232	66,774	72,675	67,167	72,099	64,815	1,004,382
Group's share of cumulative payments	(699,294)	(522,999)	(644,013)	(954,993)	(734,785)	(551,836)	(595,285)	(572,498)	(585,898)	(416,584)	(6,278,185)
Liability for 2008 to 2017 accident years recognised on Group's balance sheet	18,788	32,861	46,378	64,046	134,031	88,963	131,432	281,489	553,030	1,758,446	3,109,464
Liability for accident years before 2008 recognised on Group's balance sheet											113,176
Total Group liability to external parties included in balance sheet – gross**											3,222,640

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

25 Insurance liabilities and reinsurance assets

25.1 Insurance contracts assumptions

(b) Claims development tables continued

Insurance claims and claim adjustment expenses reserves – net at 100%

Accident year	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:	874,319	770,050	909,622	1,134,891	898,706	853,422	884,251	941,762	1,100,293	1,387,895	9,755,211
one year later	777,422	640,573	794,340	1,047,635	790,634	754,513	769,648	865,225	992,943	–	7,432,933
two years later	775,934	610,232	749,016	1,005,876	732,953	677,509	700,338	792,593	–	–	6,044,451
three years later	730,412	612,801	729,846	1,003,399	707,487	627,356	656,820	–	–	–	5,068,121
four years later	695,799	602,146	707,349	996,201	700,150	624,512	–	–	–	–	4,326,157
five years later	682,857	599,370	702,389	957,060	703,822	–	–	–	–	–	3,645,498
six years later	674,391	586,697	678,767	929,696	–	–	–	–	–	–	2,869,551
seven years later	660,192	582,642	667,599	–	–	–	–	–	–	–	1,910,433
eight years later	650,361	566,952	–	–	–	–	–	–	–	–	1,217,313
nine years later	652,969	–	–	–	–	–	–	–	–	–	652,969
Current estimate of cumulative claims	652,969	566,952	667,599	929,696	703,822	624,512	656,820	792,593	992,943	1,387,895	7,975,801
Cumulative payments to date	(633,834)	(532,229)	(627,636)	(863,133)	(573,940)	(536,143)	(517,849)	(511,332)	(517,604)	(369,105)	(5,682,805)
Liability recognised at 100% level	19,135	34,723	39,963	66,563	129,882	88,369	138,971	281,261	475,339	1,018,790	2,292,996
Liability recognised in respect of prior accident years at 100% level											102,358
Total net liability to external parties at 100% level											2,395,354

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2017.

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

Accident year	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
Current estimate of cumulative claims	652,969	566,952	667,599	929,696	703,822	624,512	656,820	792,593	992,943	1,387,895	7,975,801
Less: attributable to external Names	(117,941)	(92,225)	(95,349)	(125,164)	(74,881)	(64,029)	(68,368)	(82,307)	(101,243)	(151,590)	(973,097)
Group's share of current ultimate claims estimate	535,028	474,727	572,250	804,532	628,941	560,483	588,452	710,286	891,700	1,236,305	7,002,704
Cumulative payments to date	(633,834)	(532,229)	(627,636)	(863,133)	(573,940)	(536,143)	(517,849)	(511,332)	(517,604)	(369,105)	(5,682,805)
Less: attributable to external Names	115,138	86,597	86,995	113,555	58,819	53,760	54,316	51,937	51,257	46,906	719,280
Group's share of cumulative payments	(518,696)	(445,632)	(540,641)	(749,578)	(515,121)	(482,383)	(463,533)	(459,395)	(466,347)	(322,199)	(4,963,525)
Liability for 2008 to 2017 accident years recognised on Group's balance sheet	16,332	29,095	31,609	54,954	113,820	78,100	124,919	250,891	425,353	914,106	2,039,179
Liability for accident years before 2008 recognised on Group's balance sheet											78,056
Total Group liability to external parties included in balance sheet – net**											2,117,235

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

25 Insurance liabilities and reinsurance assets continued
25.2 Movements in insurance claims liabilities and reinsurance claims assets

	2017			2016		
Year ended 31 December	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Total at beginning of year	(2,565,824)	543,115	(2,022,709)	(2,038,096)	365,477	(1,672,619)
Claims and claim adjustment expenses for year	(1,931,417)	914,416	(1,017,001)	(1,004,601)	264,829	(739,772)
Cash paid for claims settled in the year	1,107,481	(287,420)	820,061	776,722	(149,465)	627,257
Exchange differences and other movements	167,120	(64,706)	102,414	(299,849)	62,274	(237,575)
Total at end of year	(3,222,640)	1,105,405	(2,117,235)	(2,565,824)	543,115	(2,022,709)
Claims reported and claim adjustment expenses	(1,204,509)	361,657	(842,852)	(977,664)	159,141	(818,523)
Claims incurred but not reported	(2,018,131)	743,748	(1,274,383)	(1,588,160)	383,974	(1,204,186)
Total at end of year	(3,222,640)	1,105,405	(2,117,235)	(2,565,824)	543,115	(2,022,709)

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

	2017			2016		
Year ended 31 December	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Current year claims and claim adjustment expenses	(2,258,615)	982,093	(1,276,522)	(1,275,018)	299,564	(975,454)
Over-provision in respect of prior year claims and claim adjustment expenses	327,198	(75,677)	251,521	270,417	(57,465)	212,952
Acquisitions/(divestments) and transfers*	–	8,000	8,000	–	22,730	22,730
Total claims and claim adjustment expenses	(1,931,417)	914,416	(1,017,001)	(1,004,601)	264,829	(739,772)

*The net movement in 2017 and 2016 relates to a retroactive reinsurance arrangement that transferred the benefits and risks of some of the Group's insurance portfolio.

A reconciliation of the unearned premium reserves is as follows:

	2017			2016		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance deferred at 1 January	1,287,152	(262,534)	1,024,618	1,010,266	(173,333)	836,933
Premiums written	2,549,279	(685,046)	1,864,233	2,402,579	(614,636)	1,787,943
Premiums earned through the income statement	(2,556,993)	682,512	(1,874,481)	(2,220,853)	545,840	(1,675,013)
Foreign exchange and other adjustments	(51,896)	12,507	(39,389)	95,160	(20,405)	74,755
Balance deferred at 31 December	1,227,542	(252,561)	974,981	1,287,152	(262,534)	1,024,618

The amounts expected to be recovered before and after one year, based on historical experience, are included in the first table to this note 25.

26 Trade and other payables

	Note	2017 £000	2016 £000
Creditors arising out of direct insurance operations		60,931	27,997
Creditors arising out of reinsurance operations		373,647	319,494
		434,578	347,491
Share of Syndicates' other creditors' balances		6,368	9,844
Social security and other taxes payable		20,090	16,429
Other creditors		10,555	5,650
		37,013	31,923
Reinsurers' share of deferred acquisition costs	16	68,004	66,681
Accruals and deferred income		118,862	153,107
Total		658,457	599,202

Included within accruals and deferred income is £8.1 million (2016: £9.6 million) of deferred gain on retroactive reinsurance contracts.

26 Trade and other payables continued

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

	2017 £000	2016 £000
Within one year	550,457	474,023
After one year	108,000	125,179
	658,457	599,202

The amounts expected to be settled after one year of the balance sheet date primarily relate to reinsurance creditors.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

27 Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled. The principal subsidiaries of the Company and the country in which they are incorporated are listed in note 34. The amounts charged in the consolidated income statement comprise the following:

	2017 £000	2016 £000
Current tax		
Expense for the year	18,993	32,240
Adjustments in respect of prior years	(82)	(5,010)
Total current tax expense	18,911	27,230
Deferred tax		
Credit for the year	(21,221)	(5,055)
Adjustments in respect of prior years	5,690	(3,786)
Effect of rate change	1,108	(832)
Total deferred tax credit	(14,423)	(9,673)
Total tax charged to the income statement	4,488	17,557

The standard rate of corporation tax in Bermuda is 0% whereas the effective rate of tax for the Group is 14.6% (2016: 5.0%). The higher effective rate in 2017 is due principally to the one-off impact of the revaluation of deferred tax assets, following the change in the US Federal tax rate introduced by the Tax Cuts and Jobs Act in December 2017.

A reconciliation of the difference is provided below:

	2017 £000	2016 £000
Profit before tax	30,798	354,543
Tax calculated at the standard corporation tax rate applicable in Bermuda: 0% (2016: 0%)	–	–
Effects of Group entities subject to overseas tax at different rates	(3,407)	17,104
Impact of overseas tax rates on:		
Effect of rate change	1,108	(832)
Expenses not deductible for tax purposes	1,675	7,487
Tax losses for which no deferred tax asset is recognised	5,176	2,155
Other	334	(373)
Adjustment for share-based payments	(588)	812
Non-taxable income	(5,418)	–
Prior year tax adjustments	5,608	(8,796)
Tax charge for the period	4,488	17,557

The UK Finance Act 2015 introduced a new tax with effect from 1 April 2015, the Diverted Profits Tax (DPT), which in certain situations applies a tax of 25% on income which would not otherwise be chargeable to UK tax. The Group is currently in discussions with HMRC as to the scope of the new tax in the context of the Group's operations. No provision for DPT has been made in 2017 or 2016.

28 Deferred tax

Net deferred tax assets	2017 £000	2016 £000
Trading losses in overseas entities	34,520	41,392
Deferred tax assets	15,142	–
Deferred tax liabilities	(10,060)	–
Total deferred tax asset	39,602	41,392

Net deferred tax liabilities	2017 £000	2016 £000
Deferred tax assets	–	34,388
Deferred tax liabilities	–	(51,418)
Total net deferred tax liability	–	(17,030)

Deferred tax assets and deferred tax liabilities relating to the same tax authority are presented net in the Group's balance sheet.

Net Group deferred tax assets/(liabilities) analysed by balance sheet headings

At 31 December	2016 £000	Income statement (charge)/credit £000	Recognised in equity £000	2017 £000
Tangible assets	523	(281)	–	242
Trade and other payables	4,036	(1,517)	–	2,519
Intangible assets – Syndicate capacity	1,538	(147)	–	1,391
Retirement benefit obligations	8,093	1,973	(1,768)	8,298
Reinsurance premiums	12,799	(21,040)	–	(8,241)
Other items	7,399	949	2,585	10,933
Total deferred tax assets	34,388	(20,063)	817	15,142
Financial assets	(753)	(75)	–	(828)
Insurance contracts – equalisation provision*	(24,457)	5,132	–	(19,325)
Open years of account	(26,208)	36,301	–	10,093
Total deferred tax liabilities	(51,418)	41,358	–	(10,060)
Net total deferred tax liabilities	(17,030)	21,295	817	5,082
Trading losses in overseas entities	41,392	(6,872)	–	34,520
Net total deferred tax assets/(liabilities)	(17,030)	21,295	817	5,082
Net deferred tax position asset/(liability)	24,362	14,423	817	39,602

*Prior to January 2016, the solvency regulations in the UK required certain entities within the Group to establish an equalisation provision, to be utilised against abnormal levels of future losses in certain lines of business. Under these regulations, the provision was adjusted each year based on a percentage of net premiums written for those lines for business during the financial year, subject to a maximum percentage. Any annual increase in the provision was a deductible expense for tax purposes, and any release was taxable income. From 2008, Lloyd's Corporate Members were entitled to a tax deduction for claims equalisation provisions although this was not a solvency requirement for Lloyd's. Equalisation provisions are not permitted under IFRS, which therefore resulted in a temporary difference for tax purposes. Finance Act 2012 repealed the legislation which treated the equalisation provision as a tax deductible expense, and treats the existing equalisation provision as a receipt taxable over six years with effect from January 2016, when the former solvency regulations were replaced by Solvency II, which does not require an equalisation provision. The Group has provided for the deferred tax liability on its claims equalisation provisions during the year.

Following changes to the future UK main rate of corporation tax introduced in the Finance Act 2016, the deferred tax on the Syndicates' open years of account is calculated with reference to the tax rate expected to be in force when those years close. Equally, the deferred tax liability on equalisation provision is calculated at the tax rate expected to be applicable as it unwinds. All other UK deferred income tax assets and liabilities are calculated at 17% for the year ended 31 December 2017 (2016: 17%). The Tax Cuts and Jobs Act, which entered into US law in December 2017, reduces the US Federal corporate tax rate from 35% to 21% with effect from 1 January 2018. Deferred tax assets and liabilities arising from the Group's US operations have therefore been calculated at 21% for the year ended 31 December 2017 (2016: 35%).

Movements in deferred and current tax relating to tax deductions arising on employee share options are recognised in the statement of changes in equity to the extent that the movement exceeds the corresponding charge to the income statement. Movements in deferred tax relating to the employee retirement benefit obligation are recognised in the statement of changes in equity to the extent that the movement corresponds to actuarial gains and losses recognised in the statement of changes in equity. The total recognised in the statement of changes in equity is £3,532,000, comprising £817,000 deferred tax and £2,714,000 current tax (2016: £9,356,000 deferred tax and £2,053,000 current tax).

28 Deferred tax

Net Group deferred tax assets/(liabilities) analysed by balance sheet headings ***continued***

Deferred tax assets of £34,520,000 (2016: £41,392,000), relating to losses arising in overseas entities, which depend on the availability of future taxable profits in excess of profits arising from the reversal of other timing differences, are recognised above. Business projections indicate it is probable that sufficient future taxable income will be available against which to offset these recognised deferred tax assets within five years. £1,246,000 (2016: £nil) of the tax losses to which these assets relate will expire within ten years; a further £32,673,000 (2016: £40,572,000) will expire after ten years; the balance of tax losses carried forward has no time limit. The Group has not provided for deferred tax assets totalling £7,238,000 (2016: £29,988,000) including £7,238,000 (2016: £26,843,000) in relation to losses in overseas companies of £39,712,000 (2016: £88,185,000). In accordance with IAS 12, all deferred tax assets and liabilities are classified as non-current. The amount of deferred tax asset expected to be recovered after more than 12 months is £33,919,000 (2016: £41,392,000).

29 Employee retirement benefit obligations

The Company's subsidiary Hiscox plc operates a defined benefit pension scheme based on final pensionable salary. The scheme closed to future accrual with effect from 31 December 2006 and active members were offered membership of a defined contribution scheme from 1 January 2007. The funds of the defined benefit scheme are controlled by the Trustee and are held separately from those of the Group. 61% of any scheme surplus or deficit is recharged to Syndicate 33. The full pension obligation of the Hiscox defined benefit pension scheme is recorded and the recovery from the third-party Names for their share of the Syndicate 33 recharge is shown as a separate asset.

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

	2017 £000	2016 £000
Present value of scheme obligations	273,803	271,072
Fair value of scheme assets	(226,311)	(214,933)
Deficit for funded plans	47,492	56,139
Net amount recognised as a defined benefit obligation	47,492	56,139

As the fair value of scheme obligations exceeds the present value of the scheme assets, the scheme reports a deficit.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit actuarial cost method. A formal full actuarial valuation is performed on a triennial basis, most recently at 31 December 2014, and updated at each intervening balance sheet date by the actuaries. The valuation work for 31 December 2017 is ongoing as at the date of this report. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of AA rated corporate bonds that have terms to maturity that approximate to the terms of the related pension liability.

The scheme assets are invested are as follows:

At 31 December	2017 £000	2016 £000
Managed fund pooled investment vehicles		
UK equity funds	76,939	76,233
Emerging market equity funds	12,249	9,949
Global equity funds	38,652	35,495
Bond funds	60,468	48,901
US equities	22,409	24,530
Cash	15,594	19,825
	226,311	214,933

29 Employee retirement benefit obligations continued

The amounts recognised in total comprehensive income are as follows:

	Note	2017 £000	2016 £000
Interest cost on defined benefit obligation		7,208	7,916
Interest income on plan assets		(5,689)	(7,910)
Net interest cost		1,519	6
Administrative expenses and taxes		237	166
Total expense recognised in operational expenses in the income statement	9	1,756	172
Remeasurements			
Effect of change in financial assumptions		3,736	68,094
Return on plan asset (excluding interest income)		(14,139)	(12,202)
Changes in asset ceiling/onerous liability (excluding interest income)		–	–
Remeasurement of third-party Names share of defined benefit obligation		1,742	(9,361)
Total remeasurement included in other comprehensive income		(8,661)	46,531
Total defined benefit charge/(credit) recognised in comprehensive income		(6,905)	46,703

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

	2017 £000	2016 £000
Group defined benefit liabilities at beginning of the year	56,139	75
Third-party Names' share of liability	(9,402)	(13)
Net defined benefit liability at beginning of year	46,737	62
Defined benefit cost included in net income	1,756	172
Credit from third-party Names	(294)	(28)
Total remeasurement included in other comprehensive income	(8,661)	46,531
Net defined benefit liability at end of year	39,538	46,737
Third-party Names' share of liability	7,954	9,402
Group defined benefit liability at end of year	47,492	56,139

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

	2017 £000	2016 £000
Opening fair value of scheme assets	214,933	199,045
Interest income	5,689	7,910
Cash flows		
Contribution by the employer	–	–
Benefit payments	(8,213)	(5,671)
Administration expenses	(237)	(166)
Increase due to plan combinations	–	1,613
Remeasurements		
Return on plan assets (excluding interest income)	14,139	12,202
Closing fair value of scheme assets	226,311	214,933

29 Employee retirement benefit obligations continued

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

	2017 £000	2016 £000
Opening present value of scheme obligations	271,072	199,120
Interest expense	7,208	7,916
Cash flows		
Benefit payments	(8,213)	(5,671)
Increase due to plan combinations	–	1,613
Remeasurements		
Changes in financial assumptions	3,736	68,094
Closing present value of scheme obligations	273,803	271,072

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

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Present value of scheme obligations	273,803	271,072	199,120	227,375	179,479	173,420	155,685
Fair value of scheme assets	(226,311)	(214,933)	(199,045)	(195,209)	(185,666)	(156,513)	(140,517)
Present value of unfunded obligations/(surplus scheme assets)	47,492	56,139	75	32,166	(6,187)	16,907	15,168
Effect of asset ceiling/onerous liability	–	–	–	–	10,553	–	–
Gross liability recognised on balance sheet	47,492	56,139	75	32,166	4,366	16,907	–

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

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

	2017 years	2016 years
Male	28.6	28.5
Female	29.8	29.7

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

	2017 years	2016 years
Male	29.9	29.8
Female	31.2	31.1

The weighted average duration of the defined benefit obligation at 31 December 2017 was 23.2 years (2016: 23.0 years).

29 Employee retirement benefit obligations continued

Other principal actuarial assumptions are as follows:

	2017 %	2016 %
Discount rate	2.6	2.7
Inflation assumption (RPI)	3.1	3.2
Inflation assumption (CPI)	2.1	2.2
Pension increases	3.1	3.2

The scheme operates under UK trust law and the Trust is a separate legal entity from the Group. The scheme is governed by a board of trustees, comprised of member and employee trustees. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies together with the principal employer. The scheme is funded by the Group when required. Funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the statement of funding principles, schedule of contributions and recovery plan agreed between the trustees and the Company.

The triennial valuation carried out as at 31 December 2014 resulted in a surplus position of £8.6 million on a funding basis. The Group is therefore not required to currently make any contributions to the pension scheme.

The expected return on scheme assets is based on historical data and management's expectations of long-term future returns. While management believes that the actuarial assumptions are appropriate, any significant changes to those could affect the balance sheet and income statement. For example, an additional one year of life expectancy for all scheme members would increase the scheme obligations by £9,420,000 at 31 December 2017 (2016: £9,281,000), and would increase the recorded net deficit on the balance sheet by £9,420,000 (2016: £9,281,000).

The most sensitive and judgemental assumptions are the discount rate and inflation. These are considered further below.

CPI revaluation in deferment is used for contracted-out members. Contracted-in members are linked to RPI as well as for all pension in payment increase.

The Group has estimated the sensitivity of the net obligation recognised in the consolidated balance sheet to isolated changes in these assumptions at 31 December 2017 as follows:

	Present value of unfunded obligations before change in assumption £000	Present value of unfunded obligations after change £000	(Increase) /decrease in obligation recognised on balance sheet £000
Effect of a change in discount rate			
Use of discount rate of 2.85%	47,492	32,480	15,012
Use of discount rate of 2.35%	47,492	63,719	(16,227)
Effect of an increase in inflation			
Use of RPI inflation assumption of 3.35%	47,492	54,075	(6,583)
Use of RPI inflation assumption of 2.85%	47,492	41,288	6,204

30 Earnings per share

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

Basic	2017	2016
Profit for the year attributable to the owners of the Company (£000)	26,310	336,986
Weighted average number of ordinary shares (thousands)	281,964	281,175
Basic earnings per share (pence per share)	9.3p	119.8p

Diluted

Diluted earnings per share is calculated adjusting for the assumed conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options and awards. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2017	2016
Profit for the year attributable to the owners of the Company (£000)	26,310	336,986
Weighted average number of ordinary shares in issue (thousands)	281,964	281,175
Adjustments for share options (thousands)	9,065	9,402
Weighted average number of ordinary shares for diluted earnings per share (thousands)	291,029	290,577
Diluted earnings per share (pence per share)	9.0p	116.0p

Diluted earnings per share has been calculated after taking account of 8,292,818 (2016: 8,653,254) Performance Share Plan awards and 772,427 (2016: 748,600) options under SAYE schemes.

31 Dividends paid to owners of the Company

	2017 £000	2016 £000
Final dividend for the year ended:		
31 December 2016 of 19.0p (net) per share	53,578	–
Second interim dividend for the year ended:		
31 December 2015 of 32.0p (net) per share	–	89,674
Interim dividend for the year ended:		
31 December 2017 of 9.5p (net) per share	26,878	–
31 December 2016 of 8.5p (net) per share	–	24,260
	80,456	113,934

The final dividend for the year ended 31 December 2016 was either paid in cash or issued as a scrip dividend equivalent of 19p per share. The final dividend for the year ended 31 December 2016 was paid in cash of £51,246,000 and 251,000 shares for the scrip dividend.

The second interim dividend for the year ended 31 December 2015 was comprised of a final dividend equivalent of 16p per share, and an additional return of capital of 16p per share. No scrip dividend alternative was offered.

The interim dividends for 2017 and 2016 were either paid in cash or issued as a scrip dividend at the option of the shareholder. The interim dividend for the year ended 31 December 2017 was paid in cash of £25,799,000 (2016: £22,983,000) and 108,769 shares for the scrip dividend (2016: 119,302).

The Board has declared a final dividend of 19.5p per share to be paid on 12 June 2018 to shareholders on the register at 11 May 2018, taking the total ordinary dividend per share for the year to 29.0p (2016: 27.5p).

When determining the level of dividend each year, the Board considers the ability of the Group to generate cash; the availability of that cash in the Group, while considering constraints such as regulatory capital requirements; and the level required to invest in the business. This is a progressive policy and is expected to be maintained for the foreseeable future.

32 Contingencies and guarantees

The Group's subsidiaries are, like most other insurers, continuously involved in legal proceedings, claims and litigation in the normal course of business.

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance contracts. There are no contingencies associated with the Group's compliance or lack of compliance with these regulations.

The following guarantees have also been issued:

(a) Hiscox Dedicated Corporate Member Limited (HDCM) and Hiscox Capital Ltd (HCL) provide assets under a Security and Trust Deed charged to Lloyd's of London, to meet any liabilities they occur from their interest in Syndicates 33 and 3624. At 31 December 2017, HDCM held £323 million of investments, £5 million of cash and a $5 million letter of credit in favour of Lloyd's of London under this arrangement. At 31 December 2017, HCL held £485 million of investments, £6 million of cash and a $5 million Letter of Credit in favour of Lloyd's of London under this arrangement.

Security and Trust Deeds were established for HCL on 25 April 2017 to replace the existing HCL and Hiscox Ltd Deeds of covenant which previously were used to meet HDCM obligations at Lloyd's. The obligations in respect of these Deed of covenants were secured by a fixed and floating charge over investments and other assets of the company in favour of Lloyd's. The total guarantee given under these Deeds of covenant (subject to limitations) at 31 December 2016 amounted to £29 million in respect of Hiscox Ltd supported by £34 million of investments and US$486 million in respect of HCL supported by US$369 million of investments. Additionally at 31 December 2016, HDCM held £221 million of investment securities and £38 million of cash in favour of Lloyd's.

(b) Hiscox plc continued with its Letter of Credit and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, at US$500 million (2016: US$500 million) which may be drawn in cash (under a revolving credit facility), Letter of Credit or a combination thereof. The terms also provide that upon request the facility may be drawn in a currency other than US Dollar. At 31 December 2017 US$10.0 million (2016: US$10.0 million) was utilised by way of Letter of Credit to support the Funds at Lloyd's requirement and no cash drawings were outstanding (2016: £nil).

(c) Hiscox Insurance Company Limited has arranged a Letter of Credit of £50,000 (2016: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's the arrangement is collateralised with cash of £50,000 (2016: £50,000).

(d) The Council of Lloyd's has the discretion to call a contribution of up to 3% of capacity if required from the managed Syndicates.

(e) As Hiscox Insurance Company (Bermuda) Limited (Hiscox Bermuda) is not an admitted insurer or reinsurer in the US, the terms of certain US insurance and reinsurance contracts require Hiscox Bermuda to provide Letters of Credit or other terms of collateral to clients. Hiscox Bermuda has in place a Letter of Credit Reimbursement and Pledge Agreement with Citibank for the provision of a Letter of Credit facility in favour of US ceding companies and other jurisdictions, and also Letter of Credit facility agreements with National Australia Bank and Commerzbank AG. The agreements combined are a three-year secured facility that allowed Hiscox Bermuda to request the issuance of up to US$400 million in Letters of Credit (2016: US$400 million). Letters of Credit issued under these facilities are collateralised by cash, US government and corporate securities of Hiscox Bermuda. Letters of Credit under these facilities totalling US$100.7 million were issued with an effective date of 31 December 2017 (2016: US$95.9 million on a US$400 million facility) and these were collateralised by US government and corporate securities with a fair value of US$115.8 million (2016: US$109.1 million). In addition, Hiscox Bermuda holds US$659.5 million (2016: US$468.0 million) of restricted cash and marketable securities collateralising reinsurance obligations.

(f) Hiscox Europe Underwriting Limited has arranged bank guarantees with respect to their various office deposits for a total of €207,000 (2016: €207,000). These guarantees are held with ING Bank (Belgium) for €14,000 (2016: €14,000), ABN Amro (Netherlands) for €33,000 (2016: €33,000) and HypoVereinsbank-UniCredit (Germany) for €160,000 (2016: €160,000).

(g) Hiscox S.A. has arranged a bank guarantee with respect to the office in Luxembourg with a value of €42,000 (2016: €nil). This guarantee is held with ING Bank (Luxembourg).

33 Capital and lease commitments

Capital commitments

The Group's capital expenditure contracted for at the balance sheet date but not yet incurred for property, plant, equipment and software development was £1,200,000 (2016: £1,881,000).

Operating lease commitments

The Group acts as both lessee and lessor in relation to various offices in the UK and overseas which are held under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group also has payment obligations in respect of operating leases for certain items of office equipment. Operating lease rental expenses for the year totalled £11,251,000 (2016: £9,236,000). Operating lease rental income for the year totalled £569,000 (2016: £448,000).

The aggregate minimum lease payments required by the Group under non-cancellable operating leases, over the expected lease terms, are as follows:

		2017 £000	2016 £000
No later than one year	Land and buildings	10,127	10,045
	Office equipment and other	603	573
Later than one year and no later than five years	Land and buildings	34,635	34,141
	Office equipment and other	479	547
Later than five years	Land and buildings	9,167	16,402
		55,011	61,708

The total future aggregate minimum lease rentals receivable by the Group as lessor under non-cancellable operating property leases are as follows:

	2017 £000	2016 £000
No later than one year	360	528
Later than one year and no later than five years	–	352
Later than five years	–	–
	360	880

34 Principal subsidiary companies of Hiscox Ltd at 31 December 2017

Company	Nature of business	Country
Hiscox plc*	Holding company	Great Britain
Hiscox Insurance Company Limited	General insurance	Great Britain
Hiscox Insurance Company (Guernsey) Limited*	General insurance	Guernsey
Hiscox Holdings Inc.	Insurance holding company	USA (Delaware)
ALTOHA, Inc.	Holding company	USA (Delaware)
Hiscox Insurance Company Inc.	General insurance	USA (Illinois)
Hiscox Inc.	Underwriting agent	USA (Delaware)
Hiscox Insurance Company (Bermuda) Limited*	General insurance and reinsurance	Bermuda
Hiscox Dedicated Corporate Member Limited	Lloyd's corporate Name	Great Britain
Hiscox Holdings Limited**	Insurance holding company	Great Britain
Hiscox Syndicates Limited	Lloyd's managing agent	Great Britain
Hiscox ASM Ltd	Insurance intermediary	Great Britain
Hiscox Underwriting Group Services Limited	Service company	Great Britain
Hiscox Capital Ltd*	Reinsurance	Bermuda
Hiscox Underwriting Ltd	Underwriting agent	Great Britain
Hiscox Europe Underwriting Limited	Insurance intermediary	Great Britain
Hiscox Société Anonyme	General insurance	Luxembourg
Direct Asia Insurance (Holdings) Pte Ltd	Holding company	Singapore
Direct Asia Insurance (Singapore) Pte Limited	General insurance	Singapore

*Held directly.
**Hiscox Holdings Limited held 38,030 shares in Hiscox Ltd at 31 December 2017 (2016: 38,030).

All principal subsidiaries are wholly owned. The proportion of voting rights of subsidiaries held is the same as the proportion of equity shares held.

35 Related-party transactions

Details of the remuneration of the Group's key personnel are shown in the annual report on remuneration 2017 on pages 68 to 75. A number of the Group's key personnel hold insurance contracts with the Group, all of which are on normal commercial terms and are not material in nature.

The following transactions were conducted with related parties during the year.

(a) Syndicate 33 at Lloyd's

Related-party balances between Group companies and Syndicate 33 are as follows.

	Transactions in the income statement for the year ended		Balances outstanding (payable) at	
	31 December 2017 £000	31 December 2016 £000	31 December 2017 £000	31 December 2016 £000
Hiscox Syndicates Limited	33,630	48,775	44,018	57,833
Hiscox Group insurance carriers	26,848	54,302	98,984	31,802
Hiscox Group insurance intermediaries	7,914	6,890	(25,293)	(16,336)
Other Hiscox Group companies	–	–	3,028	(6,626)
	68,392	109,967	120,737	66,673

(b) Transactions with associates

Certain companies within the Group conduct insurance and other business with associates. These transactions arise in the normal course of obtaining insurance business through brokerages, and are based on arm's length arrangements.

	2017 £000	2016 £000
Gross premium income achieved through associates	64,991	234,201
Commission expense charged by associates	17,693	21,318
Amounts payable to associates at 31 December	–	–
Amounts receivable through associates at 31 December	32,914	58,536

Details of the Group's associates are given in note 15.

(c) Internal reinsurance arrangements

During the current and prior year, there were a number of reinsurance arrangements entered into in the normal course of trade between various Group companies. The related results of these transactions have been eliminated on consolidation.

36 Subsequent events

The functional currency of Hiscox Syndicate 33, Hiscox Dedicated Corporate Member Limited, Hiscox Syndicates Limited and Hiscox Capital Ltd and the reporting currency of the Group has changed to US Dollars effective 1 January 2018. This change will significantly reduce the volatility of the Group's earnings due to foreign exchange movements, in particular due to translation of foreign currency balances. Given that a significant majority of Group earnings are denominated in US Dollars, we believe that this change will give investors and other stakeholders a clearer understanding of Hiscox's performance over time.

The Group is currently in the process of restating the comparative data for this change.

Five-year summary

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Results					
Gross premiums written	2,549,279	2,402,579	1,944,220	1,756,260	1,699,478
Net premiums written	1,864,233	1,787,943	1,571,844	1,343,410	1,371,114
Net premiums earned	1,874,481	1,675,013	1,435,016	1,316,259	1,283,311
Profit before tax	30,798	354,543	216,100	231,075	244,538
Profit for the year after tax	26,310	336,986	209,895	216,152	237,758
Assets employed					
Intangible assets	137,814	123,724	126,222	105,946	72,720
Financial assets carried at fair value	3,807,143	3,792,033	2,921,585	2,828,847	2,585,054
Cash and cash equivalents	642,789	664,816	727,880	650,651	564,375
Insurance liabilities and reinsurance assets	(3,092,216)	(3,047,327)	(2,509,552)	(2,309,854)	(2,150,299)
Other net assets	258,897	285,157	262,694	178,616	337,611
Net assets	1,754,427	1,818,403	1,528,829	1,454,206	1,409,461
Net asset value per share (p)	618.6	649.9	545.0	462.5	402.2
Key statistics					
Basic earnings per share (p)	9.3	119.8	72.8	67.4	66.3
Diluted earnings per share (p)	9.0	116.0	70.5	64.5	63.5
Combined ratio (%)	99.9	84.2	85.0	83.9	83.0
Return on equity (%)	1.5	23.0	16.0	17.1	19.3
Dividends per share (p)	29.0	27.5	24.0	22.5	21.0
Share price – high† (p)	1,470.0	1,097.0	1,059.0	735.0	695.0
Share price – low† (p)	997.5	900.5	707.5	624.5	453.6

†Closing mid-market prices.
The five-year summary is unaudited.

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