



Hiscox Ltd
Report and Accounts
2014

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Cover image:
Smoke from our 'elements of risk' series, looking at the causes of destruction in what we believe is a thought-provoking and beautiful way.

Our ambition is to be a highly respected specialist insurer with a diverse portfolio by product and geography. We believe that building balance between catastrophe-exposed business and less volatile local specialty business gives us opportunities for profitable growth throughout the insurance cycle.

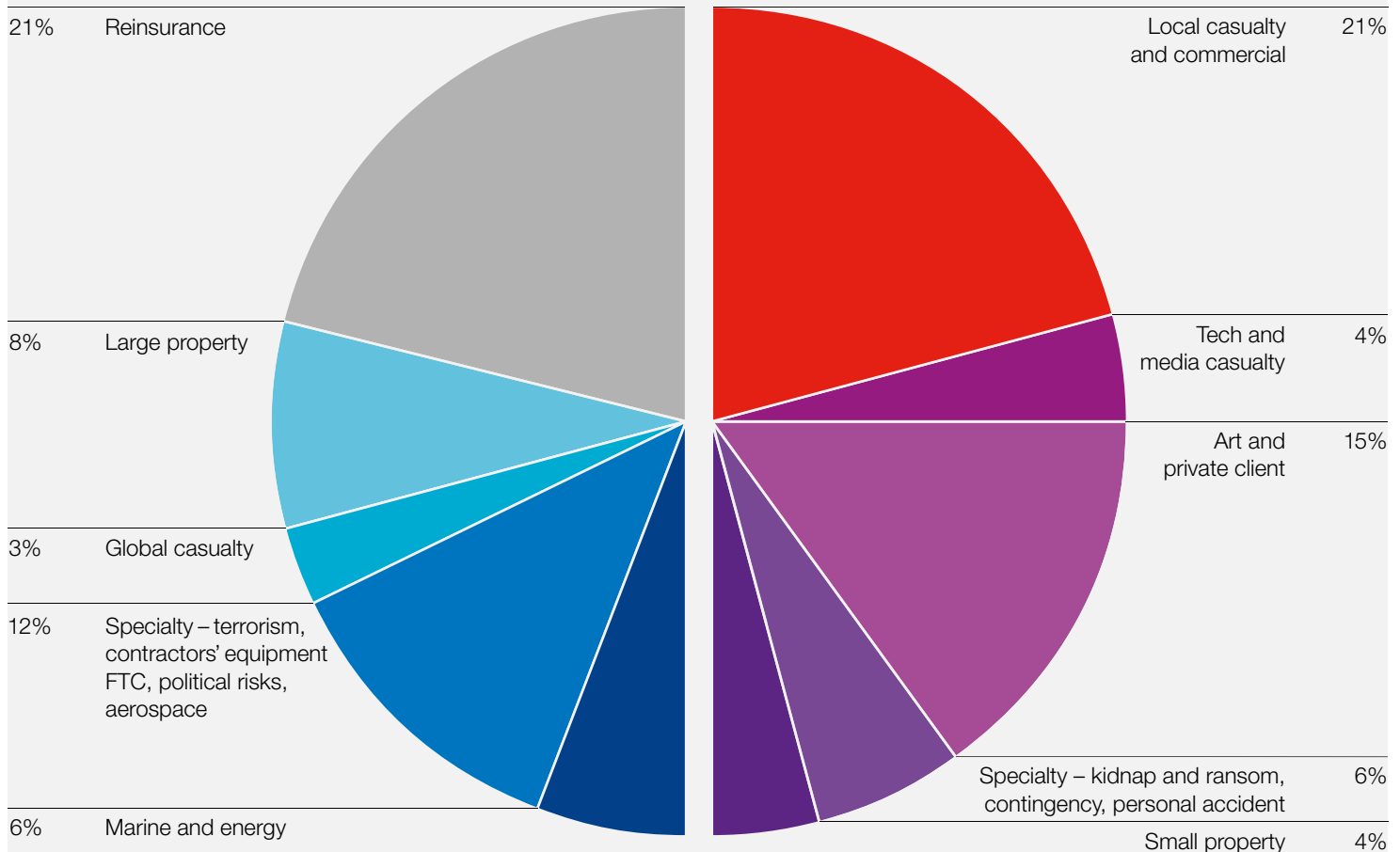
Our strategy is:

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

Strategic focus

Total Group controlled income for 2014

100% = £1,983m



Corporate highlights

Group key performance indicators

	2014	2013
Gross premiums written (£m)	1,756.3	1,699.5
Net premiums earned (£m)	1,316.3	1,283.3
Profit before tax (£m)	231.1	244.5
Profit after tax (£m)	216.2	237.8
Earnings per share (p)	67.4	66.3
Total dividend per share for year (p)	22.5	21.0
Special distribution (p)	45.0	36.0
Net asset value per share (p)	462.5	402.2
Group combined ratio (%)	83.9	83.0
Group combined ratio excluding foreign exchange (%)	84.7	82.1
Return on equity (%)	17.1	19.3
Investment return (%)	1.8	1.9
Reserve releases (£m)	172.2	140.3

Capital return

Capital return of 60.0p per share, approximately £192 million, by way of E/F Share Scheme and share consolidation.

This comprises a special distribution of 45.0p per share and final dividend equivalent of 15.0p per share, taking the total dividend for the year to 22.5p, an increase of 7.1% (2013: 21.0p).

Operational highlights

Strong premium growth in insurance of 8.8%, including 24.1% for Hiscox USA.

Record profits in Hiscox UK and Europe of £73.3 million (2013: £56.4 million).

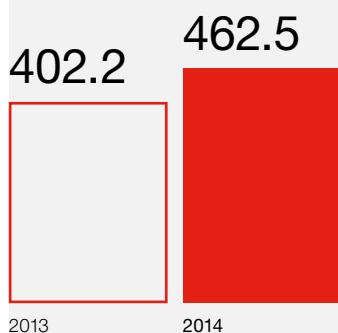
Retail businesses now over half the Group's gross premiums written, with retail profits now covering the standard dividend.

Hiscox London Market profit before tax of £62.6 million (2013: £63.1 million), growing with consistent profitability.

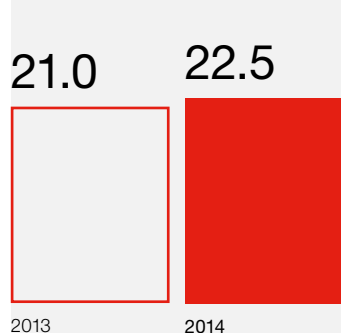
Hiscox Re reducing premiums as planned by 13.9% and delivered good profits, with new products and Kiskadee ILS funds on track to reach \$500 million by mid-year.

Long-term investment in brand, product and distribution provides opportunities for profitable growth throughout the cycle.

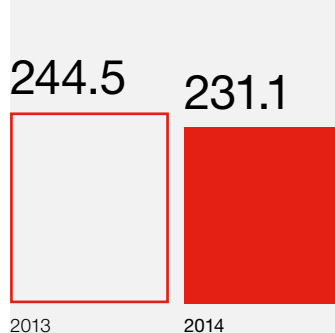
Net asset value p per share



Dividend p per share



Profit before tax (£m)



Why invest in Hiscox?

We are one of the world's leading specialist insurers. Our success is due to a long-term strategy that strives to build:

- balance and diversity, generating opportunities throughout the cycle;
- a strong financial performance;
- underwriting discipline and a transparent approach to risk;
- market-leading expertise that is valued by our customers;
- teams of energetic, professional and well-respected people.

Our business

Our Group comprises three counterbalancing divisions that give us options throughout the market cycle. For more than 30 years, Hiscox's strategy has been to balance our more volatile catastrophe-exposed big-ticket insurance and reinsurance with smaller-ticket retail insurance. The diversity we have created within our overall business, both in product and geography, gives us great flexibility, particularly in a tough commercial environment. We are able to grow or shrink the catastrophe-exposed lines according to market conditions. Our local specialty insurance businesses, which tend to perform consistently across the insurance cycle, have grown by 9.1% year-on-year over the last five years.

Our performance

Strong financial results

Hiscox has a strong record for top-line growth with a focus on shareholder value. Between 2010 and 2014 the Group:

- increased gross written premiums by 22.6% to £1.76 billion;
- posted a healthy combined ratio averaging 88.2%;
- delivered average return on equity of 14.3%;
- maintained a progressive dividend policy with compound growth of 8.1%;
- returned £422 million of extra capital to shareholders.

Our expertise

A transparent approach to risk

The very business of insurance is managing risk. Understanding risk is intrinsic to every level of decision making in the Group. We devote a great deal of expertise to understanding the impact of major global disasters on our business. We have developed our own sophisticated risk model, which draws on our many years of experience as well as the leading industry forecasting tools. All of our underwriting decisions on catastrophe exposures are based on this bespoke model. Every six months, we update analysts and investors on what the Group's potential exposure could be to major catastrophes, such as hurricanes or earthquakes.

Specialist expertise that is valued by our customers

We are market leaders in many of the risks we underwrite and our customers value the expertise and innovative cover we provide*.

- In France, 95% of small business customers are satisfied with our services.
- In the USA, 96% of small business customers surveyed would recommend us.
- In the UK, 99.54% of Hiscox Home Insurance customers who have made a claim would recommend us. Overall, we were awarded the 'Gold Trusted Merchant' status for achieving a 95% service rating by Feefo.

Hiscox UK was awarded Best Small Business Insurer by Start Your Business Magazine for the sixth year in a row. In the US, Hiscox was named a Top 100 Champion at the Small Business Influencer Awards. Fairer Finance awarded Hiscox UK Gold for home insurance, recognising our commitment to provide high-quality customer service. In IT, we were awarded Digital Insurance Project Team of the year at the Digital Insurance and Technology Awards, where Stéphane Flaquet was also named CIO of the year. Reactions Magazine awarded Hiscox Insurer of the Year. Stuart Bridges was presented with CFO of the year at the Insurance Insider Awards and Bronek Masojada was awarded Personality of the Year at the British Insurance Awards 2014. Our Hong Kong team for DirectAsia were awarded Silver for Inbound Contact Centre of the year where the Head of Customer Care, Gratiano Yeung, also received the Gold award for Inbound Contact Centre Manager of the Year. In Singapore, Loh Kaiyun Joey won Best Contact Centre Trainer of the Year (for offices between 20 and 100 seats).

*Results from customer reviews collated and managed by independent third-parties.

Our people

The excellence of our people has been a key ingredient in our success. Our reputation for innovation and dynamism is built on the energy, professionalism, commitment and expertise of our employees. In return we strive to provide them with a working environment in which they can flourish. In September 2014, Hiscox conducted its seventh global employee engagement survey. Open to all permanent members of staff, it looks at how connected employees feel to Hiscox, their managers, their teams and their role. Hiscox enjoys very high employee engagement, which averages in the top quartile of over 200 companies worldwide. Of our employees, 91% said they are proud to work for us, while 95% said they believed in our corporate values.



Between 2010 and 2014 Hiscox returned £422m of extra capital to shareholders.

Chairman's statement

I am able to report another strong result for the Hiscox Group, a pre-tax profit of £231.1 million (2013: £244.5 million). We have done well in difficult markets by maintaining discipline in both our underwriting and investment portfolio, and pursuing our strategy of building balance through diversity of product, geography and distribution.

While the double whammy of burgeoning capital and fewer losses has put pressure on bigger ticket rates, we have continued to invest in the retail businesses in the UK, Europe, the US, Guernsey and more recently in Asia. Our London Market team has dug out nuggets of profitable business against tough competition. Hiscox Re, our reinsurance arm, has adapted swiftly, developing new products and opportunities to engage customers.

Results

The results for the year ending 31 December 2014 were a profit before tax of £231.1 million (2013: £244.5 million). Gross written premium increased by 3.3% to £1,756.3 million (2013: £1,699.5 million). The combined ratio was 83.9% (2013: 83.0%). Earnings per share increased to 67.4p (2013: 66.3p) and the net asset value per share increased by 15% to 462.5p (2013: 402.2p). Return on equity was 17.1% (2013: 19.3%).

Dividend, balance sheet and capital management

The Board has proposed that a special distribution be made of 60.0p per share (amounting to approximately £192.0 million) to include 15.0p per share instead of a final dividend. The total dividend for 2014 is equal to 22.5p per share (2013: 21.0p), an increase of 7.1%. The return of capital will be made using a similar scheme to last year and will again be accompanied by a share consolidation. Full details will be set out in a circular to be despatched to Hiscox shareholders on or around 3 March 2015. This is now the third successive year in which we have been able to return capital to shareholders and again I say that this is a tactic for the circumstances we are in, not a long-term strategy to return capital every year.

Investments

Given the continued challenging markets, and relatively cautious approach, we are content with our investment result of £56.4 million (2013: £58.9 million), which equates to a return of 1.8% (2013: 1.9%).

Our bias towards short-term bond investments provides something of a constraint in current markets but it is driven by the desire not to suffer losses when bond yields rise.

Our performance was improved by our risk assets, which produced a pleasing return of 7.6%. However, we do not believe it is appropriate to take excessive risks in search of higher yields, as our investments are mainly earmarked to pay claims and support our business, although we continue to look for appropriate opportunities in the equity markets. In 2015, we are planning for a continuation of the same market conditions that have produced low, but still positive, returns for us in recent years.

The changing market

The ongoing low interest rates and benign claims experience continues to attract new capital to our markets, putting pressure on brokers and insurers. In my opinion, the new sources of capital are here to stay. They have become accustomed to operating in our business, so I think they are unlikely to move on (as perhaps some hope they will) when rewards improve in other parts of the capital markets.

Squeezed margins and consolidation have put pressure on old relationships. Our response has been to support brokers through collaborative product innovation and improved processes, focusing on expertise and service to help their clients. We also continue to explore and support new distribution channels. Over many years we have built a powerful direct-to-consumer business, which we are replicating in different countries. Alongside this, our broker e-trading capabilities, our involvement in specialist underwriting agency White Oak, our support of new facilities and our recent bolt-on acquisitions, all give us access to a broader portfolio of risks.

In the face of strong headwinds, one can see a clear divergence of strategy in the market, with some companies growing big-ticket business and some contracting. Our underwriting strategy combines underwriting rigour with an eye for opportunity and is designed to manage all stages of the insurance cycle: we plan for the soft market conditions we are experiencing. We believe that when margins reduce you take your foot off the accelerator and when they increase you push down hard. We also believe that our strategy of persistently investing and building the retail businesses as a counterweight to the more volatile lines continues to be the right one.

The Board

It has been nearly nine years since we created the Hiscox Ltd Board, and according to UK corporate governance directors potentially cease to be independent after nine years' service. As such, a number of our original Board members will be stepping down during the year. These include Dr James King, Andrea Rosen and Dan Healy. I am particularly pleased our businesses in Bermuda and the US will continue to benefit from James and Dan's sage counsel as they continue to serve the Group on our subsidiary Boards. I would also like to express my deep gratitude to Andrea for the many valuable contributions she has made to the Company over the last nine years.



A handwritten signature in black ink that reads "Robert Childs".

Robert Childs
Chairman

In preparation for this we have conducted an external search to recruit two replacements and are recommending to shareholders the appointment of Lynn Carter and Anne MacDonald to our Board. Lynn Carter will bring 38 years' experience in the banking industry, most recently as President of Capital One Bank, while Anne held the position of Chief Marketing Officer at four different Fortune 100 companies including Travelers and PepsiCo. These appointments support our focus on retail growth and brand building.

In addition, Senior Independent Director Richard Gillingwater, who joined the Board in 2010, will step down after the AGM due to his new commitments at Scottish and Southern Energy as well as Henderson Global Investors. The Group has benefited greatly from Richard's acumen and measured approach and I wish him all the best in his new role at SSE.

Finally

We continue to recruit, train and motivate the best people. Their desire to do the right thing, however hard, is what makes our customers want to do business with us. I am thankful to everyone at Hiscox for their diligence and for the ongoing support of our customers.

I recently visited our York office, having the week before returned from visiting our new office in Singapore. I was inspired by the enthusiasm and drive of the young teams and the commitment and intellect of the leadership in both places. It is pleasing to see that Hiscox businesses, from Singapore to Atlanta and York all reflect the same values and determination to succeed.

During my time at Hiscox I have seen our strategy, those same values and that determination tested in battle – and prevail. In turbulent times we have delivered profitable organic growth and returned extra capital to shareholders. I expect the strong headwinds to continue but our course will not change; it has already brought the business, our staff and our shareholders success, and I believe will bring greater rewards in the future.

Robert Childs
2 March 2015

It is pleasing to see that Hiscox businesses, from Singapore to Atlanta and York all reflect the same values and determination to succeed.

Chief Executive's report

I am pleased to report a profit before tax of £231.1 million (2013: £244.5 million), a return on equity of 17.1% (2013: 19.3%) and revenue growth of 3.3% to £1,756 million (2013: £1,699 million) – a credible performance in current market conditions. This result reflects the continued good progress of our retail businesses which, for the first time account for over half of Hiscox Ltd's gross written premiums. Our US business contributed materially to this, growing organically by 24.1% to over \$360 million. Hiscox UK and Europe both delivered record profits. Our London Market business has made a good margin and grown in a difficult market. Our reinsurance business has had a tremendous year and acquitted itself well in challenging pricing circumstances, receiving ongoing support from our quota share partners and attracting new investors to our insurance linked funds which are now on track to reach \$500 million in assets under management.

With these results, we have announced a capital return of 60.0p per share, comprising a special distribution of 45.0p per share and a further 15.0p per share instead of a final dividend. The total capital return is equal to approximately £192 million. I am pleased that for another year our business is strong enough to allow this return of capital and at the same time we are able to invest in talent, infrastructure, small acquisitions and new opportunities.

Market challenges remain – pricing pressure due to the absence of large losses, a flood of capital into reinsurance, technological change putting pressure on infrastructure, and low investment returns due to ongoing financial repression. Our long-term strategy is showing its mettle, and our options – in terms of products, distribution routes and geographies – allow us to adapt and continue to deliver good returns to shareholders.

Hiscox Retail

We began growing our specialty retail business outside Lloyd's in 1989, with an initial focus on high net worth homes. It reached £2 million in its first year. Since then we have broadened the product offering, entered new countries and built new distribution channels. Hiscox Retail now comprises over half of the Group's gross written premium – £891.1 million in total (2013: £819.4 million). Over the last ten years it has grown at 12.8% compound, and yet we are still a small participant in most of the segments we target. In 2014 it contributed profits of £78.1 million (2013: £61.2 million), enough to cover the equivalent of the final dividend for the Group. The combined ratio improved slightly to 93.5% (2013: 94.3%). The scale, steady profits and brand value of this segment truly differentiate

Hiscox in the insurance marketplace. Hiscox Retail comprises Hiscox UK and Europe, and Hiscox International. I review them in turn below:

Hiscox UK and Europe

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

Our retail businesses in the UK and Europe delivered record profits of £73.3 million (2013: £56.4 million) despite serious floods in the UK – and hailstorms, windstorms and floods in Europe.

Hiscox UK and Ireland

Hiscox UK and Ireland increased gross written premiums by 5.5% to £435.0 million (2013: £412.4 million) with strong growth in areas where margins are good and reductions in less profitable business. It achieved a combined ratio of 88.6%, at the better end of our normal expectations.

The first half of the year was dominated by floods in south-east England where we have a concentration of customers. As always, our claims team delivered an exceptional service, meaning we were able to close 92% of claims on average within eight weeks of being reported. The floods highlighted issues with the Government's Flood Re scheme, which was particularly unfavourable for many of our insureds. We led an active campaign throughout the year to change this and were pleased that some of our concerns have been addressed.

In the second half of the year we launched a series of new and refreshed products including data and cyber risks, and personal accident cover, which are showing positive early signs. These innovations have contributed to a particularly good year for the UK broker business.

We always look at opportunities to develop a market-leading position in our chosen areas of specialism and we have made a series of small acquisitions to this end. We acquired Event Assured in September, consolidating our position as market leaders in insurance for small events, conferences and exhibitions. Today we announce completion of our acquisition of R&Q Marine Services, a managing general agent specialising in yachts and general marine leisure which underwrites on behalf of other insurers. We will now combine their knowledge with our distribution and marketing capability to serve more customers in our target segments.

We are seeing some success with Hiscox Private Client, our tied agency through which we sell high net worth home insurance direct to customers. This complements our highly successful direct-to-consumer mid net worth



A handwritten signature in black ink that reads "Bronek Masojada". The signature is written in a cursive, flowing style.

Bronek Masojada
Chief Executive

home and small commercial business products. Through these direct operations we serve over 124,000 customers and we still have plenty of room to grow.

A major achievement in the year was the delivery (on time and relatively close to budget) of the first phase of our £50 million programme to renew the IT infrastructure that underpins our retail operations. We are already seeing benefits in improved customer experience and higher sales for phase one which supports our direct home business. We are now working on phase two which will renew the infrastructure for our direct commercial business. This should be completed by the end of 2015. At the same time we have in-sourced our home and commercial customer experience centres – all of which will improve service and customer retention, accelerating our growth. We now have over 120 staff in York, and by the end of 2015 they will be housed in a new office which has room to cater for further expansion.

In the autumn, after a two-year break, we returned to TV with a new home advertisement supported by cinema, print and poster campaigns. This has generated a great deal of new interest with calls, website visits and sales all increasing by over 30% during the campaign.

Hiscox Europe

Our European business had an excellent year, growing gross written premiums by 8.5% to €190.8 million (2013: €175.8 million). It delivered a combined ratio of 94.1%, including marketing costs of €4 million (or 2% on the combined ratio) as we begin the process of building a direct business in Europe. This is a good performance in the toughest economy in which we operate.

Each part of our European operation has performed well, benefiting from a focused business plan and improved expense management. Our partnerships with other financial services providers such as BBVA, Crédit Agricole, ABN AMRO and Generali who distribute our specialist products to their customers have helped our commercial business grow to almost €100 million. We have also invested in expertise, allowing us to develop products for software developers, radiologists, laboratories and equestrian centres.

Our art and private client business in Europe has had a welcome return to growth and remained profitable despite the most severe weather-related claims for the past five years. Hailstorms, windstorms and severe rain particularly affected Belgium and Netherlands, but we now have the scale to absorb these losses.

Germany performed especially well, reflecting the benefits of a consistent strategy, stable team and established broker relationships. Spain also had a good year, despite its ongoing economic difficulties thanks to committed, ambitious leadership.

Europe is benefiting from improving scale. We continue steadily to improve our expense ratio through our EuroFit project, which involves local process improvements and the concentration of functions in our shared service centre in Lisbon. A success during the year was the in-sourcing of our escape of water claims (a particular challenge in France) from a third-party to our team in Lisbon, resulting in lower costs and higher client satisfaction.

Our direct-to-consumer small business products in France and Germany are benefiting from more investment as they follow our direct strategy in the UK and USA. Although the French and German direct businesses are still relatively in their infancy, with a total premium of only €4 million, we think the market opportunity is there and that with the right sustained investment we will build good direct businesses.

Hiscox International

This division comprises Hiscox Guernsey, Hiscox USA and DirectAsia. Its revenues grew by 15.7% to £301.1 million (2013: £260.3 million) and it achieved a combined ratio of 100.1% (2013: 98.5%). This good growth demonstrates there are still many opportunities for us across the world.

Hiscox Guernsey

During the year we formed the Hiscox Special Risks division, bringing together different teams from across the Group that focus on special risks, including kidnap and ransom, private client, fine art and executive security, in a structure designed to boost local and global collaboration. Led from Hiscox Guernsey, Hiscox Special Risks has additional teams in London, Munich, Paris, New York, Los Angeles and Miami. We also underwrite personal accident, terrorism and fine art risks from Guernsey. In December 2014, we expanded our Miami operation, recruiting additional staff and acquiring the renewal rights to a book of Latin American business.

Despite operating in highly competitive lines, Hiscox Special Risks has a well-earned reputation for expertise and service giving an element of stability to this business. Clients also benefit from our exclusive arrangement with security experts Control Risks.

Hiscox USA

Our US business had another year of strong growth. Gross written premiums increased by 24.1% to \$367.6 million (2013: \$296.2 million) with the broker business making a profit for the second year in a row. The professional liability products were a growth engine and provide a counterweight to other areas still in the investment stage.

Commercial property is under pressure, with double-digit rate reductions, so we remain disciplined in this area. In all other lines, rates remain broadly flat. Media and entertainment is an area where we are investing, with IT

Hiscox UK
and Europe
both delivered
record profits.

Chief Executive's report continued

infrastructure and an enhanced suite of products. The small business direct and partnerships division continue to forge ahead, with year-on-year growth of 75% and over 80,000 policies now in force. It is approaching scale.

The team has also been busy bringing other new products to market. New financial services and general liability lines, a new cyber deception endorsement and the roll-out of Hiscox Pro – the overarching name for our suite of profession's products – all give us opportunities. These have been welcomed by the market and are delivering promising early results.

Our investment in marketing and focus on differentiation in a crowded marketplace remain important to us, and during the year we launched a brand building campaign under the theme of 'Encourage Courage'. Celebrating Hiscox as an insurer that understands the challenges of building a business and the value in taking risk, the campaign is already resonating well with staff, brokers and customers. We expect to make a multi-year investment in the brand to support and drive the growth of our business in the US.

DirectAsia

Early in the year, Hiscox completed the acquisition of DirectAsia, a direct-to-consumer operation in Singapore, Hong Kong and Thailand. DirectAsia sells predominantly motor insurance with ancillary lines in travel. The business was acquired for \$55 million, plus an earn-out we would be happy to achieve, and brought with it net assets of \$23 million. DirectAsia uses the same IT platform that we are installing elsewhere in the Group and has good underwriting capabilities and customer service ability. We recognised a challenger business similar to Hiscox in a geography we are keen to explore.

The business is progressing as expected. Gross written premiums for the year were US\$29.5 million, a 15.2% increase year-on-year (2013: US\$25.6 million). The premium income for the period of our ownership was US\$22 million.

Our key contribution to DirectAsia so far has been to bring our broader marketing knowledge. We have seconded staff and hired a new Chief Marketing Officer. We have also laid the groundwork for TV advertising for the first time in Thailand, part of a sustained campaign supported by print and social media marketing. It launched in January 2015 and initial results are encouraging.

Hiscox London Market

This segment uses the global licenses, distribution network and credit rating available through Lloyd's to insure clients throughout the world.

Our London Market businesses delivered a profit of £62.6 million (2013: £63.1 million), and increased gross written premiums by 9.0% to £510.8 million (2013: £468.6 million). It achieved a combined ratio of 84.2% (2013: 81.4%), with good underwriting and a favourable claims environment combining to generate another strong result.

All areas contributed to growth and we were able to maintain our core renewal book while finding new business opportunities. We remain restlessly ambitious, considering new lines of business and distribution routes at the same time as navigating the choppy waters that come with squeezed margins, a changing distribution landscape and an influx of apparently insatiable capital. The current consolidation phase among our competitors will create opportunity, either as brokers seek to avoid over-concentration of their placements or individuals seek to build their careers in human-sized businesses.

Looking at each division in turn:

— **Property:** Our property division includes US and international commercial property, power and mining risks and US catastrophe exposed personal lines traded in the London Market.

Growth in property was led by small-ticket household and commercial business which is written through binding authorities with long-standing US partners. It benefited from the allocation of additional catastrophe aggregate as we reduced our exposure in our reinsurance business. It is not without risk however, and we paid a number of claims on homes affected by Hurricane Odile which hit the Mexican Baja Peninsula in September. Big-ticket property business remains challenging, with a competitive renewal season, and we expect these conditions to worsen over time. As a result we will remain selective in the risks we write.

— **Marine and energy:** Against a backdrop of challenging trading conditions, the team has worked hard to maintain the account. Within upstream energy, ratings have been strained due to a lack of meaningful losses, while within marine lines our disciplined approach enabled us still to seek out reasonable margins despite rates being broadly flat. The Costa Concordia saga reflects the challenges of large claims. The cost to the industry grew above expectations during the claim, so we were pleased to make a small release at the year-end, vindicating our cautious initial reserving.

London is the global centre for marine and energy risks, but we cannot assume this will continue forever. The team has taken important steps towards realising new opportunities in emerging markets including hiring an on-the-ground agent in Brazil to build a local Hiscox marketing presence.

Hiscox Retail		
	2014 £m	2013 £m
Gross premiums written	891.1	819.4
Net premiums earned	790.7	711.1
Underwriting profit	57.3	46.0
Investment result	25.9	19.1
Foreign exchange	(5.1)	(3.9)
Profit before tax	78.1	61.2
Combined ratio	93.5%	94.3%
Combined ratio excluding foreign exchange	92.9%	93.7%

Hiscox London Market

	2014 £m	2013 £m
Gross premiums written	510.8	468.6
Net premiums earned	332.5	303.2
Underwriting profit	44.9	58.7
Investment result	8.7	6.3
Foreign exchange	9.0	(1.9)
Profit before tax	62.6	63.1
Combined ratio	84.2%	81.4%
Combined ratio excluding foreign exchange	87.2%	80.3%

It has also participated on the Willis Global 360 facility. This facility allows us to see a broader spread of business while maintaining underwriting integrity, and we aim to grow it in 2015.

— **Casualty:** The casualty division continues to be a bright spot, performing well and growing, albeit from a small base. We bolstered the team during the year with some hires within directors and officers' and casualty reinsurance, and they are now producing a steady stream of business. It has also been pleasing to see stable rates in errors and omissions, a core part of the casualty account after many years of deterioration. We expect this area to become a significant pillar of the portfolio in time, so it is encouraging to see our investment in talent paying off.

— **Aerospace and specialty:** This division includes our aviation, space, contingency, terrorism, kidnap and ransom, political risks and personal accident business.

An unprecedented number of claims – from the tragic losses of Malaysian Airlines flights MH17 and MH370 and AirAsia flight QZ8501, to the damage and destruction of 18 aircraft at Libya's Tripoli airport – kept the aviation market in the headlines over the year, with industry losses exceeding \$1 billion. A combination of good luck and careful underwriting meant that we avoided many of the non-war losses, though events at Tripoli airport did cost us £2.3 million. Despite industry expectations that the market would harden, the year concluded with rates in broadly the same place as they were at the start of 2014. In 2015, we expect to maintain the account, while being ready to explore any opportunities that may arise.

In the rest of the division, we achieved good margins, despite the rating environment being variable. In some lines this has been no mean feat. For example the political unrest surrounding Russia and the Ukraine and the subsequent impact of sanctions has been keenly felt within our political risks book. We have invested in people, expanding both our personal accident and contingency teams.

In terrorism, intense competition and a move towards facilities (bundling risks to facilitate placement) are having a negative effect. We were happy to step into the gap that was created by the US Congress's failure to promptly renew its Terrorism Risk Insurance Programme Reauthorisation Act (TRIPRA), providing certainty to customers with material city-centre property exposures.

— **Alternative distribution:** The ways in which business reaches our London teams continue to change and evolve as brokers seek greater efficiency and technology allows different, more effective means of

communicating. The role of the alternative distribution division is to facilitate innovation, drawing on all the resources of the London Market business. Its biggest business is the underwriting of specialist automotive and equipment, including extended warranty. In this we support White Oak, a specialist in this area. This relationship has grown over time to now represent 25% of our London Market insurance revenues. Our acquisition of a 10% stake in White Oak and appointment of our Chief Underwriting Officer to its Board underscores the significance of this business to us.

We are also grasping new opportunities, including multi-lines Lloyd's consortia, quota-share treaties and binding authorities. Such arrangements give partners access to our capital and expertise in exchange for access to business we might not have otherwise seen. We remain open to other non-traditional ways of distributing products underwritten by our teams in London.

Hiscox Re

The Hiscox Re segment comprises the Group's reinsurance businesses across the world. It has had a tremendous year, not only in terms of its contribution to the Group's profits, but also in the way it has adapted to the changing dynamic in the global reinsurance industry. Profits were £105.6 million (2013: £129.0 million) despite our revenues declining by 13.9% to £354.3 million (2013: £411.5 million) as we continued our disciplined response to the challenging pricing environment. The combined ratio was 49.8% (2013: 58.9%). The last two years reflect an almost complete absence of large losses due not only to low industry-wide losses, but also good risk selection by our teams.

We formed the Hiscox Re division in mid-2013, bringing teams in London, Paris and Bermuda under common leadership. Since then they have forged a strong identity in the eyes of clients and brokers, reflecting the reality of a business which can commit over \$200 million to the right risk. The team has developed innovative new products, setting them apart from the industry. Popular products have included risk aggregate protection, second event catastrophe aggregate trigger covers, quarterly aggregate protection and cyber aggregate excess of loss. These have created more opportunities for conversations with clients, brought in over \$30 million in new premium and enhanced existing relationships. The team will continue to develop new products as it charts a course through a market where pricing is challenging.

The way capital is deployed in the reinsurance industry is changing. For many years we have used quota share support from industry partners to increase our ability to commit material sums to support clients within traditional structures. We expect this to continue for many years as clients value the stability the traditional approach brings. At the same time we are adapting to

Hiscox Re	2014	2013
	£m	£m
Gross premiums written	354.3	411.5
Net premiums earned	193.0	269.0
Underwriting profit	93.6	117.9
Investment result	9.3	14.4
Foreign exchange	2.7	(3.3)
Profit before tax	105.6	129.0
Combined ratio	49.8%	58.9%
Combined ratio excluding foreign exchange	51.6%	57.3%

Chief Executive's report

continued

changing sources of capital. Our Kiskadee family of insurance linked funds will, in its second year of operation, attract \$500 million in capital. We see opportunities to grow these funds, and other ILS products, further as investors become more comfortable with taking both insurance and reinsurance risks. Hiscox Re has also broadened its focus by continuing to invest in specialty, healthcare and casualty reinsurance. These three lines of business are growing steadily, with the right degree of caution. Combined, they exceeded \$60 million premium income in 2014 and we expect this growth to continue.

Looking forward, the critical uncertainty is catastrophe reinsurance pricing. Rates fell at the important 1/1 renewals by approximately 12.5%, in line with our expectations. This marks the third consecutive year that prices have reduced. The great advantage that Hiscox Re has over its competitors is that the Hiscox Group is not over-reliant on this piece of the pie. This means that our reinsurance team can remain disciplined, reducing volume if necessary, secure in the knowledge that as a Group we have many opportunities elsewhere. For instance, we have already re-allocated catastrophe aggregate from reinsurance to our small-ticket property insurance team where pricing is now more attractive. It also means that cedants see Hiscox as a secure partner that will pay claims in adverse circumstances. The reinsurance industry has had three years without any material claims, over six years since a major Gulf of Mexico windstorm, and almost ten years without a major Florida hurricane. This will inevitably change and when it does, Hiscox Re has a full team of talented people and diverse sources of capital to expand as the opportunity presents itself.

Claims

2014 is a year that will be remembered for its devastating aviation losses. Our exposure to these events – from the loss of Malaysia Airlines MH370 and MH17, AirAsia flight QZ8501 and the Air Algérie flight to Mali, to the destruction at Libya's Tripoli airport – was limited, reserved at net \$6.8 million. We also reserved \$6.8 million for the passenger ferry that caught fire in the Adriatic Sea, resulting in tragic loss of life.

It was a relatively benign year for large-scale natural catastrophes, and a quiet hurricane season resulted in no material losses outside of the \$12.5 million reserved for Hurricane Odile which hit the Mexican peninsula in September. In Europe, severe floods, windstorms and hailstone events during the first half of the year affected our customers in the UK, Belgium and the Netherlands. Our reserving for these events stands at £8.8 million for the UK and €5.3 million for Belgium and the Netherlands. We also reserved \$7.2m for February's severe snowstorms in Japan.

We are here to pay claims when the worst happens, so it is always pleasing to receive external recognition for the quality of our teams and the fair and fast treatment that our customers experience. Nine out of ten people that insure their property with us in the UK say they would recommend us to their friends and family, and in the London Market Gracechurch survey we achieved the second highest ranking for overall customer satisfaction. We do not rest on our laurels however and continue to strive for ways to work better, faster and even more effectively for our customers.

Reserve releases of £172 million were up from £140 million last year, as we maintain a cautious approach.

Marketing

During 2014 we increased marketing spend across the Group by 3.9% to £31.8 million (2013: £30.6 million). The vast majority of our marketing efforts are focused on our direct-to-customer operations in the UK, the US and Europe. We have also invested significantly in marketing our newly acquired Asian operations, DirectAsia. Our investment in broker channel marketing continued, where we marketed direct to brokers, or we helped them market to their customers. A small amount was also spent on corporate sponsorships, mainly supporting art-related activities but also growing our presence in York.

Our marketing has been instrumental in building the Hiscox brand, communicating what we do to an ever-wider audience, building awareness of Hiscox and ultimately driving sales. We felt the benefits mostly in the UK where it has had a positive impact on the direct, retail broker and even our Lloyd's activities. As we spend more in other locations I believe we will see similar broad business benefits.

Operations and IT

Our operations and IT capability have benefited greatly from investment and effective leadership, and we have made good progress in several important areas. Our project to replace the core underwriting, policy administration and claims systems supporting our retail businesses continues. The first phase of implementation, for our UK direct home system, launched successfully on time and almost on budget in October and this has already doubled our online conversion rates and increased sales. The next stage is the migration of our direct commercial activities.

In Europe our 'EuroFit' programme is still succeeding in accelerating growth whilst driving down the combined expense ratio. We continue to expand our European Service Centre in Lisbon and to implement changes that simplify our business and processes. This includes investing in our online quoting platforms for brokers.

In the US our operations team has focused on building scalable infrastructure, streamlining operational processes and automating some simple underwriting. A major focus was smaller

directors and officers' risks, where we halved the question set, and in 2015 we will be rolling this out to other areas.

In the London Market, we have become more engaged in driving market-wide improvements. The most notable success was our involvement in the London Market Group's London Matters report which quantified the market's position, its opportunities and threats in a way that had not been done before. The report garnered government interest and gave new direction to the market modernisation programme. We are also seeing value in our participation on several key project boards, focused on the delivery of a single electronic trading platform for the market and an overhaul of back office functions for improved efficiency.

At the Digital Insurance and Technology Awards, our IT team was recognised with four awards – Digital Project Team of the Year, Outsourcing Partner of the Year, Green Insurance IT Initiative and CIO of the Year for Stéphane Flaquet. This is well-deserved recognition of a team which has done well.

Investments

As in 2013 the expectations for the year's investment result were relatively modest and, given a cautious approach, we are content with the performance for 2014. Our investments before derivatives made £56.4 million (2013: £58.9 million) equating to a return of 1.8% (2013: 1.9%). A bias to short duration bond portfolios, driven by a desire not to lose money when yields rise as well as the short tail nature of our liabilities, meant that at 1.5% the return from the bond allocation was quite low. Once again the Dollar and Sterling bond markets, where the majority of our assets are invested, confounded expectation and, with the benefit of hindsight, it would have been a good year to own longer dated securities. Our returns were boosted however by the performance of our risk assets. In the context of volatile and challenging markets they produced a more than acceptable return of 7.6%. 2014 saw very divergent performance within stock markets and sectors and it is gratifying that on average the funds that we supported avoided many of the pitfalls and beat their benchmarks by a good margin.

The wait for higher interest rates is proving to be longer than expected. However, to the extent that we have learned to live with low but positive returns of late, we are planning for the same in 2015. We remain unconvinced that now is the time to stretch for yield in the fixed income arena and, if anything, recent bouts of illiquidity have re-affirmed this view. The majority of our cash and bonds are there to pay claims and support our business and, although we are prepared to take investment risk, as in underwriting we seek to do so at the right price. We continue to see the best opportunities for this in the equity market from time to time.

Capital management

We have announced a capital return of 60.0p per

share with these results, approximately equal to £192 million in total. Including this amount, in the past ten years Hiscox has returned a net total of £857 million to shareholders through progressive dividends, share buy-backs and capital returns. At the same time we have grown shareholder's funds from £369 million to £1,262 million, post this capital return. Over the same time period we have grown our top line by a compound 8.0% per annum.

We far prefer to invest in opportunities to support organic growth or make small acquisitions. Over the past 12 months we have made four acquisitions to support areas as diverse as contingency, yachts and kidnap and ransom. This includes our announcement today of the acquisition of R&Q Marine Services. We are always on the look-out for opportunities which strengthen our position in specialty areas.

Outlook

At Hiscox we have pursued a strategy of diversification for over 20 years. Our mantra of steadily building our retail business (through product innovation, geographic expansion and occasional small acquisition) – to allow our big-ticket businesses to expand and shrink in line with their market opportunities – has worked and we believe will continue to work. In 2014, for the first time, our aggregate specialist retail business will account for over 50% of Hiscox Ltd's gross written premium. Its growth, combined with growth in the London Market insurance business, has offset the declining income in our reinsurance business. As a result, our Group profits, while heavily influenced by big-ticket insurance and reinsurance results (and we love it that they can do so well) are not wholly dependent on these areas as the only source of profits. Our retail businesses make material profits as well.

At the same time, we have been successful at adapting to the changing market. The way capital is provided to reinsurance is changing. Our response to this change, the Kiskadee Funds, have grown to almost \$500 million, from nothing two years ago. Our US business is on course to reach \$500 million in revenues by 2016, making us a recognised contender in the US specialty market. The brand building we have done in the UK, which is now slowly extending to Europe and the US, means we have an identity few other insurers can match. We have taken the bold step (and delivered on phase one) of ripping out old technology to replace it with new, rather than papering over the cracks. We are not standing still.

Thanks to all these efforts we have the fire power to set our own course, and are not being blown around by industry headwinds. It means that we have credible opportunities to develop our business and make money even in the tough times that lie ahead for some parts of our business.

Bronek Masojada
2 March 2015

In 2014, for the first time, our aggregate specialist retail business will account for over 50% of Hiscox Ltd's gross written premiums.

The Hiscox Group has over 1,800 staff in 14 countries.

Bermuda
Hamilton

Asia
Bangkok
Hong Kong
Singapore

Europe
Amsterdam
Bordeaux
Brussels
Cologne
Dublin
Hamburg
Lisbon
Lyon
Madrid
Munich
Paris

Guernsey
St Peter Port

**Latin American
gateway**
Miami

UK
Birmingham
Colchester
Glasgow
Leeds
London
Maidenhead
Manchester
York

USA
Atlanta
Chicago
Los Angeles
New York City
San Francisco
White Plains (New York)

North America



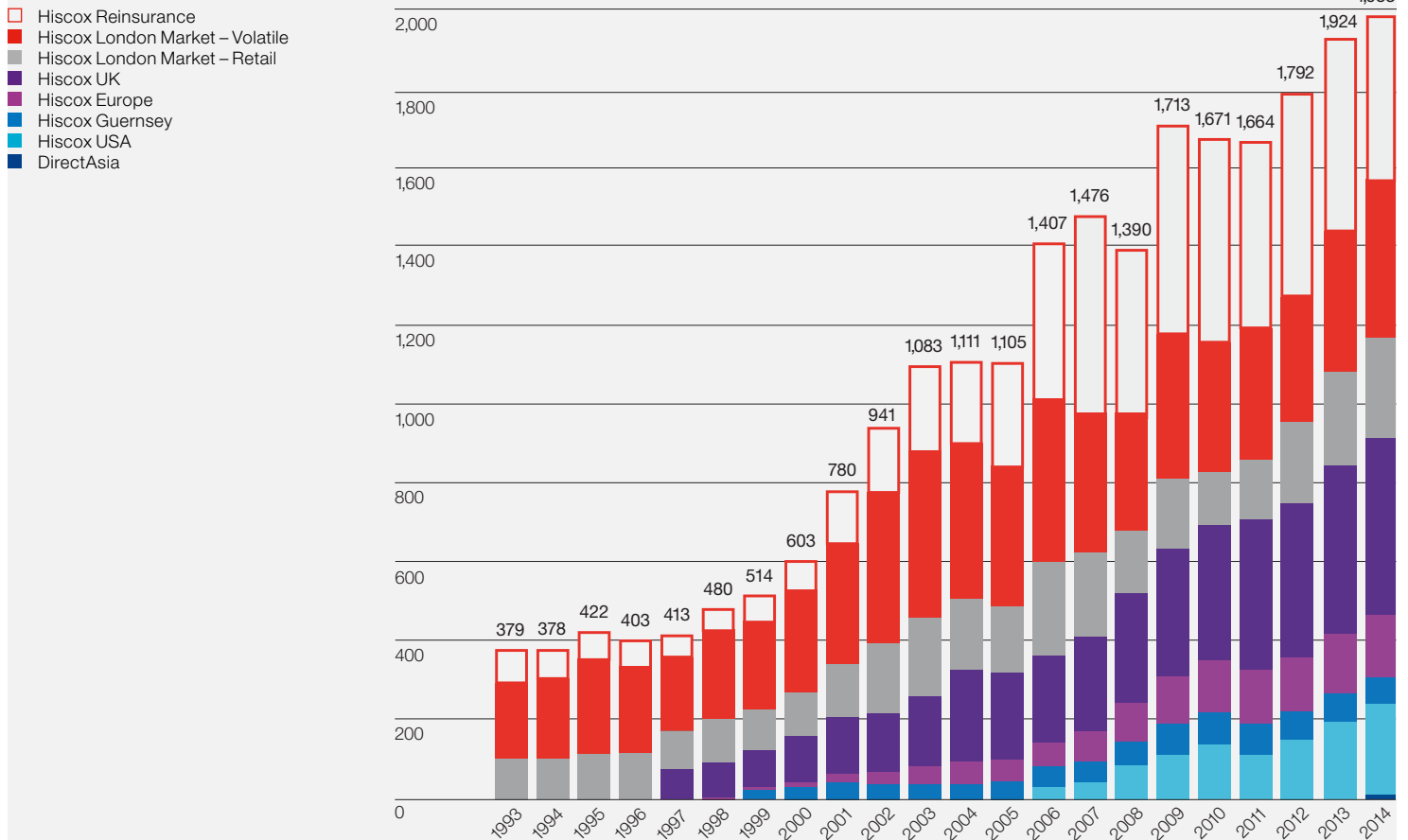
Europe





Building a balanced business

Gross premiums written at 100% level (£m)



Hiscox business structure

Hiscox Retail

Hiscox UK and Europe



Steve Langan
CEO Hiscox Insurance Company
Chief Marketing Officer
CEO DirectAsia Group

Hiscox UK and Europe is led by Steve Langan, previous UK and Ireland Managing Director. As a combined unit, the two markets will benefit from greater sharing of knowledge, expertise and resource as Hiscox focuses on its stretching ambitions and continued drive for profitable growth next year and beyond.

Hiscox UK and Ireland (headed by Kate Markham and Ross Dingwall) and Hiscox Europe (headed by Pierre-Olivier Desaulle), are sub-divisions of Hiscox UK and Europe.

Hiscox UK and Ireland



Kate Markham
Managing Director
Hiscox UK Direct

Hiscox began writing insurance outside of Lloyd's in 1989 and now has nine offices in the UK and Ireland. Hiscox specialises in art, private client and luxury motor insurance, as well as professional liability and property insurance for small- and medium-sized businesses. Hiscox UK also provides home and small business insurance directly to consumers.

Products include

D&O, E&O, household, fine art, direct-to-consumer home and small business insurance.

Security

Hiscox Insurance Company Limited has an A (Excellent) rating from A.M. Best, an A (Strong) rating from Standard & Poor's and an A+ (Strong) rating from Fitch.



Ross Dingwall
Managing Director
Hiscox UK and Ireland Broker

Hiscox Europe



Pierre-Olivier Desaulle
Managing Director

In 1993, Hiscox opened its first overseas office in Paris, and now operates from 11 regional centres across Europe. Hiscox Europe provides art and private client insurance as well as professional liability, specialty and property insurance for small- and medium-sized businesses. Hiscox France and Hiscox Germany provide small business insurance directly to consumers.

Products include

D&O, E&O, household, fine art, kidnap and ransom, direct-to-consumer small business insurance.

Security

Hiscox Insurance Company Limited has an A (Excellent) rating from A.M. Best, an A (Strong) rating from Standard & Poor's and an A+ (Strong) rating from Fitch.

Hiscox International

DirectAsia



Bob Thaker
Managing Director

Established in Singapore in 2010 before opening in Hong Kong and Thailand, DirectAsia sells predominantly motor insurance with ancillary lines in travel, healthcare and life. It distributes business through online sales alongside its call centres.

Products include

Motor, travel, healthcare, life.

Hiscox Guernsey



Steve Camm
Managing Director

Since 1998 Hiscox has been providing specialist insurance and expertise for global risks through its Guernsey office. Led from Hiscox Guernsey, Hiscox Special Risks brings together teams from across the Group that focus on special risks including kidnap and ransom and executive security.

Products include
Executive security, household, fine art, kidnap and ransom, personal accident, terrorism.

Security
Hiscox Insurance Company (Guernsey) Limited has an A (Excellent) rating from A.M. Best and an A+ (Strong) rating from Fitch.

Hiscox USA



Ben Walter
Chief Executive Officer

Hiscox has been insuring US customers for over 40 years, and opened a local insurance company in 2006. Hiscox USA operates from six locations, offering professional liability, specialty and property insurance. Hiscox USA also provides small business insurance directly to consumers.

Products include
D&O, E&O, property, kidnap and ransom, media and entertainment, direct-to-consumer small business insurance.

Security
Hiscox Insurance Company Inc. has an A (Excellent) rating from A.M. Best. It also benefits from Lloyd's own ratings, A (Excellent) from A.M. Best, A+ (Strong) from Standard & Poor's and AA- (Very strong) from Fitch.

Hiscox London Market

Hiscox London Market



Paul Lawrence
Chief Underwriting Officer

Hiscox has operated in the Lloyd's Market since 1901. It provides insurance for customers around the world, using Lloyd's portfolio of licences and its network of brokers. Hiscox London Market covers a large range of hazards and leads many of the risks it underwrites.

Products include
Aerospace, global casualty, contingency, marine and energy, personal accident, political risks, property, kidnap and ransom, terrorism.

Capacity
For 2015, Hiscox's capacity for:
— Syndicate 33 is £1bn
— Syndicate 6104 is £65m
— Syndicate 3624 is £350m.

Security
Hiscox Syndicate 33 has an A (Excellent) Syndicate rating from A.M. Best. Hiscox Syndicates also benefit from Lloyd's own ratings, A (Excellent) from A.M. Best, A+ (Strong) from Standard & Poor's and AA- (Very strong) from Fitch.

Hiscox Re

Hiscox Re



Jeremy Pinchin
Chief Executive Officer

Our long-established reinsurance teams in London, Bermuda and Paris commenced trading as Hiscox Re in January 2014. Hiscox Re provides market-leading expertise and a wide range of reinsurance products to high-quality insurers around the world. It has a combined line size of over US\$200m.

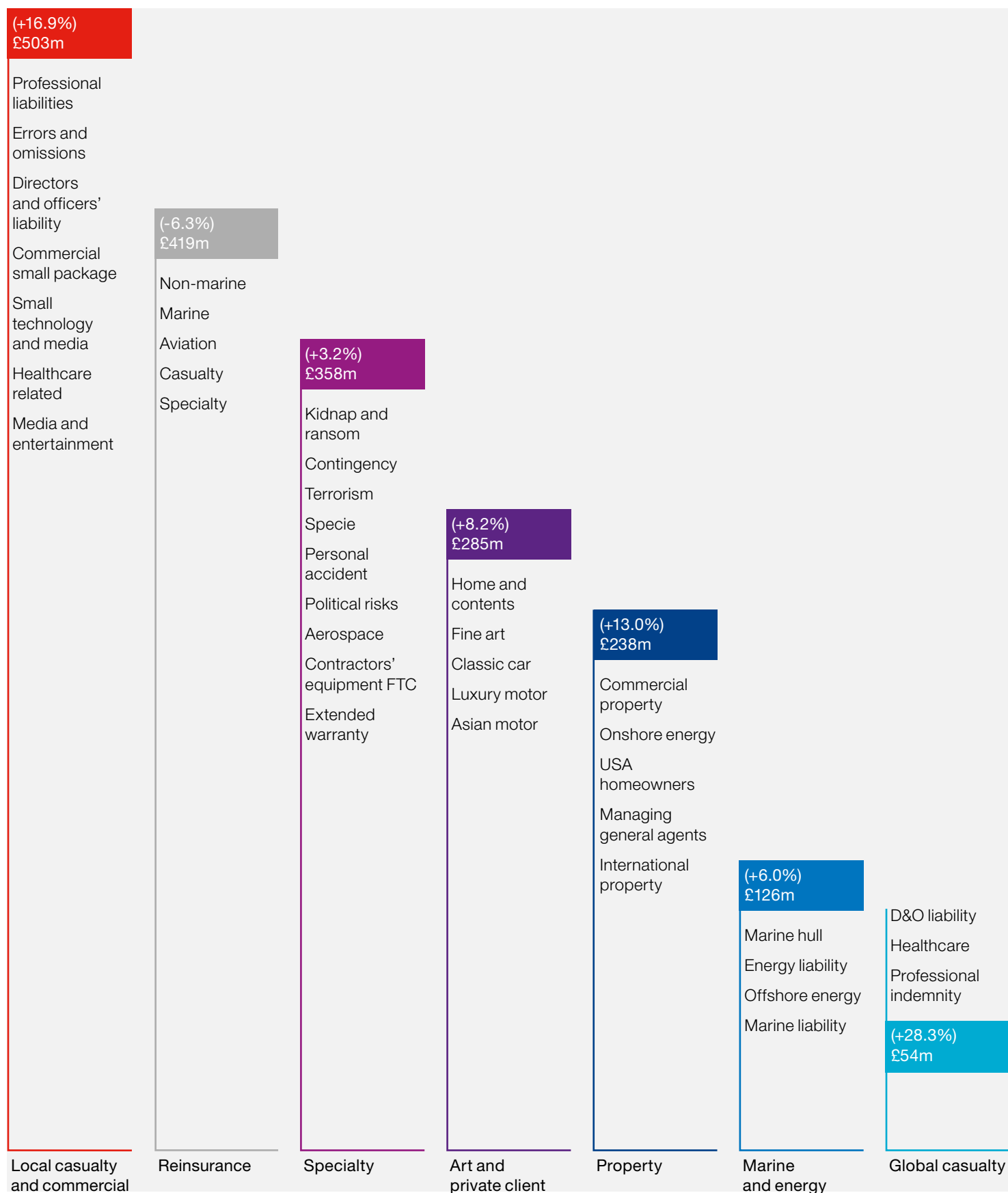
Hiscox Re includes the Group's insurance linked securities (ILS) activity under the Kiskadee brand. Additional capacity is available through Kiskadee.

Products include
Property reinsurance and retrocession; specialty including: marine, aviation, crop and terrorism; casualty.

Security
Hiscox Insurance Company (Bermuda) Limited and Syndicate 33 at Lloyd's are both rated A (Excellent) by A.M. Best.

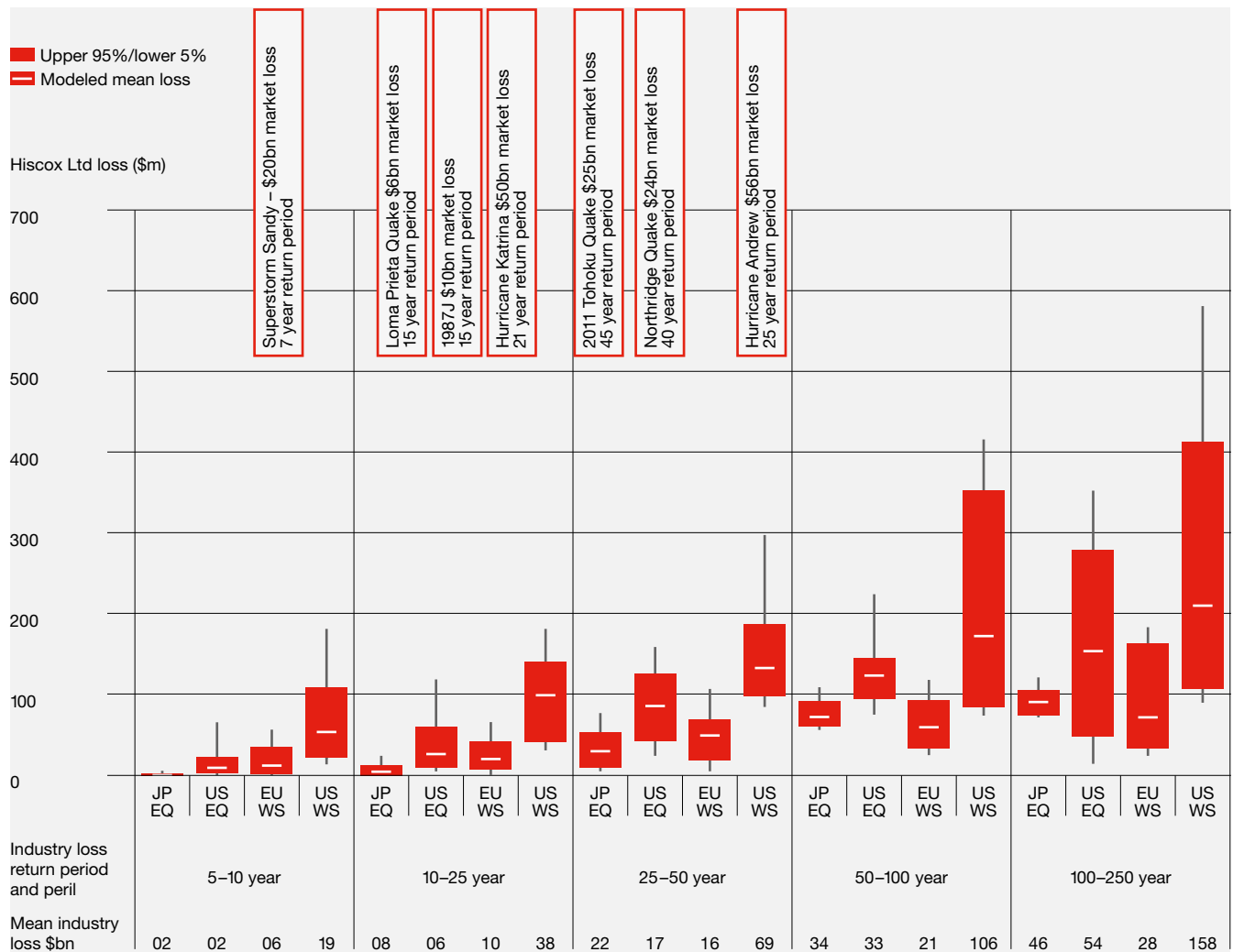
Actively managed business mix

Total Group controlled premium 2014: £1,983m
(Period-on-period in local currency)



Actively managed key underwriting exposures

Boxplot and whisker diagram of modeled Hiscox Ltd net loss (\$m)
January 2015



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 2015 and industry data. Given the nature of the risks underwritten, the loss estimates may be materially different than 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 % of insurance industry loss	Industry loss size US\$bn	Return period years
Japan earthquake	511	108	22.5	4.7	0.2	50	240
Gulf of Mexico windstorm	976	107	43.0	4.7	0.1	107	80
Florida windstorm	683	105	30.1	4.6	0.1	125	100
European windstorm	699	174	30.8	7.7	0.6	30	200
San Francisco earthquake	972	115	42.8	5.1	0.2	50	110

Managing the insurance cycle

Every industry experiences cycles of fluctuating supply and demand. The insurance industry is no different; however, the supply of capital to the industry and the willingness to underwrite against it, can be very reactive to major natural catastrophes or other infrequent, large loss events, making it hard to forecast when the cycle will change. As well as covering major catastrophes, insurance also covers people from all walks of life and all industries, so even during the soft phase of the cycle, not all lines of business, in all geographies, experience difficult conditions.

Hiscox's well-established strategy of balance and diversity was designed with the aim of providing opportunities and choices throughout the cycle that maximise shareholder returns. To that end, all the Group's divisions follow three fundamental tenets:

- always underwrite for profit, not market share;
- actively manage the mix of business;
- grow and shrink according to conditions;
- focus on finding future opportunities and specialist lines.

Every risk we underwrite is priced to make an underwriting profit, no matter what the prevailing competitive conditions or investment climate. We do not bet the business on any single event and are not overly reliant on any one of our divisions for the Group to make a profit. We have three separate divisions that complement each other well – big-ticket insurance, reinsurance, and retail insurance – and which have provided an effective hedge to protect the Group balance sheet against large catastrophe losses and market fluctuations.

We explain below how we execute the Group's cycle-management strategy across each of our individual divisions.

Retail

- Steady, disciplined growth and consistent pricing.
- Investment in a differentiated brand.
- Delivering superb service.

We are a specialist brand working in specific niches and in many areas we are acknowledged market experts. We work hard to differentiate ourselves from the competition and try to create products and services that customers value. In these specialist lines, our market penetration can be low and we believe there is considerable room for disciplined growth.

Our aim is to offer customers certainty in an uncertain world: clear coverage (which often goes much further than that offered by our rivals), consistent prices (rather than offering rock-bottom introductory prices, only to hike them

at renewals), backed by a commitment to pay all legitimate claims quickly and fairly.

We have invested significantly in marketing, to develop a powerful, differentiated brand with which our target clients can identify. That brand is based on our values and customer service ethos, not on price.

We also want to offer superb service that exceeds clients' expectations. Our claims commitment has won us awards as well as praise from our customers, which supports our belief that a policy's value for money goes far beyond its cost.

- Small business customers in the UK have rated service satisfaction 4.5 out of a possible 5.
- 96% of our small business customers in the US would recommend us.
- 98% of customers in France have found Hiscox service to be excellent or good.

Our commitment to underwriting, marketing and service has been a powerful magnet for new clients, as well as our existing customers, helping to protect us from the prevailing competitive conditions.

We seek to create diversity across our retail businesses to give us choices should markets prove challenging. Our UK and European units balance commercial and private client risks. We cover many small- and medium-sized businesses, as well as a number of larger businesses. We also insure the property risks of a wide range of individuals, from middle-income professionals to the extremely wealthy. Following Hiscox UK's direct-to-consumer small business insurance success, we launched a similar offering in the US in 2010, and Europe in 2013. This rapidly growing business balances our specialty insurance products sold through brokers including professional liability, privacy/data breach, executive risks coverage and other products. In 2014 we invested further in the direct model, with the purchase of DirectAsia.

The use of data and analytics is an important way to improve underwriting processes across the Group. In 2015, we will launch a major initiative in our UK business: a sophisticated tool that analyses individual customers to provide a price that reflects their unique risk. It will eliminate excess cost from the underwriting process, while also freeing up our underwriters' time to spend on more complex risks.

London Market Insurance

- Take measured bets with a long-term view.
- Foster market-leading teams.
- Adapt to new distribution challenges.

Although there is rating pressure in a number of our big-ticket lines, like energy or large industrial property risks, we can still find profitable opportunities to grow elsewhere. For example, our property binder business, which comprises small US commercial and personal lines risks, remains an attractively rated book. We have

What is the insurance cycle?

The insurance market witnesses periodic 'soft' and 'hard' phases. The market softens when an increase in capital and competition – often coupled with a period of lower claims – causes premiums and therefore profits to fall. Eventually the market will reach a turning point, when capital declines – often as a result of a catastrophe – and underwriters push up prices and tighten terms and conditions. Thus a hard market ensues, in which profits improve.

many strong relationships with select managing general agents, built across many years and difficult markets, which allow us to push for growth as we see incremental rate growth producing attractive margins.

We are always looking for ways to diversify, by using external performance data and our own experience to identify new sectors in markets that look attractive, but in which we are currently underweight. We will then hire the best available people working in those target areas to ensure we make an immediate impact. Those underwriters are expected to use their knowledge, business acumen and broker contacts to grow their business quickly, but responsibly. Our new casualty and personal accident teams are a good example of this.

Brokers are seeking to make the risk-transfer process more efficient, in part by focusing on developing deeper trading relationships with fewer insurers. To ensure we are one of those few we need to be responsive, to offer significant capacity in emerging risks and to work as a partner with our brokers. Hiscox's name and underwriting reputation give us an invaluable advantage.

Much has been said about underwriting facilities, but we believe they offer us the prospect of a broader portfolio of risks than we would otherwise have had, which makes our business better balanced. They also enable us to take a fixed share of every risk, with the opportunity to take a bigger portion of the most attractive risks through the open market. We are not afraid of the trend towards facilities. Lloyd's has thrived for more than 300 years on the system where an acknowledged market leader sets the rate, terms and conditions for a risk, to which other underwriters pledge their support once satisfied the leader has done a competent job. Facilities are simply an evolution in the subscription market.

Hiscox Re

- Leveraging infrastructure and underwriting expertise.
- Opportunity through multiple capital bases and a diversified portfolio.
- Innovate and build creative partnerships with insurers and investors.

The reinsurance business has changed profoundly in recent years and it is important that we evolve with it. In 2013, we amalgamated our reinsurance platforms in London, Bermuda and Paris to create Hiscox Re to deliver bigger capacity, faster decisions and more creative solutions. It can write lines of over \$200 million, meeting clients' growing desire for meaningful risk capacity from fewer carriers.

We do not view reinsurance to be a commodity and we believe that finding innovative solutions to clients' changing needs is as important as price – if not more so. So we ask clients what challenges they face rather than simply trying

to sell them a one-size-fits-all solution, where the only discussion is price.

This approach has produced new products, such as risk aggregate protection, which provides an effective way for clients to manage their attritional losses, and second event catastrophe aggregate trigger (SECAT) which cost effectively reduces the client's catastrophe trigger after a series of retained losses. These have generated a lot of interest, as has our ability to help our clients develop their own businesses by sharing our knowledge and experience.

The absence of major catastrophes and the influx of new capital have put increasing pressure on reinsurers. Buyers now expect more cover for less, and we are concerned by a further softening of the market, created by some reinsurers effectively giving away extra cover by relaxing their terms and conditions. With no change in the current market conditions in sight, disciplined underwriting is now about applying deft touches on the accelerator and brake pedals, enabling us to keep up the momentum that we want while being able to avoid the potholes in the road ahead.

Our reinsurance underwriting performance has consistently surpassed our peer group, across the cycle. In reinsurance, Syndicate 33 has outperformed the Lloyd's Market every year since 2001 in underwriting losses. For the 2013 underwriting year, for example, the average reinsurance loss ratio among Lloyd's syndicates was 25.4%; by contrast, Hiscox's was just over 9.3%.

Along with exercising discipline, we also have a strategy of finding balance and diversity. Our healthcare team, created several years ago in Bermuda, has rapidly developed a growing book of business. We intend to repeat this success in casualty and specialty reinsurance, where we have recently invested in new teams.

The final element of our cycle-management strategy is Kiskadee Re, our special purpose vehicle formed in 2013 to write collateralised reinsurance. Kiskadee provides our clients with broader solutions and complementary products, while enabling us to deploy extra capacity on risks we favour, and providing another stable and attractive source of fee income. Kiskadee enables outside investors to leverage our underwriting expertise and exploit their lower cost of capital to satisfy their appetite for uncorrelated reinsurance risk. Kiskadee is the latest milestone in our lengthy history of innovation in working with third-party capital – we were the first Lloyd's business to set up a sidecar and have long worked with quota share partners.

ILS is impacting the shape of the cycle due to cost of capital and speed of deployment. Kiskadee enables us to tap into that capability alongside other forms of capital. Whichever way the pendulum swings in terms of client preference over product, pricing etc. we can respond.

Focus on finding future opportunities and specialist lines.

Capital management

Hiscox believes in managing its capital. The Board monitors the capital strength of the Group and ensures its insurance carriers are suitably capitalised for regulatory and ratings purposes, taking into account future needs including growth where opportunities arise. As discussed in the Chairman's statement, once again as a result of our strong performance in 2014 the Board has reviewed the Group's capital level and proposed that a special distribution of 45.0p per share (approximately £144 million), should be made.

A further amount of 15.0p per share is proposed instead of payment of a final dividend. This return of capital will align the Group's available capital with the rating agencies' minimum capital requirements to remain in the A range. The impact of this distribution and how it compares to the Group's capital requirements is presented in the chart on page 21.

Capital requirements

The Group monitors its capital requirements based on both external risk measures, set by regulators and the ratings agencies, and its own internal guidelines of 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 a Group level is given below.

Management compares the capital requirements of the Group against its available capital. Available capital is defined by the Group as shareholders' equity which was £1,454 million at 31 December 2014 (2013: £1,409 million). Debt or preference shares are not defined as available capital by the Group as they do not absorb losses, should they occur, ahead of or alongside ordinary shareholders.

However, the Group can source additional funding through a revolving credit and Letter of Credit facility. Additional funding from these sources comprised \$875 million at 31 December 2014 (2013: \$875 million), of which \$441.5 million was drawn at 31 December 2014 (2013: \$333 million).

Rating agencies

The ability of the Group to attract business, particularly reinsurance, is dependent upon the maintenance of appropriate financial strength ratings from the leading rating agencies, Standard & Poor's, A.M. Best and Fitch. These ratings 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, Standard & Poor's and Fitch have shared their capital models with management. These models calculate a capital adequacy score by measuring available capital, after making various balance sheet adjustments, as a proportion of required capital which incorporates charges for premium, reserve, investment and catastrophe risk. Management's interpretation of A.M. Best's 'Best Capital Adequacy Ratio' (BCAR) model indicates the Group has a healthy surplus above the minimum capital required to maintain the carriers' A ratings. On a similar basis the Standard & Poor's modeled result indicates a surplus in excess of the mid-point of the required A range with additional headroom above the minimum requirement. Finally, Hiscox's own assessment of capital requirements arising from Fitch's new 'Prism' factor-based model places the Group's capital in the 'very strong' range, comfortably above that necessary to maintain the current Fitch A rating. Projections indicate a reasonable level of flexibility would be maintained following the £144 million special distribution. The rating agency requirements shown in the chart on page 21 are consistent with our own internal projections of rating agency capital requirements based upon the Group's 2014 consolidated financial statements.

Group regulators

As a Bermudian-registered holding company, the Bermuda Monetary Authority (BMA) has been assessed as the Group's regulator under the Bermuda Group Supervisory Framework. The BMA requires the Group to monitor its Group solvency capital requirement under which the Group provides a solvency return in accordance 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 Hiscox's own internally assessed capital requirements and is informed by the Group's Capital Model (GCM) which, together with the BSCR, forms part of the BMA's annual solvency assessment. The GCM provides a holistic view of the Group capital requirements and draws upon the Group's key underlying risk models.

The proposed return of capital will leave the Group with a comfortable surplus above Hiscox's internal projections of both the BSCR and GSSA for the 2015 business plan.

Internal capital requirements

The Group sets risk limits and tolerances which reflect the amount of risk it is willing to accept as a business. As part of good risk management, our current exposure by the key risk types is monitored against these pre-defined measures throughout the year. 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

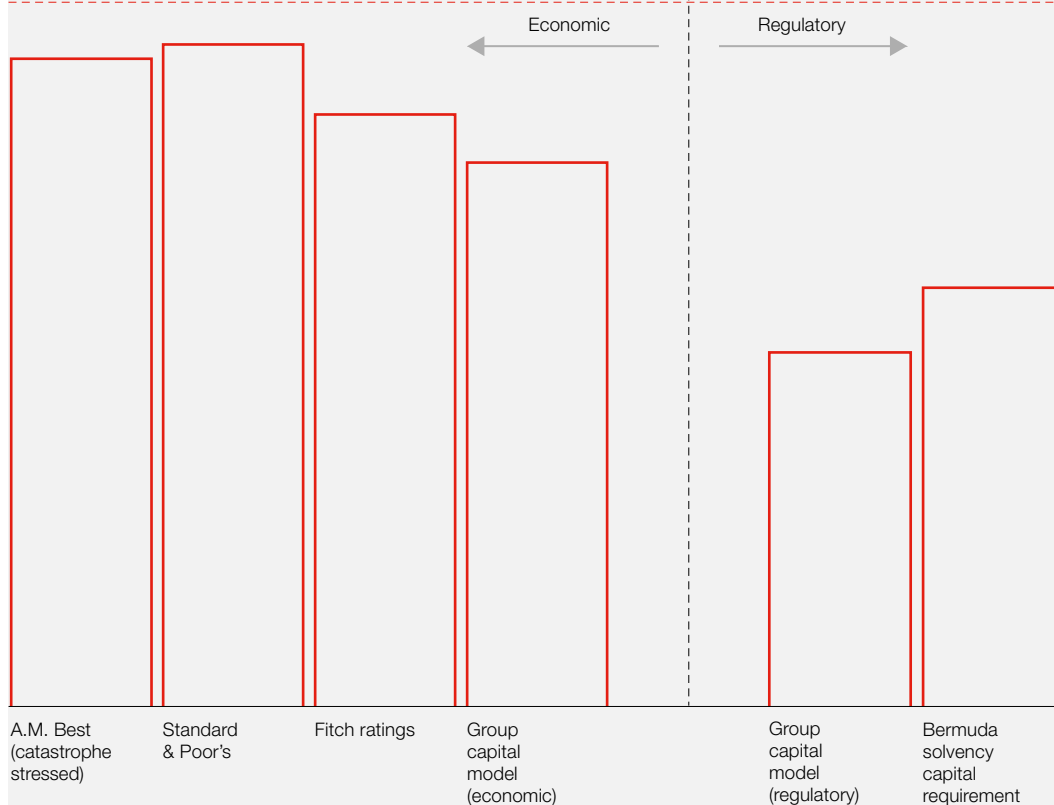
12.5% of core capital plus 100% of buffer capital (£100 million) with an allowance for expected investment income. This underwriting risk limit reflects a slight redefinition in how the underwriting risk preference is expressed compared to previous years but is not materially different quantitatively. A market loss at this remote return period would be very big indeed and would certainly bring about positive market changes. The Group would be well positioned in the resulting strong market with capital in the order of £1 billion in addition to its LOC facilities and its now well-developed reinsurance partnerships. If the return of capital is approved by the shareholders on 25 March, the available capital will reduce to approximately £1,262 million, comfortably meeting the current regulatory, rating agency and internal capital requirements. The Board believes that this level of capital gives sufficient flexibility to achieve its desired business growth whilst maintaining the Group's current capital strength.

Capital return of 60.0p per share.

Projected capital requirement

£1.45bn available capital

£1.26bn available capital (post return)



Rating agency assessments shown are internal Hiscox projections of the agency capital requirements on the basis of 2014 year-end results. Hiscox uses the internally developed Group 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.

Group financial performance

Profit before tax for the year was £231.1 million (2013: £244.5 million). This was due in part to the lack of major catastrophe activity for the second year running. The investment return remained constant at 1.8% (2013: 1.9%). Foreign exchange gains in 2014 were £5.0 million (2013: £9.9 million losses) as the US Dollar strengthened balanced by a weakening Euro. The Group recorded a post-tax return on equity of 17.1% (2013: 19.3%) and earnings per share were 67.4p (2013: 66.3p).

Net asset value per share increased by 15% to 462.5p (2013: 402.2p). The Group continues to maintain a progressive dividend policy and total dividend per share rose by 7.1% to 22.5p (2013: 21.0p), subject to shareholder approval of the final dividend equivalent. The Group is proposing, for the third consecutive year, to make a special distribution of 45.0p per share, subject to shareholder approval. Following the distribution, the Group's capital levels will be similar to those of the opening balance sheet, post the 2014 capital return.

Gross premiums written of £1.76 billion were up 3.3% year-on-year. Strong growth in insurance lines was offset by a decline in reinsurance.

The Group's combined ratio including foreign exchange was 83.9% (2013: 83.0%). An investment return of 1.8% (2013: 1.9%) was a good result given the ongoing challenging conditions in the market. All asset classes outstripped their benchmarks for a consecutive second year.

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

Hiscox Retail

Hiscox Retail now accounts for 51% of the Group's gross premiums written at £891.1 million (2013: £819.4 million). Gross premiums written for the UK were up 5.5% at £435.0 million, driven primarily by the specialty commercial and global media, entertainment and events lines. Europe grew gross premiums written by 5.7% to £155.1 million with contributions from all countries. The US continued its strong year-on-year growth with a 17.7% improvement in top line, with the direct-to-consumer business growing by 75%. Guernsey's premium income decreased by 8.9%, or 4.0% in local currency. Additional contributions in premiums were made from DirectAsia, which we acquired during the year, at £13.5 million.

Both the net claims ratio and expense ratio remained constant at 40.9% (2013: 41.6%) and 52.0% (2013: 52.1%) respectively. The net combined ratio improved slightly to 93.5% (2013: 94.3%). Both the UK and Europe divisions recorded their best ever result.

Group key performance indicators

	2014					2013				
	Hiscox Retail	Hiscox London Market	Hiscox Re	Corporate Centre	Total	Hiscox Retail	Hiscox London Market	Hiscox Re	Corporate Centre	Total
Gross premiums written (£m)	891.1	510.9	354.3	–	1,756.3	819.4	468.6	411.5	–	1,699.5
Net premiums written (£m)	825.9	336.9	180.6	–	1,343.4	751.2	359.9	260.0	–	1,371.1
Net premiums earned (£m)	790.7	332.5	193.0	–	1,316.2	711.1	303.2	269.0	–	1,283.3
Investment result (£m)	25.9	8.7	9.4	12.2	56.2	19.1	6.3	14.4	20.0	59.8
Profit/(loss) before tax (£m)	78.1	62.6	105.6	(15.2)	231.1	61.2	63.1	129.0	(8.8)	244.5
Claims ratio (%)	40.9	47.4	22.0	–	39.8	41.6	43.5	30.9	–	39.8
Expense ratio (%)	52.0	39.8	29.6	–	44.9	52.1	36.8	26.4	–	42.3
Foreign exchange impact (%)	0.6	(3.0)	(1.8)	–	(0.8)	0.6	1.1	1.6	–	0.9
Group combined ratio (%)	93.5	84.2	49.8	–	83.9	94.3	81.4	58.9	–	83.0
	2014					2013				
Financial assets and cash [†] (£m)	3,244.9					3,129.5				
Other assets (£m)	1,734.2					1,306.1				
Total assets (£m)	4,979.1					4,435.6				
Net assets (£m)	1,454.2					1,409.5				
Net asset value per share (p)	462.5					402.2				
Net tangible asset value per share (p)	428.8					381.4				
Adjusted number of shares in issue (m)	314.4					350.5				

[†]Excluding derivative assets, investments in insurance linked funds and third-party assets managed by Kiskadee Investment Managers.

Hiscox London Market

Gross premiums written increased by 9.0% to £510.9 million (2013: £468.6 million) driven by strong growth in the alternative distribution and casualty divisions. Reinsurance purchased was at a higher level than the prior year at 34.0% of gross premiums written (2013: 23.2%), as a result of a new quota share arrangement on the alternative distribution business. The quota share arrangements with Syndicate 6104 and others remained in place.

The net claims ratio was up in the year to 47.4% (2013: 43.5%), with minimal impact from catastrophes. The combined ratio increased to 84.2% (2013: 81.4%) driven from the increase in claims ratio and an increase in the expense ratio to 39.8% (2013: 36.8%).

Profit before tax for the year remained constant at £62.6 million (2013: £63.1 million).

Hiscox Re

Gross premiums written reduced by 13.9% to £354.3 million (2013: £411.5 million), in a very challenging environment. The healthcare business written in Bermuda, however, had 37% growth year-on-year. With a second consecutive year of minimal catastrophe activity, the net claims ratio remained low at 22.0% (2013: 30.9%). This drove an improvement in the net combined ratio to 49.8% (2013: 58.9%).

Hiscox Corporate Centre

The centrally held investment portfolio had a lower, but still respectable, return in 2014 of £12.2 million (2013: £20.0 million) following an excellent 2013. This was offset by operational expenses of £21.4 million (2013: £23.6 million). The loss before tax was £15.2 million (2013: loss £8.8 million), with £0.8 million additional foreign exchange losses.

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. In addition, during 2014 the Group decided to return excess capital to its shareholders of £128 million on top of standard dividends, additionally the Employee Benefit Trust purchased net £10.6 million of shares during the year into the Trust. At the end of the year, the Group received £170 million for subscriptions received in advance of investment by the Kiskadee Select and Diversified funds. In all, inflows for the year were £93.0 million (2013: outflow of £92.8 million). The Group paid £62.6 million of tax during the year compared to £39.7 million in 2013. The Group had cash outflows from investing activities of £43.6 million (2013: inflow of £7.4 million), incorporating the acquisition of DirectAsia and further IT investment.

The Group has continued its investment in IT infrastructure during the year, in particular for the UK, as we seek to strengthen our delivery

of products to market. Marketing expenses remained similar at £31.8 million in the year (2013: £30.6 million).

The Group maintains relationships with a limited number of banks, whose credit status and ability to meet day-to-day banking requirements are monitored by the Group. There was no cash drawn down on the banking facility during the year. At 31 December 2014, \$441.5 million (2013: \$333 million) had been drawn by way of Letter of Credit against this facility.

There were no impairments recorded against cash or cash equivalents and no issues regarding recoverability have been identified on these assets.

Group investments

The Group's invested assets at 31 December 2014 totaled £3.46 billion (2013: £3.13 billion). This includes £211 million of third-party assets held in our insurance linked strategies funds managed by Kiskadee Investment Managers, a wholly-owned subsidiary of the Group. These are consolidated for reporting purposes. Excluding this and allowing for the £197 million that was returned to shareholders by way of dividend and capital distribution, assets under management grew slightly during the year. The investment result, excluding derivatives, amounted to £56.4 million (2013: £58.9 million) equating to a return of 1.8% (2013: 1.9%). Whilst the outcome was similar to the previous year a more positive environment for bonds tilted the balance of the contribution towards the fixed income allocation.

We started 2014 in the belief that a recovery was gaining traction in the US and the UK and that the worst may be over in other parts of the world. Our portfolio was positioned accordingly. As it turned out this optimism marked yet another false dawn as various deflationary forces exerted themselves, especially in the Eurozone, producing weaker growth and lower inflation than anticipated. These pressures gathered steam toward the end of the year and, with the Bank of Japan embarking on an aggressive package to revive their economy and the ECB expected to do the same, longer dated bond yields in developed markets fell sharply. The prospect of an official increase in interest rates in the US and the UK in 2015 therefore fell further

into doubt but was not completely discounted in the US whose economic performance proved to be more robust than elsewhere in the world. As a result US short dated bond yields in the two-three-year maturity actually rose during the year, in notable contrast to those in the UK and the Eurozone. Given the duration and currency of our liabilities, short dated Dollar bonds constitute a large proportion of our fixed income portfolios which, whilst earning more than 2013, did not benefit from the fall in yields of longer dated bonds. Whilst our returns in 2013 relied heavily on the performance of the risk assets portfolio, in 2014 we expected more modest returns from this source accompanied by bouts of volatility, both of which occurred. It was however a year of divergent performance between various markets and sectors and in that context our risk assets made a useful contribution.

Despite some headwinds at the short end of the yield curve, the contribution from the bond portfolios was double that of 2013 but, at 1.5%, still low in absolute terms. This represented an outperformance to the short duration benchmarks which govern the majority of our segregated mandates. The excess returns in the Dollar bond portfolios were achieved largely through allocations to credit. The higher spreads and the benefits of a positive yield curve outweighed the increase in underlying yields. Successful duration management contributed more in the Sterling and Euro portfolios, but the exposure to credit there also added value. Yields in the Euro portfolio have declined to extremely low levels (they are negative on the underlying benchmarks) but fortunately represent less than 10% of our overall asset allocation. At the beginning of 2015 bond yields have declined further to levels that seemed improbable 12 months ago.

Group investment performance

		31 December 2014			31 December 2013		
		Asset allocation %	Return %	Return £000	Asset allocation %	Return %	Return £000
Bonds	£	15.1	2.1		16.3	0.7	
	US\$	52.6	1.2		48.5	0.7	
	Other	10.1	1.9		9.9	0.6	
Bonds total		77.8	1.5	36,714	74.7	0.7	17,105
Equities		7.8	7.6	17,604	7.1	18.3	39,289
Deposits and cash equivalents		14.4	0.4	2,037	18.2	0.5	2,530
Actual return			1.8	56,355		1.9	58,924
Group invested assets*				£3,245m			£3,129m

*Excluding derivative assets, investments in insurance linked funds and third-party assets managed by Kiskadee Investment Managers.

Whilst down on 2013, the 7.6% return from our risk assets was a very satisfactory outcome. By most accounts 2014 was a tough year for active equity fund managers trying to beat an index. It is therefore pleasing that our allocation to UK and global equity funds and equity based hedge funds all beat their respective benchmarks. Successful sector and geographic allocations lay behind much of the outperformance, with healthcare and other defensive sectors being favoured and mining and commodity stocks being underrepresented. In the global equity funds there was a bias to the US with managers tending to underweight Europe, Japan and emerging markets. Hedge funds have generally performed poorly of late but our allocation there posted good returns. Our risk assets portfolio at the end of the year comprised 7.8% of the overall portfolio, up from last year due to appreciation and a modest addition during the volatile period in October.

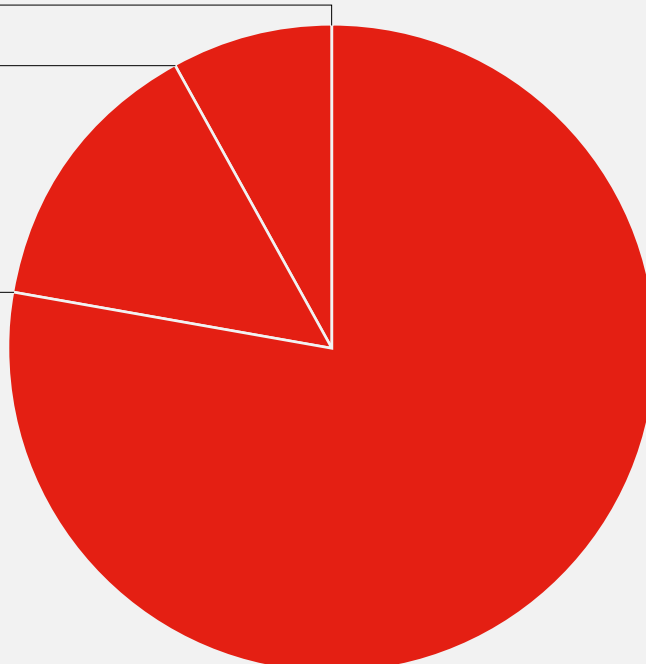
The outlook for investment markets in 2015 remains uncertain as the impact of the financial crisis in 2008 lingers on. There is some sign of recovery in the US but much of the rest of the world remains at risk of deflation and reliant on monetary stimulus. Quantitative easing in its various forms has resulted in most asset prices, particularly bonds, appearing to be overvalued and recent sharp movements in currencies, oil and various commodities are a reminder that plenty of imbalances exist. Very few of these were predicted last year and the implications and impact of such moves are far from clear.

There is still an expectation that the US economy will continue to decouple from other areas and that the Fed will begin to increase interest rates at some stage during the year. This prospect leads us to remain cautious on duration in the US bond markets in particular. Given the prevailing

low level of yields in our bond portfolios more generally we expect another year of low returns from them. Any yield from cash is increasingly hard to come by with negative yields on offer in many European bond and cash markets. We have allocated to less traditional areas of the bond market in the past when we could see attractive valuations but retaining a strong liquid balance sheet is currently preferred. Many areas of fixed income have recently suffered from bouts of volatility including even the US treasury market last October, and with liquidity becoming an increasingly fickle friend we are restricting any additional credit exposure to investment grade securities. We have learnt to live with low but positive returns in recent years and that remains the plan in 2015. Whilst our priority remains to avoid losing money, we do have some appetite for risk within the investment portfolios and of late this has been mostly expressed in the allocation to equities. This is an area where we still see opportunities from time-to-time.

Asset allocation

7.8%	Risk assets
14.4%	Cash
77.8%	Bonds

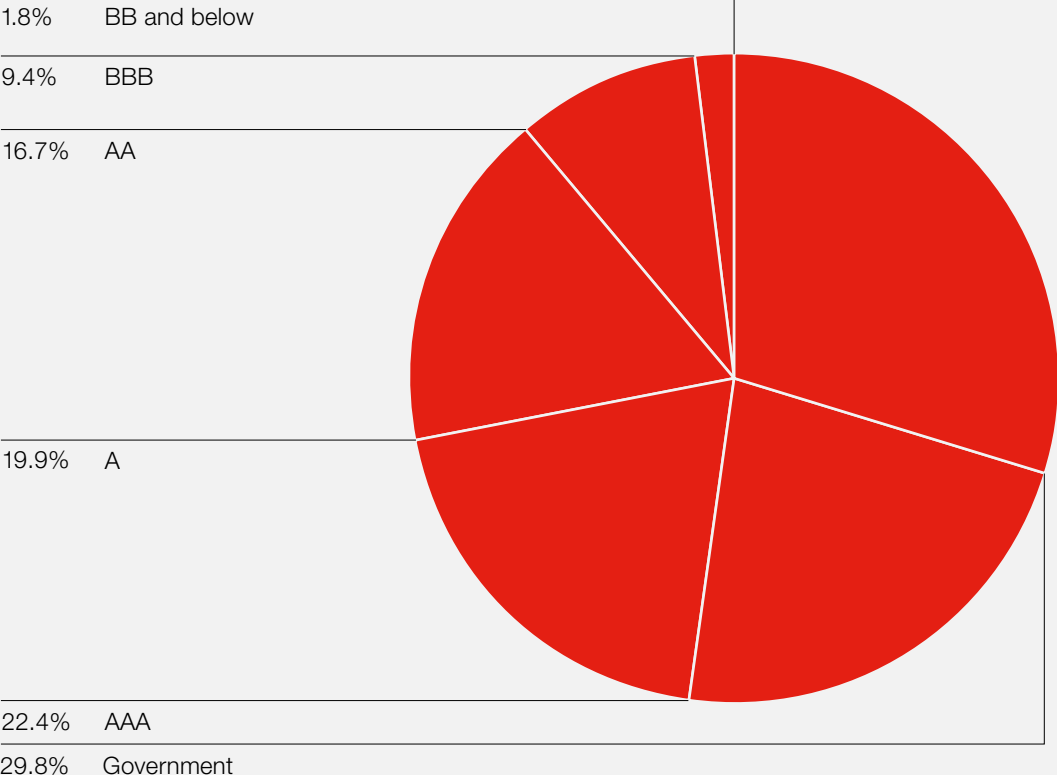


High-quality, conservative portfolio
Investment portfolio: £3.245 billion
as at 31 December 2014

Group investments

continued

Bond credit quality



Bond currency split



Risk management

Our core business is to take risk and our strategy is to maximise return on equity within a defined risk appetite. Our ongoing success depends on how well we understand and manage the significant exposures we face. It is therefore crucial that our knowledge of those risks underpins every important decision we make across the Group.

The risks from our core business of insurance and reinsurance represent many of our most significant exposures. We are also exposed to a number of other risks: investment, credit, operational, liquidity, and strategic. To identify and manage these we have developed a risk management framework, which we regularly review and improve in the light of the changing risk environment and evolving best practice on risk management. Our risk management framework is designed to oversee a culture of innovative and prudent underwriting.

The Group risk management framework

The Risk Committee of the Board oversees the risk management framework and advises the Board on how best to manage the Group's risk profile. Our risk appetite is set by the Board and cascaded down to the Group's operating entities, and the risk exposures are monitored both locally and centrally, by risk type and in the aggregate. In addition to the Hiscox Ltd Board and its Committees, the risk management framework includes several Group-wide and local forums focusing on specific risk types such as underwriting, reserving, investments, cash flow and reinsurance security. The framework is supported by a central risk team that reports to the Risk Committee.

One of our Executive Directors – either the Chief Executive Officer, Chief Financial Officer or Chief Underwriting Officer – chairs each of these forums. The responsibilities of our senior management are clearly defined, as are our reporting lines, and where responsibilities are delegated the Board and its committees closely monitor their activity, aided by financial and non-financial management information.

This monitoring assesses the level of risk being taken by the Group in pursuing its objectives, and ensures that this level of risk remains within the parameters set by the Board. A dedicated team reports to the Risk Committee of the Board which monitors and reviews the risk profile and the effectiveness of our risk management activities. This team has a wide range of tools to measure risks and is organised centrally so we can share best practice on managing risks across the Group.

Principal risks

What is the risk?	Why do we have it?	How is it managed?
<p>Catastrophic and systemic insurance losses</p> <p>We insure individual customers, businesses and other insurers for damage caused by a range of catastrophes, both natural (e.g. hurricanes, earthquakes) and man-made (such as terrorism), which can cause heavy underwriting losses that could have a material impact on the Group's earnings.</p>	<p>Though volatile and potentially costly, this business is compelling for us, as it is capable of earning good margins over the medium- to long-term.</p>	<ul style="list-style-type: none"> — Diversified portfolio: Hiscox has a well-diversified portfolio by product and geography to help balance any catastrophe exposure. — Risk appetite: We clearly define our risk appetite for underwriting risk, which dictates our business plan. To ensure that we do not exceed our risk appetite, we monitor our exposures closely and take mitigating actions to maintain business plan. This enables us to maximise the expected risk return profile on the whole portfolio and offset the potential losses on more volatile accounts. — Underwriting discipline: Underwriters are incentivised to make sound decisions that are aligned with Group's overall strategic objectives and risk appetite. Clear limits are placed on their underwriting authority. Policy wordings are regularly reviewed in the light of legal developments to ensure the Group's exposure is restricted, as far as possible, to those risks identified in the policy at the time of issue. — Modeling: We have tailored our modeling resources to assist insurance and reinsurance plans and ensure that the exposure we write matches expectations. The risk aggregation and modeling resources are shared across the Group to ensure everyone uses the same modeling tools. — Stress and scenario testing: We run stress and scenario tests for a range of specific events for each of our business units as well as the Group as a whole, so we can estimate our potential losses from a major catastrophe. — Reinsurance: We buy reinsurance for our business carriers and the Group as a whole, to mitigate the effect of catastrophes and unexpected concentrations in risk. 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 is exposed to the risk that the reinsurance protection it has bought is inadequate or inappropriate, but this is monitored and managed using modeling techniques, supervised by a dedicated Reinsurance Purchase Group.
<p>Competition and the insurance cycle</p> <p>Hiscox competes against major international insurance and reinsurance groups. At times, some of these groups may choose to underwrite risks at prices that fall below the break-even technical price. Prolonged periods when premium levels are low or when competition is intense are likely to have a negative impact on the Group's financial performance.</p>	<p>We operate in open, aggressively competitive markets in which barriers to entry for new players are low and where competitors may choose to differentiate themselves by undercutting their rivals. As a result, capacity levels in these markets will rise and fall, causing prices to go up and down, creating volatile market cycles.</p>	<ul style="list-style-type: none"> — Pricing discipline: We are firmly resolved to reject business that is unlikely to generate underwriting profits. Accepting risks below their technical price is detrimental to the industry as it can drive market rates down to a point where underwriting losses mount, insurers' capital is destroyed causing some businesses to fail, customers to receive poor service and the industry to suffer negative publicity. — Remuneration: Hiscox incentivises underwriters on return on equity, rewarding staff for profit not revenue. — Risk appetite: Our appetite for certain lines of business changes according to market conditions and the risk appetite of the Group. — Monitoring: We regularly monitor pricing levels, producing detailed monthly reports grouping current prices with exposure and trends over the past 12 months. This ensures that we quickly identify and control any problems created by adverse changes in market conditions.

What is the risk?	Why do we have it?	How is it managed?
<p>Competition and the insurance cycle continued</p>		<p>— Lead insurer: We frequently act as the lead insurer in the coinsurance programmes required to cover significant high-value assets, so we have some ability to set market rates rather than follow them.</p>
<p>Reserving for insurance risks</p> <p>We make financial provisions for unpaid claims, defence costs and related expenses to cover our ultimate liability both from reported claims and from ‘incurred but not reported’ (IBNR) claims. There is the possibility that we do not make sufficient provision for our exposures, which could affect the Group’s earnings, capital and possibly even its survival.</p>	<p>As an insurance company we are required to hold claims reserves.</p>	<p>— Historical data and actuarial analysis: The provisions we make to pay claims reflect our own experience and the industry’s view of similar business; historical trends in reserving patterns, loss payments and pending levels of unpaid claims and awards, as well as any potential changes in historic rates arising from market or economic conditions. Details of the actuarial and statistical methods and assumptions used to calculate reserves are set out on note 26 to the consolidated financial statements. The provisions we make are set above the actuarial mid-point to reduce the risk that actual claims exceed the amount that has been set aside.</p> <p>— Senior management and Board approval: Our provision estimates are subject to rigorous review by senior management from all areas of the business including independent actuaries. The final provision is approved by the relevant boards on the recommendation of dedicated reserving committees.</p>
<p>Investment risk</p> <p>The premiums and technical funds we hold for the payment of future claims are inevitably exposed to investment risk.</p>	<p>We invest the cash we receive from our clients and the capital on our balance sheet until it might be needed to be paid as claims.</p>	<p>— Conservative policy: Our overriding concern is to not lose money or to put at risk the Group’s capacity to underwrite. Our policy is designed to maximise returns within an overall risk appetite.</p> <p>— Technical funds: Those funds held for reserves are invested primarily in high-quality bonds and cash. The high quality and short duration of these funds allows the Group to meet its aim of paying valid claims quickly.</p> <p>— Currency matching: These funds, as far as possible, are maintained in the currency of the original premiums for which they are set aside to reduce foreign exchange risk.</p> <p>— Duration: As many of our insurance and reinsurance liabilities have short time spans, we do not aim to match exactly the duration of our assets and liabilities.</p> <p>— Benchmarks: Our fixed income fund managers are set benchmarks that approximate the payment profile of our claims while still providing them with some flexibility to enhance returns.</p> <p>— Equities: A proportion of the Group’s assets is allocated to riskier assets, principally equities. For these assets we take a long-term view so we can achieve the best risk-adjusted returns. The proportion of funds we invest in risk assets will depend on the outlook for investment and underwriting markets. 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.</p> <p>— Guidelines: Investment risk also encompasses the risk of default of counterparties, which is primarily with issuers of bonds in which we invest. Our third-party investment managers are issued guidelines as to the type and nature of bonds in which to invest.</p>

Risk management

continued

Principal risks continued

What is the risk?	Why do we have it?	How is it managed?
<p>Liquidity risk</p> <p>We are unable to meet our liabilities to customers or other creditors when they fall due. Also the risk that we incur excessive costs by selling assets or raising finance quickly to meet our obligations.</p>	<p>We provide cover against a range of catastrophes, so if one occurs we may be faced with large, unplanned cash demands. This situation could be exacerbated if we have to fund a large portion of claims pending recovery from our reinsurers.</p>	<ul style="list-style-type: none"> — Risk management: We believe the likelihood that we may be unable to meet our liabilities, or that we incur excessive costs in doing so, is extremely remote, because of our risk management measures. — Forecasting: Most of our cash inflows and outflows are routine and can be forecast well in advance. 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 two years ahead, depending on the source. — Cash: Available cash is invested according to the Group's investment policy and our cash requirements can normally be met through our regular income streams: premiums, investment income, existing cash balances or by realising investments that have reached maturity. — Stress tests: We run tests to estimate the impact of a major catastrophe on our cash position in order to identify potential issues. We also run scenario analysis that considers the impact on our liquidity should a number of adverse events occur simultaneously, such as an economic downturn and declining investment returns combined with unusually high insurance losses. — Credit: We maintain extensive borrowing facilities. These arrangements have been made with a range of major international banks to minimise the risk of one or more of the institutions being unable to honour their commitments to us. — Liquid assets: Our investment policy recognises the demands created by our underwriting strategy, so that some investments may need to be realised before maturity or at short notice. Hence a high proportion of our investments are in liquid assets, which reduces our risk of making losses because we may have to sell assets quickly.
<p>Regulatory change</p> <p>The insurance industry is undergoing a period of unprecedented regulatory change, which may impact the capital we are required to hold.</p>	<p>Insurance is a regulated industry. While regulations typically evolve on an ongoing basis, there may be times where the regulatory landscape undergoes a significant shift.</p>	<ul style="list-style-type: none"> — We constantly monitor new regulation and review our internal arrangements, operating under the guidance of the Group CFO.

Major risks: secondary

What is the risk?	Why do we have it?	How is it managed?
<p>Insurance risk: binding authorities</p> <p>Hiscox generates considerable premium income through agents to whom binding authority is given to underwrite insurance policies on our behalf. Agents may underwrite business outside of our normal guidelines.</p>	<p>Binding authorities give the Group access to a greater volume of business.</p>	<p>— Vetting and auditing: All binding authorities we grant are closely controlled through tight underwriting guidelines. We vet all our agents prior to appointment and monitor and audit them regularly. Agents are frequently audited to ensure they meet our standards.</p>
<p>Credit risk: reinsurance counterparties</p> <p>We buy reinsurance to protect us from large single claims as well as the aggregate effect of many claims resulting from catastrophes. The risk is that our reinsurers are unable to meet their obligations to us, which would put a strain on our earnings and capital.</p>	<p>We cover clients against a range of catastrophes and protect ourselves through reinsurance. We face credit risk where we seek to recover sums from other reinsurers.</p>	<p>— Careful selection: We buy reinsurance only from companies that we believe to be strong. Every reinsurer we use must be approved by a dedicated Reinsurance Security Committee, based on an assessment of financial strength, trading record, payment history, outlook, organisational structure, plus its external credit ratings.</p> <p>— Monitoring: Our credit exposures to these companies are closely monitored. The companies are continuously monitored so that we are able to identify any potential problems. The committee considers public information, experience of the companies concerned, their behaviour in the marketplace and analysis from external consultants and from rating agencies.</p> <p>— Guidelines: We set guidelines for exposure to each of our approved reinsurers.</p>
<p>Investment risk: foreign exchange risk</p> <p>Our reporting currency is Sterling, but a significant proportion of our underwriting activity is located in the US and Europe. In addition the capital bases of our insurance companies in Bermuda, Guernsey and US are in US Dollars. Therefore, movements in foreign exchange rates may have a material adverse effect on our financial performance and position.</p>	<p>We are an international insurance and reinsurance group that operates in numerous markets around the world.</p>	<p>— Currency matching: As the US Dollar is the Group's largest underwriting currency, our policy is to match our US Dollar insurance liabilities with investments held in that currency to minimise any losses from currency fluctuations. We will hold a percentage of our capital in the matching currency of that part of our underlying business, where it is deemed appropriate.</p> <p>— Currency hedging: We closely monitor our net currency positions and will enter into currency hedges if we anticipate adverse movements in exchange rates. Further details of the Group's investment profile and its management of currency risks are provided in notes 3 and 19 to the consolidated financial statements.</p>

Risk management

continued

Major risks: secondary continued

What is the risk?	Why do we have it?	How is it managed?
<p>Strategic risk: Hiscox credit rating</p> <p>The external ratings assigned to the Group and its subsidiaries are essential to our profitability, particularly for our reinsurance business, and to manage our financing costs and access to capital. A reduction in these external ratings may impact the Group's ability to generate business and/or access finance.</p>	<p>The business in which we operate is determined largely by financial strength ratings issued by the major credit rating agencies.</p>	<ul style="list-style-type: none"> — Careful management: We have identified the key aspects of our business that are critical to maintaining our ratings. These are closely managed to minimise the risk of an event, or change in strategy, that might jeopardise our ratings. — Communication: Regular and open communication with the major credit rating agencies helps to ensure we continue to meet their expectations.
<p>Operational risk: IT continuity</p> <p>We are unable to transact with intermediaries and customers due to an IT failure.</p>	<p>Like every other business we are reliant on data and computer systems in order to go about our everyday business.</p>	<ul style="list-style-type: none"> — Disaster recovery planning: 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 problem occur. These procedures would enable us to move the affected operations to alternative facilities quickly. The plan is tested regularly and includes simulation tests.
<p>Emerging risks</p> <p>We are exposed to new and emerging risks, primarily through legal or political decisions. For example, a change in US legislation may result in exposures being included within our coverage that had not been intended by our underwriters, or may require us to cease business in certain US states.</p>	<p>Our business is taking risk, which by its nature is inherently uncertain.</p>	<ul style="list-style-type: none"> — Risk assessment: Identifying, planning for and controlling emerging risks is an important part of our risk management activity across all aspects of our business, including underwriting, operations and strategy. We make a significant effort to identify material emerging threats to the Group. It is a core responsibility of each of our risk committees and we believe we take all reasonable steps to minimise the likelihood and impact of emerging risks and to prepare for them in case they occur.

At Hiscox several core values guide our business. These are: to challenge convention, to have courage, to provide quality products, to excel in the service we provide and be human in our approach. These 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.

Hiscox's commitment to responsible business practices is reflected in:

The environment

In the last year we have increased our support for climate change research and analysis both with educational bodies and through collaborations within the business community. We also continue to factor climate change into our business decisions in order to ensure we are responding effectively and appropriately to the challenges it poses.

We believe in identifying, then minimising the environmental impacts of our business activities, including the direct impact of our own business operations. We seek to reduce the amount of waste our activities produce, and the amount of resources we consume. We are committed to reducing our carbon footprint, and for the business to operate more sustainably by: measuring our use of water, energy and other products in order to reduce consumption over time; buying sustainably-sourced or energy-efficient products where we can; and minimising waste by recycling products where we can. We have, as a result, also generated significant cost and energy savings. Our Global scope 1 and 2 per full-time employee has gone from 1.27 in 2013 to 1.16 in 2014, which is an overall decrease of 9%. During the year there has been growth

in headcount, a rise in occupied floor space and more travel due to increased business activity.

The chart below depicts our carbon emissions year-on-year since 2012.

In 2014, Hiscox Group operations became carbon neutral, offsetting the emissions we could not reduce through award-winning climate and sustainable development experts, ClimateCare. LifeStraw Carbon for Water project provides simple gravity-fed water filters for 4.5 million people in Western Kenya, minimising exposure to waterborne diseases. This project also cuts carbon emissions by reducing the need to boil water to make it safe to drink. For more information, please go to www.hiscoxgroup.com.

Hiscox is a founding member of ClimateWise, which aims to leverage the insurance industry's expertise to understand, communicate and act on the risks associated with climate change. Hiscox is independently assessed against a commitment to six key principles, including risk analysis, public policy, influencing our customers, investment strategies, managing our own impact and reporting on our direct emissions. In 2014 Hiscox was ranked joint second. More information is available at www.climatewise.org.uk.

The Hiscox London office was awarded Platinum at the Clean City Awards for the third year in a row. Hiscox remains a member of the Carbon Disclosure Project (CDP), an initiative that provides a global system for companies to measure, disclose, manage and share vital environmental information. In November 2014, Hiscox IT was awarded Green Insurance IT Initiative at the Digital Insurance and Technology awards 2014, for transforming the London Market business with a new paperless system.

The marketplace

In 2014, Hiscox UK was awarded Investing in the Profession at the British Insurance Awards, Hiscox London Market was awarded Insurer

In 2014, Hiscox Group-wide operations became carbon neutral.

GHG emissions*

	Year 2012 UK only	Year 2013 UK only	Year 2013 Global	Year 2014 Global
Scope 1 – company car use, onsite gas, combustion and refrigerant loss	204.00	233.00	478.25	452.15
Scope 2 – purchased electricity	969.00	976.00	1,629.68	1,849.89
Total (scope 1 and 2)	1,173.00	1,209.00	2,107.93	2,302.04
Total tonnes CO_{2e} per FTE (Scope 1 and 2)	1.20	1.17	1.27	1.16
Scope 3 – air, rail, and personal car business travel	2,128.00	2,233.00	3,588.06	4,906.32
Total (all scopes 1, 2 and 3)	3,301.00	3,442.00	5,695.99	7,208.36
Tonnes CO_{2e} per FTE (all scopes 1, 2 and 3)	3.39	3.33	3.44	3.65

*Global emissions data have been collated and reported in line with Defra's environmental reporting guidelines and the requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 on mandatory GHG reporting. This is the second year Hiscox is reporting its global GHG data. Historical emissions data for 2012 relate to UK operations with 2013 and 2014 figures covering global operations (including figures for DirectAsia in 2014 only). The data has been collected from all offices under Hiscox's direct operational control and the global GHG data has been independently verified.

Corporate responsibility continued

of the Year at the Reactions Awards and Hiscox USA was named A Top 100 Champion at the Small Business Influencer Awards 2014.

Insurance brokers are important stakeholders in our business, and we wish to build strong relationships with them to create a competitive advantage in the marketplace. Hiscox UK has instigated a 'superb service' ethos, developing a greater understanding of individual brokers' needs. Hiscox UK and Hiscox London Market have Chartered Insurer status from the Chartered Insurance Institute, which recognises the professionalism and expertise of staff and helps to attract business partners looking to work with high-quality insurers.

Dealing with investors

We have a policy of open and transparent communication with our shareholders. Hiscox reports both its half- and full-year results to investors via a series of presentations, as well as ensuring all relevant Group financial information is available on the corporate website. Senior management and key employees also regularly meet investors and analysts throughout the year to explain and answer questions on our financial performance and business strategy.

Dealing with customers

Our ethos of outstanding customer service has earned Hiscox a reputation as an insurer whose word can be trusted, which sets us apart in our industry. Our belief is that insurance is a promise to pay, so should a loss occur we aim to fully support our customers, and to pay every valid claim as soon as possible. In 2014, for the sixth year in a row, Hiscox UK was awarded Best Insurer by Start Your Business Magazine. Our Hong Kong team for DirectAsia were awarded Silver for Inbound Contact Centre for the Year.

The workplace

Culture

The Hiscox culture is underpinned by a set of core values that determine a standard of behaviour that we expect all our employees to follow. We firmly believe that, through high standards of conduct, we are more likely to achieve business success and, therefore, create additional value for shareholders. We aim to have the highest standards of corporate governance while striving to remain, in essence, a non-bureaucratic organisation. An effective and firm system of internal controls ensures that risks are managed within acceptable limits, but not at the expense of innovation or a speedy response. We believe that we have the balance right and, furthermore, that this is one of our greatest strengths. We seek to follow the best practices in managing our people and to be a fair and professional employer. Hiscox aims to maintain a culture that

encourages employees to raise any concerns relating to malpractice or wrongdoing without threat of unfair treatment as a result. If an employee has a serious concern relating to the operation of the business, we have a whistleblowing policy that enables that person to confidentially raise their misgivings with Group Compliance and Audit Director, Chief Executive or Chairman. Employees also have the option to raise a concern with the Chairman of the Audit Committee. Hiscox also subscribes to Public Concern at Work, which provides free legal advice to any employee with a concern about possible danger or malpractice in the workplace.

Hiscox wants to employ the best people and to provide them with the means and the motivation to excel. This is achieved with fair rewards and by providing staff with an environment in which they can enjoy their work and reach their full potential. Hiscox recognises how important it is for employees to maintain a healthy work/life balance and it gives them the option of flexible and home working wherever possible.

Equal opportunities

Hiscox is committed to providing equal opportunities to all employees and potential employees in all aspects of employment, regardless of disability, sex, race, religion, sexual inclination or background.

Rewards and benefits

We encourage our employees to share in the Group's success through performance-related pay: bonus, savings-related share option schemes and executive share option schemes. We also offer competitive benefits packages, which contain health and fitness perks and opportunities for flexible working and career breaks. We benchmark our salary packages against the financial services industry as a whole and against the Lloyd's market specifically (where applicable) and our salaries are also considered on a country-by-country basis.

Training and development

Hiscox is committed to training and developing our employees to help them maximise their potential. Each permanent member of staff is provided with a tailored personal development programme. Their training and development needs are reviewed twice a year, as well as their performance against clearly set objectives.

Communication and participation

Employees are kept informed of business developments through formal briefings, team meetings, intranet bulletins, video conferences and other more informal routes. Management take these opportunities to listen to staff and involve them in taking the business forward.

The community

Hiscox Bermuda continues to sponsor the Women's Resource Centre, providing support, education and counselling for women and children in the community, as well as the Kaleidoscope Arts Foundation enrichment

£0.9m donated
to charities.



programme for students at Prospect Primary School. In 2014, Hiscox staff provided the funding necessary for weekly riding lessons for one young student through the Riding for the Disabled programme at Windreach, and the Education and Recreation programme for sufferers of Alzheimer's and Dementia. Hiscox Bermuda continues to support SCARS (Saving Children and Revealing Secrets) which trains people who work with children at risk to prevent, recognise and react responsively to those who suffer from sexual abuse. Donations have been made to the Women's Resource Centre for food vouchers for women and families in need, and to the Eliza Dolittle Society and the Lady Cubitt Compassionate Association for their Medipendent programme for seniors.

Hiscox USA is dedicated to serving charities that aid and improve education, medical science, advancement of the arts and culture, and provide services to disadvantaged and vulnerable members of society. In 2014, the Hiscox USA Foundation matched donations and pledged money for hours volunteered by Hiscox employees with partner charities throughout the US – The Drake House in Atlanta, Friends of Karen in New York, the Ronald McDonald House in Chicago, Project Angel Food in LA and Food Runners in San Francisco. The Foundation continues to support the Parris foundation, an organisation dedicated to helping disenfranchised communities by teaching children about science, technology, engineering and mathematics.

In London, staff members continue to support pupils at the Elizabeth Selby Infants School in Tower Hamlets through the Reading Partners' Scheme via the Lloyd's Community Programme. Staff regularly volunteer in the gardens of Richard House Children's Hospice and in 2014 raised just under £2,000 by racing the 21.6 miles of the Thames as part of the Great London River race. In Colchester, staff raised over £25,000 for charities such as the Essex & Herts Air Ambulance Trust, East Anglia Children's Hospice, MS-UK and the Alzheimer's Society. Staff raised over £6,000 through their participation in the London Marathon and a cycle ride from Colchester to the York office. Hiscox UK supports Action for AT, helping speed the process of identifying cures for Ataxia-Telangiectasia as well as treatments that delay or prevent the disabling effects of childhood conditions. Since opening the office in York, staff have helped raise around £5,000 for St Leonards Hospital via numerous activities such as the Yorkshire Marathon and the annual Dragon Boat Race.

In the summer of 2014, Hiscox worked with The Brokerage Citylink, participating for the first time in The City of London Business Traineeship Programme, which offered two young students from inner London the chance to work in the business for eight weeks. The scheme helps inner-city school leavers gain experience of working in a big City firm, as well as to learn

extra social and professional skills to help them get a job at the end.

Supporting the arts, science and technology

Hiscox continues to support the arts, science and technology, through its work with the Royal Academy Schools, providing a bursary for two second-year students; sponsorship of the Collections exhibitions at the Whitechapel Gallery and the Smiljan Radić design at the Serpentine Gallery Pavilion. Hiscox supports the City of London's Sculpture in the City project, designed to transform the local landscape with unique and well-known pieces of modern sculpture. Hiscox employees volunteered to work with students from St Paul's Way Trust and other local schools to bring the sculptures to life. Hiscox supports the Royal Institution (RI) with a loan and corporate sponsorship. The RI is the oldest independent research body in the world, dedicated to connecting people with the world of science for over 200 years. For the fourth year running, Hiscox is title sponsor of the Sunday Times Hiscox Tech Track 100, charting the fastest growing private technology, telecoms and digital media companies.

In the summer of 2014, Hiscox Germany was awarded the Goldener Bulle by the publishing house Finanzen Verlag. The team received special mention for their contribution to art and culture. Projects included 'Add art', a scheme based in Hamburg, which encourages companies to open their office doors to the general public to present their corporate collection, as well as 'Kunstresidenz Bad Gastein' which encourages 14 young contemporary artists to show their work during a four-week public festival in Bad Gastein.

The Hiscox Foundation

The Hiscox Foundation is a charity, funded by an annual contribution from the Group, which gives priority to any charity in which a member of staff is involved. In 2014, Hiscox supported a group of employees in raising £50,000 for MIND. The Foundation contributed £27,500 during the year to the fundraising totals of Hiscox employees and continues to support the Humanitarian Aid Relief Trust (HART) and Richard House Children's Hospice. HART helps some of the poorest and most abused people in the world.

For more detail on corporate responsibility see hiscoxgroup.com



Insurance carriers

Syndicate 33

Hiscox can trace its origins in the Lloyd's Market to 1901. Today, Hiscox Syndicate 33 is one of the largest composite syndicates at Lloyd's, and has an A.M. Best syndicate rating of A (Excellent). Syndicate 33 underwrites a mixture of reinsurance, property and energy business, as well as a range of specialty lines including contingency and terrorism risks among others. Syndicate 33 trades through the Lloyd's worldwide licences and ratings. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, an A+ (Strong) from Standard & Poor's, and an AA- (Very strong) rating from Fitch.

The geographical and currency splits are shown on page 37. One of the main advantages of trading through Lloyd's is the considerably lower capital ratios that are available due to the diversification of business written in Syndicate 33 and in Lloyd's as a whole. The size of the Syndicate is increased or reduced according to the strength of the insurance environment in its main classes. At present, Hiscox owns approximately 72.5% of the Syndicate, with the remainder owned by third-party Lloyd's Names. Hiscox receives a fee and a profit commission of approximately 20% of profit on the element it does not own. For the 2015 year of account, Syndicate 33's capacity has remained at £1 billion.

The chart below shows the gross premiums written of Syndicate 33 for the last 13 years.

Syndicate 3624

Syndicate 3624 is a wholly-owned Syndicate which began underwriting for the 2009 year of account. The Syndicate has a diversified portfolio of worldwide risks including FTC (fire, theft and collision), auto extended warranty, E&O, property, construction, technology and media, healthcare and aviation. The diversification of the Syndicate from both an exposure and geographical perspective means the Syndicate is well balanced to grow in a controlled way. Total underwriting capacity of Syndicate 3624 has increased to £350 million for the 2015 year of account.

Syndicate 6104

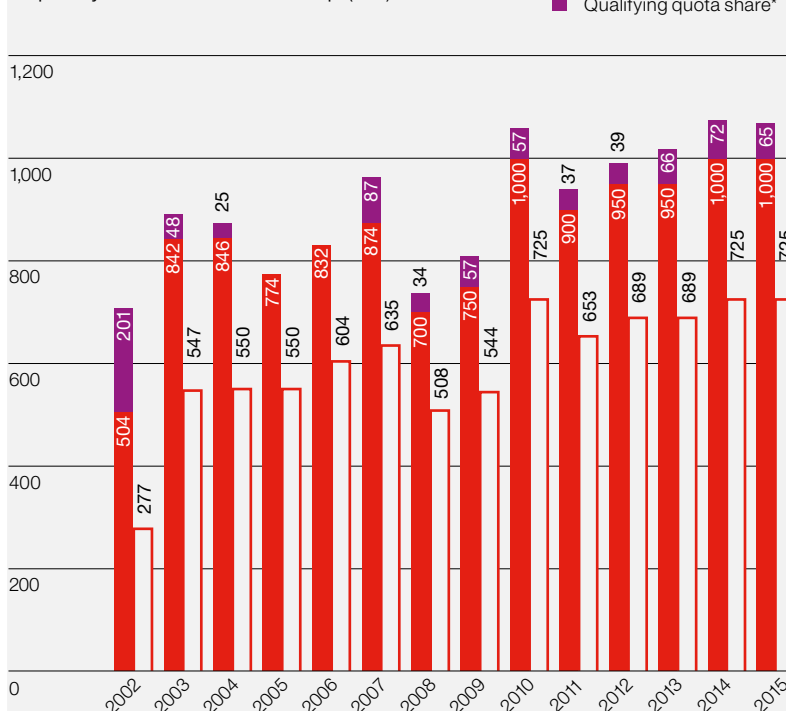
Syndicate 6104 was set up under a limited tenancy agreement for the 2008 year of account. It is wholly backed by external Names and takes a pure year of account quota share of Syndicate 33's property catastrophe reinsurance account. The arrangement has been extended through to the 2015 year of account and Syndicate 6104's capacity was decreased to £65 million, from £72 million. Syndicate 6104 pays an overrider and profit commission to Syndicate 33.

Hiscox Insurance Company

Hiscox purchased Hiscox Insurance Company Limited in 1996, in keeping with its aim of diversifying its activities outside of Lloyd's and writing a focused book of regional specialist risks. The Group has reshaped the Company's original portfolio to concentrate on high-value household and smaller premium commercial

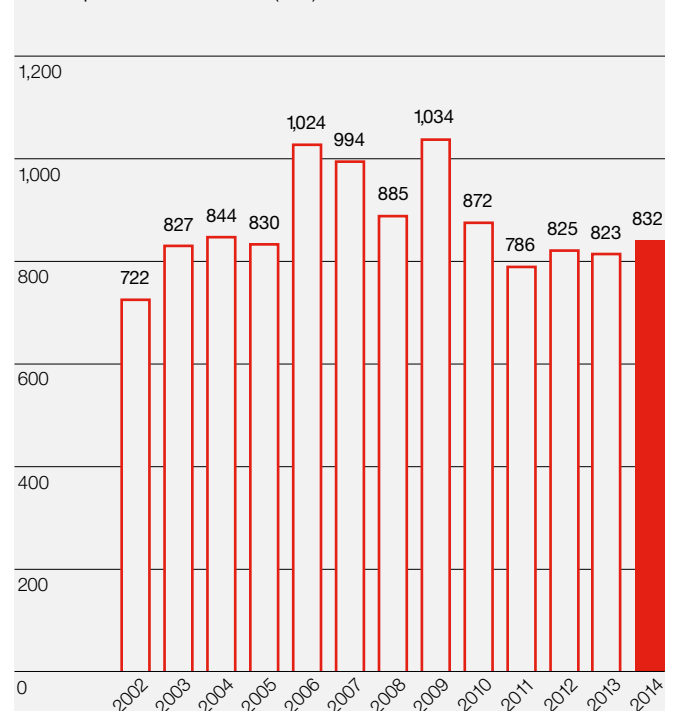
Syndicate 33

Capacity and Hiscox ownership (£m)



Syndicate 33

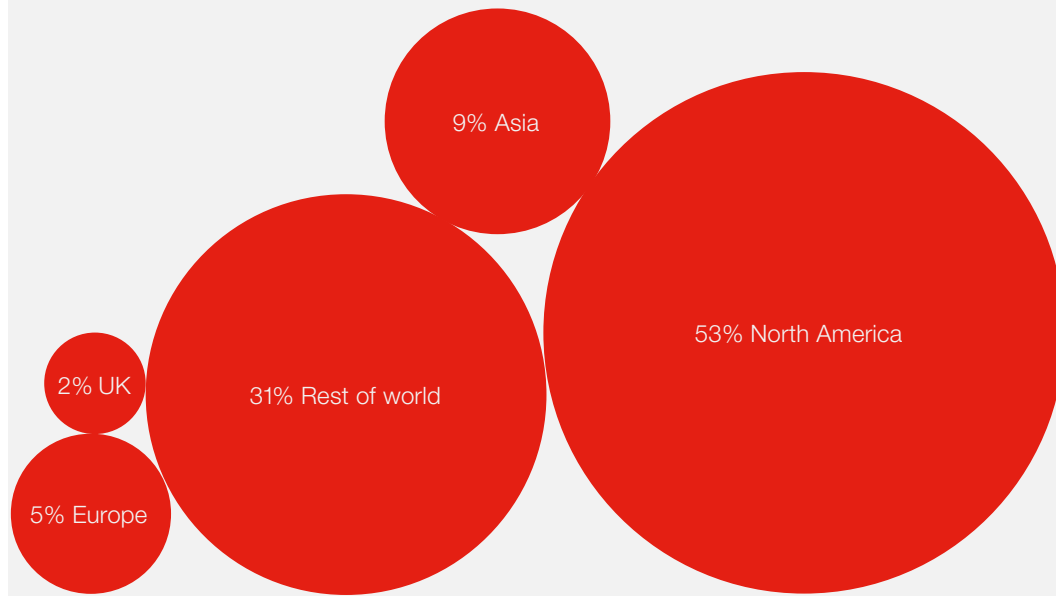
Gross premiums written (£m)



*Quota share reinsurance policies, which Lloyd's allows in certain circumstances, that enable a syndicate to write gross premium in excess of its capacity.

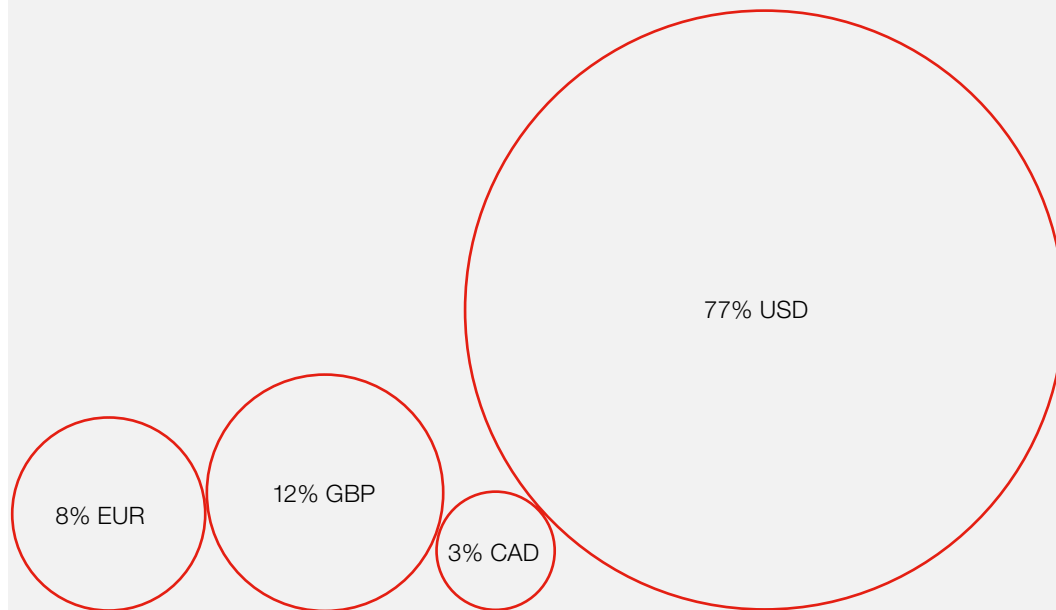
Syndicate 33

Gross premiums written geographical split (%)



Syndicate 33

Gross premiums written currency split (%)



Insurance carriers

continued

business. Hiscox Insurance Company Limited has licences throughout Europe. It is the primary insurance vehicle used by the UK and mainland Europe offices for their business. The success of the portfolio can be seen in the chart below right. Hiscox Insurance Company Limited has achieved average compound growth in gross premiums written of 11.9% from 1997 to 2014, despite discontinuing almost all of its original business. It has also significantly improved its combined ratio.

Hiscox Insurance Company Limited has an A.M. Best rating of A (Excellent), a Standard & Poor's rating of A (Strong) and an A+ (Strong) rating from Fitch. At the end of 2014, net assets exceeded £243 million (2013: £250 million).

Hiscox Insurance Company (Guernsey)

Formed by Hiscox in 1998, Hiscox Insurance Company (Guernsey) Limited writes mainly kidnap and ransom and fine art insurance. Hiscox Guernsey has an A.M. Best rating of A (Excellent) and an A+ (Strong) rating from Fitch. At the end of 2014, net assets exceeded \$8 million (2013: \$9 million).

Hiscox Insurance Company (Bermuda)

Formed by Hiscox in late 2005, Hiscox Insurance Company (Bermuda) Limited was set up as an expansion of the reinsurance operations of Hiscox and as an internal reinsurer of the Group.

Hiscox Bermuda has an A.M. Best rating of A (Excellent) and an A+ (Strong) rating from Fitch. At the end of 2014, net assets exceeded \$895 million (2013: \$945 million).

Hiscox Insurance Company Inc.

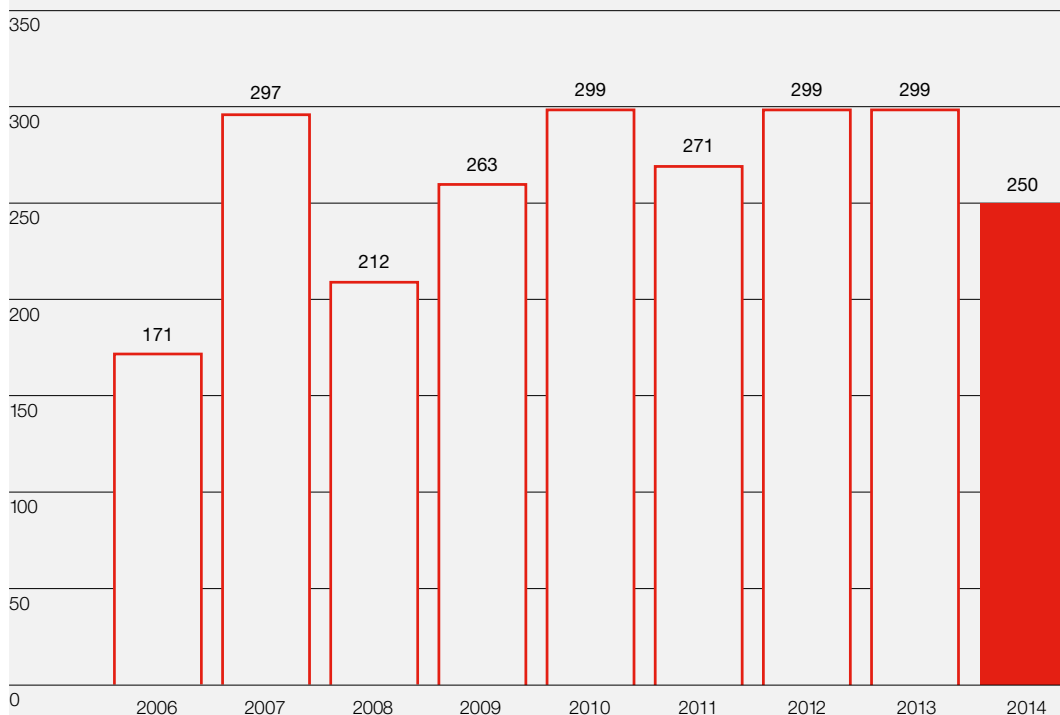
Hiscox Insurance Company Inc. was acquired by the Group in 2007 through the purchase of the then parent holding company ALTOHA, Inc. Hiscox Insurance Company Inc. is based in Chicago, Illinois and is an admitted insurance company with licences in all 50 US states and the District of Columbia. Its main business is property and liability cover sold through insurance brokers. In November 2010, the Company launched a direct commercial business. Hiscox Insurance Company Inc. is rated A (Excellent) by A.M. Best. At the end of 2014, net assets exceeded \$60 million (2012: \$59 million).

DirectAsia

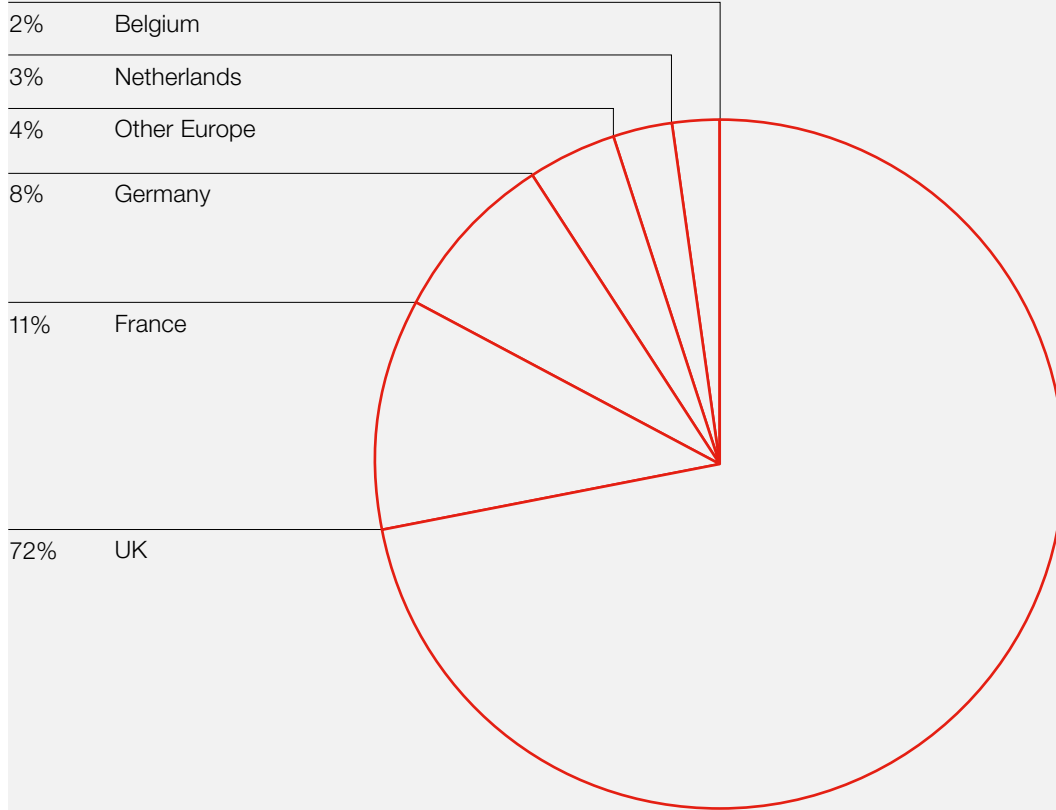
In March 2014, the Group acquired Direct Asia Insurance (Holdings) Pte Ltd ('DirectAsia'). DirectAsia underwrites through subsidiaries in Singapore and Hong Kong, and an agency in Thailand. Its primary business is motor insurance, with ancillary lines in travel, personal accident and healthcare. At the end of 2014, the insurance company subsidiaries have net assets exceeding SGD\$16 million and HK\$134 million.

Hiscox Insurance Company (Bermuda) Limited

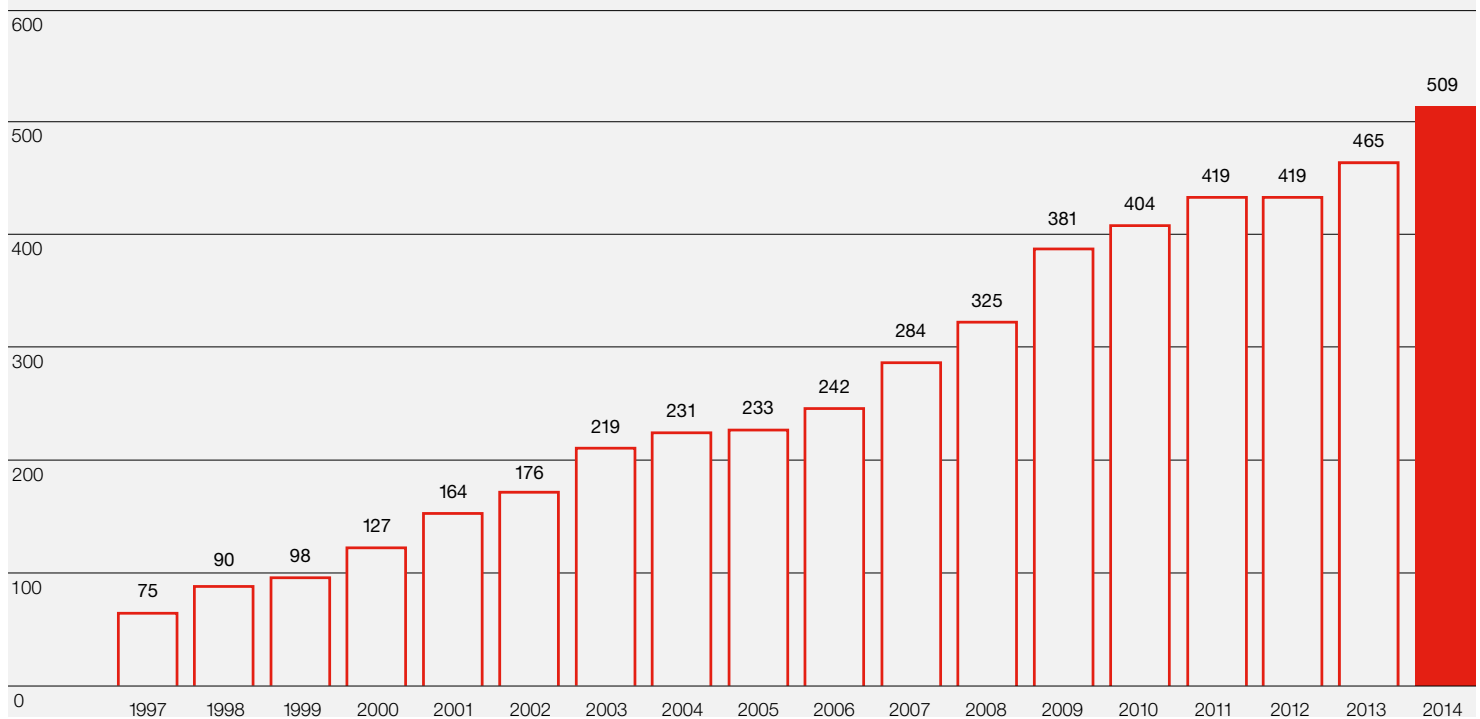
Gross premiums written (\$m) external business



Hiscox Insurance Company Limited
Gross premiums written geographical split by origin (%)



Hiscox Insurance Company Limited
Gross premiums written (£m)



Chairman

Robert Simon Childs
Non Executive
Chairman (Aged 63)
*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, and Chairman of The Bermuda Society.



Executive Directors

Bronislaw Edmund Masojada
Chief Executive
(Aged 53)
*12 December 2006**

Broniek Masojada joined Hiscox in 1993. From 1989 to 1993 he was employed by McKinsey and Co. Broniek served as a Deputy Chairman of Lloyd's from 2001 to 2007, was a Non Executive Director of Ins-sure Holdings Limited from 2002 to 2006 and Chairman of the Lloyd's Tercentenary Research Foundation from 2008 to 2014. He is a past President of The Insurance Institute of London and immediate Past Master of The Worshipful Company of Insurers. He is currently a member of the Board of the Association of British Insurers.



Stuart John Bridges
Chief Financial Officer
(Aged 54)
*12 December 2006**

Stuart Bridges joined Hiscox in 1999. He is a Chartered Accountant and has held posts in various financial service companies in the UK and US, including Henderson Global Investors. During the year he was a member of the Prudential Financial and Taxation Committee of the Association of British Insurers and a member of the audit committee of the Institute of Chartered Accountants in England and Wales. He is a Non Executive Director of Caledonia Investments plc.



Richard Colin Watson
Chief Underwriting
Officer (Aged 51)
*16 May 2013**

Richard Watson joined Hiscox in 1986, having previously worked for Sedgwick's 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. He is a Non Executive Director of White Oak Underwriting Agency Limited.



Independent Non Executive Directors

Caroline Foulger
Independent Non
Executive Director and
Chairman of the Risk
Committee (Aged 54)
*01 January 2013**

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Caroline Foulger joined Hiscox in January 2013 having retired from a partnership at PwC on December 31, 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.



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Jeremy Pinchin

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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

Richard Gillingwater
Senior Independent
Director and Chairman
of the Remuneration
Committee (Aged 58)
18 November 2010*

△○■○

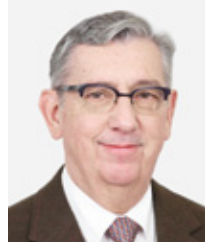
Richard Gillingwater joined Hiscox in December 2010. He is the Chairman of Henderson Group plc. He spent a decade at Kleinwort Benson, before moving to and eventually becoming joint Head of Corporate Finance for BZW, a division of Barclays Bank. When that became Credit Suisse First Boston, he became Chairman of European Investment Banking. In 2003 he became Chief Executive and later Chairman of the Shareholder Executive. In 2007 he became Dean of Cass Business School, retiring at the end of 2012. Richard is Deputy Chairman of SSE plc and a Non Executive Director of Helical Bar plc, and Wm Morrison Supermarkets PLC.



Daniel Maurice Healy
Independent Non
Executive Director and
Chairman of the Audit
Committee (Aged 72)
11 October 2006*

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Daniel Healy joined Hiscox in 2006. He was appointed Executive Vice President and Chief Financial Officer of North Fork Bancorporation in 1992 and a member of its Board of Directors in 2000. He was a partner with KPMG LLP before joining North Fork. He was the Managing Partner of the San José, California and Long Island, New York offices and held other positions in that firm during his tenure. He holds a Board position at Bond Street Holdings.



Ernst Robert Jansen
Independent Non
Executive Director
(Aged 66)
20 November 2008*

△○○○

Ernst Jansen joined Hiscox in 2008. He held several Managing Director positions in the European chemical industry between 1980 and 1990. He was an Executive Director then Vice Chairman of Eureka B.V. (now Achmea BV) between 1992 and 2007 and following retirement he became an adviser to the Executive Board and is director of two investment vehicles of Achmea.



**Dr James Austin
Charles King**
Independent Non
Executive Director
and Chairman of the
Conflicts Committee
(Aged 76)
11 October 2006*

△●○○

Dr James King joined Hiscox in 2006. He was Chairman of the Bank of N.T. Butterfield & Son Limited until April 2007 and the Establishment Investment Trust, a UK listed company, until August 2011. Dr King retired as Chairman of Keytech Limited and The Bermuda Telephone Company Ltd in July 2013. He currently chairs Grotto Bay Properties Ltd and is a Director of Castle Harbour Limited. Dr King is a fellow of the Royal College of Surgeons, Canada and the American College of Surgeons.



Robert McMillan
Independent Non
Executive Director
(Aged 62)
01 December 2010*

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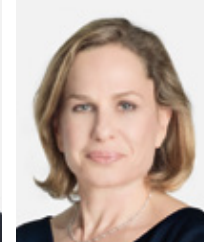
Robert (Bob) McMillan joined the Hiscox Ltd Board in December 2010. He spent 24 years with the Progressive Insurance Corporation where he served in various positions including National Director of Product Development, then Claims before becoming National Director of Marketing. He led Progressive's initiatives 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 on business innovation 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.



Andrea Sarah Rosen
Independent Non
Executive Director
(Aged 60)
11 October 2006*

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Andrea Rosen joined the Hiscox Ltd Board in 2006. She is a Director of Alberta Investment Management Corporation, Emera Inc. and Manulife Financial Corporation. She was previously Vice Chair of TD Financial Group and President of TD Canada Trust from 2002 to 2005. Prior to this she held various positions within the TD Financial Group from 1994 to 2002, including Executive Vice President of TD Commercial Banking and Vice Chair of TD Securities. She was Vice President of Varity Corporation from 1991 to 1994 and held various positions with Wood Gundy Inc. from 1981 to 1990.



Gunnar Stokholm
Independent Non
Executive Director
(Aged 65)
20 November 2008*

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Gunnar Stokholm joined Hiscox in 2008. He worked for Zurich Financial Services between 1995 and 2004, in a number of roles including CEO for Australia and Asian markets. He spent the majority of his career at Topdanmark Insurance and held the position of Managing Director of Topdanmark Holding from 1986 to 1995.



'Hiscox Partner' is an honorary title given to employees who make significant contributions to the development and profitability of the Group.

The Hiscox Partnership numbers up to 5% of the total staff. A Partner's contribution can be in a variety of ways: through the leadership or development of an important area or line of business, or through technical and operational expertise that benefits the business significantly. Most have taken a risk in their careers and many have made personal sacrifices for Hiscox, whether it be moving into an unproven or new area for the Group or relocating themselves and their families. The Partners are the leaders of our business and individually and collectively influence our Group's development and success.

Along with the opportunity to shape the future of the Group comes responsibility. We expect Hiscox Partners to act as proprietors of the business, bringing attention to areas where they feel that Hiscox is not pursuing the correct course – not only in top-level strategy, but also day-to-day business behaviour in every area. Partners are expected to encourage and exemplify the Hiscox values and lead at all levels.

Name	Job title
David Astor	Chief Investment Officer
David Bailey	Finance Director, Hiscox UK and Europe
Reeva Bakhshi	Chief Financial Officer, Hiscox Re
Rory Barker	Group Reinsurance Manager
Helen Bennett	HR Director, Hiscox UK and Europe
Neil Bolton	Head of Casualty, Hiscox London Market
Sasa Brčerevic	Chief Operating Officer, Hiscox London Market
Stuart Bridges*	Chief Financial Officer
Amanda Brown*	Group Human Resources Director
Steve Camm	Managing Director, Hiscox Guernsey
Rob Caton	Head of Catastrophe Modelling
Robert Childs	Chairman
Robert Davies	Global Head, Kidnap and Ransom
Pierre-Olivier Desaulle*	Managing Director, Hiscox Europe
Robert Dietrich	Managing Director, Hiscox Germany
Ross Dingwall	Managing Director, Hiscox UK and Ireland Broker
Charles Dupplin	Director of Mergers and Acquisitions
Guy Ellis	Head of Marine and Aviation Reinsurance, Hiscox Re
Stéphane Flaquet	Group IT Director
Bob Gadaleta	Southeast Regional Executive, Hiscox USA
Nicole Goodwin	Head of US Claims
Peter Gower	Marine Liability Line Underwriter, Hiscox London Market
Gary Head	Chief Underwriting Officer, Hiscox USA
David Henderson	National Sales Leader, Hiscox UK
Robert Hiscox	Honorary President
Michael Jedraszak	Director of Insurance Linked Securities, Hiscox Re
Jason Jones	Group Compliance and Audit Director
Suzanne Kemble	Global Head, Media and Entertainment
Kevin Kerridge	Head of Direct, Hiscox USA
Ian King	Reinsurance Underwriter, Hiscox London Market
Michael Krefta	Chief Underwriting Officer, Hiscox Re and Joint Active Underwriter, Syndicate 33
Steve Langan*	CEO Hiscox Insurance Company, Chief Marketing Officer and CEO DirectAsia Group
Paul Lawrence*	Chief Underwriting Officer, Hiscox London Market and Joint Active Underwriter, Syndicate 33
Ben Love	Head of Business Development, Hiscox Re
Ian Martin	Finance Director, Hiscox London Market
Bronek Masojada*	Chief Executive
Stuart Middleton	Chief Underwriting Officer, Hiscox Europe
Eric Mignot	Managing Director, Hiscox France
Alan Millard	Chief Operating Officer, Hiscox UK
Simon Morgan	Divisional Head of Property, Hiscox London Market
Joanne Musselle	Chief Underwriting Officer, Hiscox UK
Kylie O'Connor	Head of Communications
Jeremy Pinchin*	Chief Executive Officer, Hiscox Re, Group Company Secretary and Group Claims Director
Derrick Potton	Head of Professions and Specialty Commercial, Hiscox UK
Steve Quick	Global Head, Broker Relations
Tony Rai	Head of London Market Claims
Robert Read	Global Head of Art and Private Clients
Joanne Richardson	Practice Leader, Media and Entertainment, Hiscox USA
Adam Rushin	Director of Operations, Hiscox London Market
Brett Sadoff	Head of Field, Hiscox USA
Kalpana Shah	Chief Actuary
David Slevin	Divisional Head Specialty, Hiscox London Market
Damien Smith	Director of Underwriting, Hiscox Bermuda, Hiscox Re
Bevis Tetlow	Head of North American Underwriting Bermuda, Hiscox Re
Bob Thaker	Managing Director, DirectAsia
Ian Thompson	Head of Casualty, Bermuda
Nicholas Thomson	Retired Chief Underwriting Officer
Andrew Underwood	Group Head of Underwriting Management and Review
Ben Walter*	Chief Executive Officer, Hiscox USA
Gavin Watson	Chief Financial Officer, Hiscox USA
Richard Watson*	Chief Underwriting Officer
Simon Williams	Head of Marine and Energy, Hiscox London Market

*Hiscox Executive Committee

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 September 2012 (the Code). During 2014, and up to the date of this report and accounts, the Group has complied with the provisions of the Code in all material respects. A revised 2014 UK Corporate Governance Code was published in September 2014 and the Group intends to report against this version for the year ending 31 December 2015.

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 40 to 41. The Nominations Committee monitors the composition of the Board and considers the diversity, balance of skills, experience, independence and knowledge of the Board to ensure that it remains appropriate. The composition of the Board was also reviewed as part of the external Board evaluation described on page 45.

There is a formal induction process for new Directors. The needs of a new Director joining the Board are assessed and appropriate training arranged. Existing Directors are provided with the opportunity to attend training sessions. Directors received briefings on solvency requirements during the year. Directors' training requirements were also assessed as part of the external Board evaluation described on page 45.

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 overall strategy and meets periodically with the Senior Independent Director. The Chief Executive has responsibility for running the Group's business.

In accordance with the Code those Directors who are not retiring submit themselves for re-appointment, at the Annual General Meeting of the Company. The external commitments of the Chairman and the Executive Directors are disclosed in their profiles on page 40. 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. A review of the remuneration of the Non Executive Directors, which does not include performance-related elements, was carried out in respect of the 2014 financial year and no changes were required.

Whilst 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. Daniel Healy, Dr James King and Andrea Rosen were all appointed to the Board in 2006. In accordance with the criteria set out in the Code these Directors potentially cease to be independent if they continue to serve beyond nine years. Accordingly, Dr King will retire from the Board and not seek re-appointment at the 2015 Annual General Meeting. Andrea Rosen and Daniel Healy will both leave the Board on reaching nine years' service in October 2015. In addition, Richard Gillingwater, who joined the Board in 2010, will not seek re-appointment at the 2015 Annual General Meeting. Details of the Board succession planning arrangements are set out below in the section describing the Nominations Committee.

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. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

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. As part of the external Board evaluation Directors were asked about the information provided to the Board and the conclusions are referred to in the section headed 'performance evaluation' on page 45.

The Board of Hiscox Ltd met four times during 2014. The Code does not require the independence or otherwise of a Non Executive Chairman to be considered subsequent to their appointment. 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.

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 which the Non Executive Directors have to challenge and contribute to the development of strategy in the regular Board meetings, the Non Executive Directors also attended the annual Hiscox Partners' meeting. 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 the interim dividend and recommendation for 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 options. The Board has appointed an Executive Committee (described on page 45) 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 is chaired by Daniel Healy and in addition comprises Caroline Foulger, Richard Gillingwater, Ernst Jansen, Dr James King, Bob McMillan, Andrea Rosen and Gunnar Stockholm. The Chairman of the Committee and Caroline Foulger are considered by the Board to have recent and relevant financial experience. The Committee operates according to Terms of Reference published on the Group's website. The Committee meets at least three times a year to assist the Board on matters of financial reporting, risk management and internal control. 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 Board has accepted the advice of the Committee with regard to the requirement for FTSE 350 companies to put the external audit

out to tender and details are set out in the Audit Committee report on page 48.

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. KPMG 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 2014 financial year the Committee reported to the Board on how it had discharged its responsibilities and 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 business model and strategy. Further information on the activities of the Committee is included in the Audit Committee report on page 47.

The Remuneration Committee

The Remuneration Committee comprises Caroline Foulger, Richard Gillingwater, Daniel Healy, Ernst Jansen, Dr James King, Bob McMillan, Andrea Rosen and Gunnar Stockholm. It is chaired by Richard Gillingwater. The Committee operates according to Terms of Reference published on the Group's website and generally meets three times a year. The Committee's role in remuneration is described in the remuneration policy report on page 51.

The Nominations Committee

The Nominations Committee comprises Robert Childs, Caroline Foulger, Richard Gillingwater, Daniel Healy, Ernst Jansen, Dr James King, Bob McMillan, Andrea Rosen and Gunnar Stockholm. 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. 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. As referred to earlier in this report several of the present Non Executive Directors are approaching nine years' service and will be retiring from the Board during 2015. With this in mind early in 2014 the external search consultancy firm, Egon Zehnder, was commissioned by the Committee to identify suitable independent non executive candidates. Other than undertaking search assignments Egon Zehnder has no connection to the Group. The qualities and experience specified by the

Committee in the search briefs were aimed at balancing the existing skills, experience, independence and knowledge on the Board. Each candidate was interviewed by the Chairman, the Chief Executive and the Group Human Resources Director. As a result of the search a shortlist was produced and from that shortlist two candidates, Anne MacDonald and Lynn Carter, were nominated by the Committee. In February 2015 the Board agreed to recommend their appointment to shareholders and a separate resolution for the appointment of each of them will be put to the 2015 Annual General Meeting. Biographical details of both prospective Non Executive Directors and the reasons why the Board believe they should be appointed will be set out in the circular which will accompany the notice of Annual General Meeting. The appointment of both candidates would increase the level of gender diversity on the Board.

The Committee also has a role to consider the succession planning for Executive Directors and senior managers, and has a remit to make recommendations on the succession planning for the Chairman and the Chief Executive. When considering candidates for Board roles, the Committee will ensure that an appropriate process is followed to ensure that an objective review of the skills, background and time available is undertaken. The Committee will take external advice as appropriate.

The Investment Committee

The Investment Committee comprises Robert Childs, Caroline Foulger, Richard Gillingwater, Daniel Healy, Ernst Jansen, Dr James King, Bob McMillan, Andrea Rosen, Gunnar Stokholm, the Chief Executive and the Chief Financial Officer and is chaired by Robert Childs. The Investment Committee has oversight of the Group's investments.

The Conflicts Committee

The Group has a Conflicts Committee which is chaired by Dr James King and comprises Caroline Foulger, Richard Gillingwater, Daniel Healy, Ernst Jansen, Dr James King, Bob McMillan, Andrea Rosen, and Gunnar Stokholm. 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 Managing Agency. 27.5% of the Names on Syndicate 33 are third-parties and 72.5% 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. Should a potential conflict of interest arise, there is a formal procedure to refer the matter to this Committee.

The Risk Committee

The Risk Committee of the Board oversees the risk management framework and advises the Board on how best to manage the Group's risk profile. The Committee normally meets three times per year. The Committee comprises Robert Childs, Caroline Foulger, Richard Gillingwater, Daniel Healy, Ernst Jansen, Dr James King, Bob McMillan, Andrea Rosen and Gunnar Stokholm. It is chaired by Caroline Foulger. The risk management framework is described in the risk management section on pages 27 to 32.

The Executive Committee

The Executive Committee was established as a committee of the Board in February 2015. It is comprised of senior executives as listed on page 42 and will normally meet every six weeks. It will make recommendations to the Board on those matters referred to it, and approve various matters (some of which may also require Board approval). The Committee will approve senior appointments and remuneration outside the scope of the Remuneration Committee or Nominations Committee, approve operational policy for the Group, take decisions on annual budgets and business plans, mergers and acquisitions, consider significant issues raised by management and approve 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 Committees which was externally facilitated by Mr Geoffrey Shephard of ICSA Board Evaluation, a division of the Institute of Chartered Secretaries and Administrators. The last external evaluation was carried out in 2011. Mr Shephard has no other connection to the Group. The areas covered by the evaluation were Board responsibilities, oversight, Board meetings, support for the Board, Board composition, the Board working together (as a unit) and the outcomes and achievements.

The external evaluation involved one-to-one interviews with the Chairman and individual Directors.

The results of the evaluation were positive and it was concluded that the Board and its Committees continue to be effective. It was found that the Board has a clear understanding of its role, discussion at meetings is open and rigorous and there is enough time to discuss strategic issues. 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 2015.

In addition to the external evaluation of the Board, the Senior Independent Director met

with the other Non Executives without the Chairman present to appraise the performance of the Chairman. During the year, the Non Executives also periodically met without the Executive Directors to discuss a wide range of issues concerning the Company. The Chairman held one-to-one meetings with each of the Non Executive Directors during the year to review their performance including their attendance, contribution and preparation for meetings and to discuss any training and development needs. 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 communications

During the year Richard Gillingwater, Chairman of the Remuneration Committee and Senior Independent Director, led an engagement process with the largest shareholders on proposed changes to the Company's remuneration practices in relation to its Executive Directors. This had led to restrictions being applied to the Company's remuneration policy. Further details are set out on page 49.

The Executive Directors communicate and meet 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. The Executive Director most recently appointed to the Board, Richard Watson, attended meetings with shareholders during the year. All Directors attended the Annual General Meeting in 2014. The Company 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, are copied to the Non Executive Directors in full. The Chairman attends a number of meetings with shareholders as well as speaking at the analysts' presentations.

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

The Directors are responsible for maintaining a sound system of internal control to safeguard the investment made by shareholders and

the Company's assets, and for reviewing its effectiveness.

The risk management systems are set out in detail in the risk management report on pages 27 to 32.

The Board has reviewed the effectiveness of its risk management and internal controls during 2014, including financial, operational and compliance controls. The Board confirms there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which has been in place throughout the year and up to the date of approval of the Annual Report and Accounts and accords with the guidance in the document 'Internal Control': Revised Guidance for Directors on the Combined Code.

The Company is reviewing the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' published by the Financial Reporting Council in September 2014, and considering whether any enhancements can be made to its present processes.

The head of each business area is responsible for implementing the risk management programme in their area of operations. The Risk function collates risk management information and works with the risk committees to monitor significant risks and movements, and review the relevant internal controls. The Group also has an internal audit function which has direct access to the Audit Committee and reports to each meeting.

The Board acknowledges that it is neither possible, nor desirable, to eliminate risk completely. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The constant aim is to be fully aware of the risks to which the business is exposed and to manage these risks to acceptable levels.

Financial reporting

The primary role of the Audit Committee in relation to financial reporting 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 in them. In carrying out its role the Committee reviewed with both management and the external auditor the appropriateness of the half-year and annual financial statements, concentrating on, amongst 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; and
- any correspondence from third-parties in relation to our financial reporting.

To aid the review, the Committee considered the report of the key judgements in the financial statements from the Chief Financial Officer as well as reports from the external auditor on the outcomes of their annual audit. The Committee is supportive of KPMG in displaying the necessary professional scepticism their role requires. The primary areas of judgement considered by the Committee in relation to the 2014 Annual Report and Accounts were:

i) Reserving for insurance losses

As set out in our significant accounting policies on page 85, the reserving for losses, in particular losses incurred but not reported, is the most critical estimate in the Company's consolidated balance sheet. The Chief Actuary presented a Group reserving report to the Committee and the Committee reviewed the approach taken by management when making their selection of reserving estimates and is satisfied with the judgements taken and the reporting and disclosure of the estimate.

ii) The carrying value of deferred tax arising from losses in foreign subsidiaries

As fully explained in note 29, a deferred tax asset has been established relating to operating losses arising in foreign subsidiaries. The recoverability of this asset is dependent upon the future profitability of these subsidiaries. The Committee has 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.

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 estimating fair value involves a higher level of judgement. The Committee has evaluated the process which management has used 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 2.15, 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 has 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.

UK Corporate Governance Code

In accordance with the 2012 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 performance, business model and strategy. The Committee has provided such advice to the Board.

External auditor

The external auditors are invited to attend all meetings of the Committee. It is the responsibility of the Committee to monitor the performance, objectivity and independence of the external auditors. The Committee discusses and agrees the scope of the audit plan for the full year and the review plan for the interim statement with the auditors. The Audit Committee receives reports from external auditors at regular intervals during the audit process including in relation 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. The Committee also received a comprehensive presentation from the auditors demonstrating to its satisfaction how their independence and objectivity is maintained when providing non-audit services. Any contracts with the auditors, KPMG, 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 which may impair the auditors' independence or objectivity. During the year the value of non-audit services provided by KPMG amounted to £88,000 (2013: £88,000). There were no circumstances where KPMG was engaged to provide services which 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. During the year the Non Executive Directors met with the external and internal auditors

Audit Committee report continued

without the Executive Directors present so as to provide a forum to raise any matters of concern in confidence.

Internal audit

The Group Compliance and Audit Director is invited to attend all meetings of the Committee. It is the responsibility of the Audit 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.

Audit tender

KPMG have been auditors to the Group since it was admitted to the main market of the London Stock Exchange in 1997. The auditors are required to rotate the audit partner responsible for the Group every five years and the rotation cycle of the current partner will end following the conclusion of the 2015 audit. In this report last year it was stated that we expected an audit tender process to be aligned with the rotation of the current audit partner but intended to keep this under review, given the ongoing legal and regulatory developments in this area including the proposed European legislation.

At a meeting in November 2014, the Committee took the decision to begin a tender process with the aim of having the successful firm in place for the year ending 31 December 2016. One of the members of the Committee, Caroline Foulger, is a former partner of PwC and therefore took no part in that meeting and has absented herself from the tender process.

The Committee agreed that in light of the longevity of KPMG's appointment, they would not be invited to tender for the audit. The Committee thanked KPMG for their many years of service as auditors to the Group and for the consistent high quality of their work. A list of attributes required in the successful firm were drawn up and agreed by the Committee. These included experience, quality, innovation and judgement. In particular, global coverage and presence in Bermuda were identified as key attributes. A number of firms were approached including a mid tier firm. I was joined by the Chief Financial Officer for initial meetings with the potential candidates. It became apparent that it would not be possible to identify a suitable mid tier firm with sufficient global coverage and experience.

At the date of the Report, invitations to tender have been issued to two candidate firms and dates scheduled for them to have access to senior management and finance teams. The views of the Group's major shareholders will be sought during the course of the process. It is planned that a decision will be taken in time for a shareholder vote on the Auditor appointment at the 2016 AGM.

Chairman of Audit Committee
Daniel Healy

Meetings and attendance table

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Director	Attended	Attended	Attended	Attended
RS Childs	4/4	N/A	N/A	3/3
BE Masojada	4/4	N/A	N/A	N/A
SJ Bridges	4/4	N/A	N/A	N/A
RC Watson	3/4	N/A	N/A	N/A
C Foulger	4/4	4/4	4/4	3/3
RD Gillingwater	4/4	4/4	4/4	3/3
DM Healy	4/4	4/4	4/4	3/3
ER Jansen	4/4	4/4	4/4	3/3
Dr J King	4/4	4/4	4/4	3/3
R McMillan	4/4	4/4	4/4	3/3
AS Rosen	4/4	4/4	4/4	3/3
G Stokholm	4/4	4/4	4/4	3/3

Letter to shareholders

Dear Shareholder

The Hiscox remuneration policy report and the 2014 annual remuneration report are presented in the following pages. In this letter I would like to explain the remuneration decisions which have been made by the Remuneration Committee and how we have taken account of both our remuneration policy and the business context.

At Hiscox our objective is to deliver strong shareholder returns across the cycle and consistently grow dividends and net asset value per share. We aim to achieve this by building a diversified business which gives us flexibility throughout the cycle. Our reward practices reflect this strategy and aim to give clear and transparent alignment with shareholders.

Linking executive pay with business objectives and shareholder returns

We align executive incentives with the creation of value for our shareholders in three ways.

- Annual incentive payments for Executive Directors are paid only when the Company has achieved a Return on Equity for the year in excess of a pre-established Hurdle Rate. If the Hurdle Rate is not met, we simply do not pay bonuses to the Directors. In other words, like shareholders, we are focused on results, not inputs or effort or other measures often used to justify bonus payments. Once the Hurdle Rate is achieved the aggregate size of the bonus pool relates to the level of profits delivered.
- Our long-term incentive Performance Share Plan (PSP) is also linked to achieving a pre-established annual Hurdle Rate. This ensures that all shares granted under the plan vest only to the extent that Hiscox has delivered the minimum three-year returns reflected in the agreed hurdle.
- Executive shareholdings at Hiscox are extensive and meaningful. Hiscox encourages all employees to have a stake in the business and shareholding guidelines apply to senior managers. We are pleased that the personal Hiscox shareholdings of the Hiscox Executive Directors far exceed these guidelines. With such a considerable amount of their personal wealth invested in Hiscox shares, we believe the Directors are indeed aligned with our shareholders and thus focused on net asset growth, total shareholder return and risk management. As at the year end the Chief Executive had a holding equivalent to over 44 times his base salary.

Comments on the Hiscox remuneration policy report

In the 2013 Report and Accounts we published

our remuneration policy report as part of the new disclosure regulations. Our annual report on remuneration attracted a vote for of 97%, reflecting shareholder approval that what we paid to our Executive Directors was appropriate. The remuneration policy report was approved by the majority of shareholders however concerns were raised by many shareholders over certain structural elements.

Following extensive consultation with our shareholders we have listened to their concerns and responded by making the following four changes to our approach for future years. These changes include adoption of features from evolving best practice.

Annual bonuses will be capped

We will be capping the Executive Directors' individual opportunity under the annual bonus plan. In setting the level of these caps we considered competitor practice and historical bonus payment levels. We also took account of the fact the caps represent maximum incentive levels, not expected, and our disciplined approach of paying for results will continue unchanged.

Regular variable pay on recruitment to be capped

The theoretical maximum level of regular variable pay awards under the recruitment policy for Executive Directors will be capped to be in line with the maximum for the bonus and performance share plan.

New clawback arrangements

For future bonus awards to Executive Directors a clawback provision will be introduced. This will complement the existing malus provisions.

Addition of holding period for PSP

For future PSP awards, Executive Directors will be required to retain (net of tax charges) any shares vesting at the end of the performance period for a further two years (i.e. five years post the date of the start of the performance period).

We have disclosed these changes in the opening page of the attached remuneration policy. Following feedback from shareholders, we have treated the changes as restrictions to our current remuneration policy and the next time we will put our remuneration policy forward for a shareholder vote is expected to be at the 2017 Annual General Meeting.

Comments on 2014 performance and Executive Director reward

You will see from the statements of the Chairman and the Chief Executive that in 2014, against a challenging reinsurance market, we have delivered a return on equity of 17.1% and an increase in net asset value per share of 15.0%. Our retail businesses have delivered just over half of the Group's gross written premium whilst our reinsurance and London Market businesses have adapted appropriately to market conditions. The compensation for Executive

Letter to shareholders

continued

Directors reflects this strong performance but also takes account of the absolute profit and ROE performance.

The salary increases for the three Executive Directors which will take effect on 1 April 2015 will be consistent with the overall UK-based employee salary increases.

Bonus awards: Bonus awards for the Executive Directors were set as described in the policy. Aggregate bonuses have reduced from last year's awards by 9% which reflects a profit and ROE performance which is extremely strong but below 2013.

Performance Share Plan: The 2012 PSP grant was subject to performance conditions for the 2012, 2013 and 2014 financial results. I am delighted to say that as a result of a combined three-year average ROE of 17.7%, earning in excess of £660 million post-tax profit, the 2012 awards will vest in full. Annual grants of 194% of salary were made to the three Executive Directors in 2014 which will vest in 2017 subject to the normal performance conditions.

The Executive Directors continue to execute a business strategy which has delivered a strong set of results in 2014. This, combined with the changes made in our approach to our remuneration policy will, I hope, give shareholders the confidence that we continue to operate remuneration practices which reward superior performance but are also disciplined and aligned with delivery of absolute results.

Richard Gillingwater
Chairman of Remuneration Committee

Remuneration policy report

A core function of the Remuneration Committee's role 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 award 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.

The Company's intended forward-looking remuneration policy for Board members is set out on pages 52 to 59. The remuneration policy set out in this report took effect on 15 May 2014.

The policy is unchanged from 2014 with the exception of some minor amendments to reflect the restrictions defined below.

From January 2015 we intend to operate the following restrictions to our remuneration policy:

— **Annual bonuses will be capped**

From the year ended 31 December 2015 the cap on the annual bonus which can be earned by the CEO and CFO for any one year will be 400% of salary. The cap for the Chief Underwriting Officer will be 500% of salary, reflecting the commercial nature of the role.

— **Regular variable pay on recruitment to be capped**

The maximum level of regular variable pay on recruitment of an Executive Director will be in line with maximum for the annual bonus and the maximum for the current Performance Share Plan (which is limited to 200% of salary in respect of any one financial year). As announced to shareholders prior to the AGM in 2014, our intention will always be to put externally hired Executive Directors on a remuneration package which is consistent with our overall remuneration policy. Discretion may be exercised under the policy to transition an individual into our structure, however the maximum level of variable pay (excluding buy-outs) would now be subject to the cap set out above.

— **New clawback arrangements**

In addition to the existing malus provisions, all future bonus (including the deferred element) and PSP awards will be subject to clawback provisions that will apply for up to two years after the end of the relevant performance period. As with our existing malus provisions the Remuneration Committee would have the ability to apply

clawback in the event of a retrospective material restatement of the results, or gross misconduct leading to the Company suffering significant reputational or financial damage.

— **Addition of holding period for PSP**

For PSP awards granted from 2015 onwards, any shares which vest based on performance at the end of the three-year performance period will have to be retained (net of any taxes) by Executive Directors for a further two years.

Remuneration policy report

continued

Future policy table Executive Director remuneration

Element	Purpose and link to strategy	Operation
Base salary	<p>Base salary, benefits and retirement benefits represent fixed payments for undertaking the role.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>By exception an individual's salary may be amended outside of the annual review process.</p>
Retirement benefits		<p>These vary by local country practice but all open Hiscox retirement schemes are based on defined contributions. This approach will be generally maintained for any new appointments other than in specific scenarios (e.g. local market practice dictates other terms).</p> <p>For current Executive Directors, a cash allowance (which is currently 10% of salary, less an offset for the employer's National Insurance contribution) is provided in lieu of the standard employer pension contribution.</p> <p>Selected Board members retain legacy interests in closed defined benefit schemes. However, there is no entitlement to any further accrual under these plans.</p>
Other benefits		<p>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.</p> <p>For new hires and changes in role, the Committee may provide reasonable additional benefits based on the circumstances (e.g. travel allowance and relocation expenses).</p>
Annual incentive	<p>To reward for performance against key objectives and achievement of financial results over the financial year.</p> <p>Provides a direct link between reward and performance.</p> <p>To provide competitive compensation packages.</p>	<p>Executive Directors participate in profit-related bonus pools.</p> <p>Bonus pools are calculated at a business unit level and for the Group as a whole on the basis of Group financial results.</p> <p>For 2015, the bonus pool will be funded by a set percentage of profits on achievement of a Hurdle Rate of ROE. The bonus for 2014 was determined on a similar basis. Further detail is set out on page 61.</p> <p>For Executive Directors, individual allocations from the pool are determined by the Remuneration Committee based on a judgement of various factors including:</p> <ul style="list-style-type: none"> — size of the Group bonus pool; — results of business area (where relevant); and — individual performance. <p>Amounts are paid in accordance with the bonus deferral mechanism described below.</p> <p>Bonus awards are non-pensionable.</p>

Maximum potential value	Performance metrics	Application to broader employee population
<p>The salaries for current Executive Directors are set out on page 60.</p> <p>Executive Directors' salary increases will normally be in line with overall employee salary increases in the relevant location.</p> <p>Increases above this level may be considered in other circumstances as appropriate (e.g. address market competitiveness, development in the role, or a change in role size, scope or responsibility).</p>	<p>Individual and business performance is taken into account when setting salary levels.</p>	<p>Process for review of salaries is consistent for all employees.</p>
<p>Set at an appropriate level by reference to the local market practice.</p>	<p>None.</p>	<p>Executive Directors' benefits are determined on a basis consistent with all employees.</p>
<p>Set at an appropriate level by reference to local market practice and reflecting individual and family circumstances.</p>		
<p>The Company has a robust track record of paying bonuses which are proportionate to financial results, see page 61 of this report for further details. Where performance is deemed to be below a pre-determined hurdle, payouts will be nil.</p> <p>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.</p>	<p>Performance is measured over one financial year.</p> <p>Bonus pools are determined based on financial performance, therefore this is the main determinant of overall bonus payouts.</p> <p>A hurdle of financial performance is set annually.</p> <p>Performance above this hurdle is rewarded and where performance falls below this hurdle, payouts will be nil.</p>	<p>The operation of the annual incentive is consistent for employees across the Group.</p> <p>Bonuses for more junior employees are calculated using a more formulaic approach.</p> <p>Further details are set out on page 61.</p>

Remuneration policy report

continued

Future policy table Executive Director remuneration

Element	Purpose and link to strategy	Operation								
Bonus deferral	<p>Retention of employees.</p> <p>Facilitate and encourage share ownership in order to align senior employees with Hiscox shareholders.</p>	<p>Larger bonuses are deferred over a three-year period and paid subject to continuing service as explained in the table below.</p> <p>Deferral points are determined based on the currency in which the Executive Director's salary is paid and are normally as follows:</p> <table border="1"> <tr> <td>Bonus of £50,000, €75,000, \$100,000 and below</td> <td>Paid shortly after the end of the financial year in which the bonus was achieved.</td> </tr> <tr> <td>Bonus above £50,000 and below £100,000</td> <td rowspan="3">£50,000, €75,000, \$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 (i.e. 24 months after the start of the bonus year), and 50% after year three (i.e. 36 months after the start of the bonus year).</td> </tr> <tr> <td>Bonus above €75,000 and below €150,000</td> </tr> <tr> <td>Bonus above \$100,000 and below \$200,000</td> </tr> <tr> <td>Bonus above £100,000, €150,000, \$200,000</td> <td>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.</td> </tr> </table> <p>Participants are able to (subject to any local tax/legal/regulatory restrictions) draw deferred bonuses early for the following reasons:</p> <ul style="list-style-type: none"> — payment of the exercise price on the exercise of employee share options; — payment of tax on share awards (e.g. on exercise of performance shares); — purchase of shares; and — payment of debt due on share purchases. <p>The Remuneration Committee can agree to early payment of deferred bonuses to Executive Directors on an exceptional basis at their discretion.</p> <p>Deferred awards are subject to a malus provision. Further details on the malus provision are set out on page 57 of this report.</p>	Bonus of £50,000, €75,000, \$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	£50,000, €75,000, \$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 (i.e. 24 months after the start of the bonus year), and 50% after year three (i.e. 36 months after the start of the bonus year).	Bonus above €75,000 and below €150,000	Bonus above \$100,000 and below \$200,000	Bonus above £100,000, €150,000, \$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.
Bonus of £50,000, €75,000, \$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	£50,000, €75,000, \$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 (i.e. 24 months after the start of the bonus year), and 50% after year three (i.e. 36 months after the start of the bonus year).									
Bonus above €75,000 and below €150,000										
Bonus above \$100,000 and below \$200,000										
Bonus above £100,000, €150,000, \$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.									
Performance Share Plan (PSP)	<p>To motivate and reward for the delivery of long-term objectives in line with business strategy.</p> <p>To encourage share ownership amongst participants and align interests with shareholders.</p> <p>To provide competitive compensation packages for senior employees.</p>	<p>Awards are granted under the Performance Share Plan, originally implemented in 2006. Awards are governed by the rules of this plan.</p> <p>Share awards (typically structured as either contingent awards or nil cost options) are made to Executive Directors and other senior employees at the discretion of the Remuneration Committee.</p> <p>Awards normally vest after a three-year period subject to the achievement of performance conditions.</p> <p>Awards are generally subject to continued employment, however awards may vest to leavers in certain scenarios (e.g. 'good' leaver circumstances).</p> <p>Dividends (or equivalents) may accrue on vested shares prior to release. Further details on this are set out on page 57. Unvested awards are subject to a malus provision. Further details on the malus provision are set out on page 57 of this report. The PSP rules also enable the Company to grant market value options, however there are currently no plans to use this for regular awards.</p>								
Shareholding guidelines	To ensure Executive Directors are aligned with shareholder interests.	Within five years of becoming an Executive Director, individuals will normally be expected to own Hiscox shares valued at 150% of salary.								

Maximum potential value	Performance metrics	Application to broader employee population
N/A	N/A	Approach is consistent for all employees across the Group who are awarded a sizeable bonus.
<p>Maximum annual grant of up to 200% of salary in respect of any one financial year.</p>	<p>The performance conditions for awards are set to align with the long-term objectives of the Company.</p> <p>The Committee reviews the targets prior to each grant to ensure that they remain appropriate.</p> <p>Currently, the performance measures are linked to the achievement of ROE performance over an agreed hurdle, during the performance period. Details of targets for awards to be granted in 2015 are set out on page 62.</p> <p>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.</p> <p>Under the plan rules the Committee is able to modify performance criteria for outstanding awards on the occurrence of certain events (e.g. major disposal), provided that such adjustment is fair and reasonable and the adjusted condition is no more difficult to satisfy.</p>	<p>Participation in this plan is restricted to Executive Directors and other senior individuals.</p> <p>The approach is consistent for all participants under the plan.</p>
N/A	N/A	Executive Directors are required to hold more shares than other senior managers.

Remuneration policy report

continued

The Committee may make minor changes to this remuneration policy to aid in its operation or implementation without seeking shareholder approval (e.g. 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 PSP in accordance with the rules (e.g. the treatment of awards in the context of a change of control or other forms of corporate restructure).

Non Executive Director remuneration

Approach

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.

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 (e.g. 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 (e.g. Board Committee membership and chairmanship). The fees for the Non Executive Directors (excluding the Chairman) are determined by the Chairman.

The current fees payable to Non Executive Directors are set out on page 63.

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 above) to ensure that outcomes for Executive Directors are based on performance in-the-round rather than based 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 – a key indicator of the Company's long-term success.

Dividend equivalents

As part of our objective to align senior managers with total shareholder return, the recipient of the PSP award is provided with the equivalent of the dividend either in shares or cash. Dividends (or amounts equal to dividends) on shares granted under the PSP roll up in the form of shares between the grant and vesting.

Where awards are granted in the form of nil-cost options, at the end of the performance period the employee would have an option over the proportion of the share grant which vests by reference to the satisfaction of the applicable performance target as well as over the number of shares representing the rolled-up dividends on those shares. Participants in selected jurisdictions (subject to tax/legal/regulatory restrictions) after vesting but before exercise, may receive amounts equal to dividends paid on the total number of shares that have vested.

Legacy arrangements

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 agreed before the policy came into effect or 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 provision

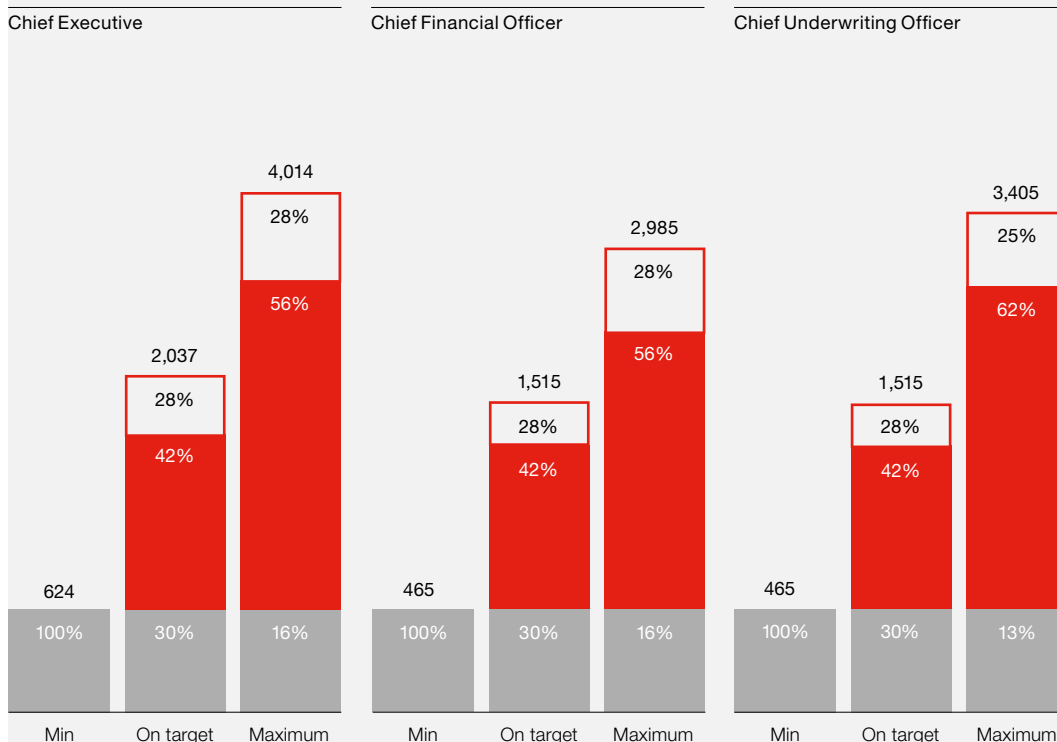
In respect of unvested compensation, specifically deferred bonuses and unvested performance share awards, granted following the introduction of this policy report, the Committee may, in its absolute discretion, determine at any time prior to the vesting of an award to reduce, cancel or impose further 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.

This provision was introduced in 2014, and will apply to future grants.

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

▢ Long-term variable remuneration
▢ Annual variable remuneration
▢ Fixed remuneration



Remuneration policy report

continued

The charts on page 57 have been compiled using the following assumptions:

Fixed remuneration

Fixed reward (i.e. base salary, benefits and retirement benefit).

- Salary with effect from 1 April 2014
- Benefits as received during 2014, as disclosed in the Executive Director remuneration table on page 60.
- Retirement benefit as received during 2014, as disclosed in the Executive Director remuneration table on page 60.

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 54. 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.

Above target 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.

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:

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. Where relevant, the Committee will review the likelihood of achievement of performance conditions based on the track record of payments and relevant performance of the candidate's current employer within the testing period. 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 Committee recognises that there may be a need to offer more bespoke arrangements in order to facilitate recruitment. In such circumstances, the Committee may opt to vary the approach set out in the policy as it considers appropriate and necessary at the time. The exact structure of any such awards, including the mode of delivery (e.g. cash or shares), the timeframe for payment or vesting, and the detail of performance measures and targets (if any) would be tailored as appropriate but would remain consistent with the overall Hiscox approach to pay. In all circumstances, any movement from the ongoing policy would only be considered where there is a strong commercial rationale to do so and where the Committee felt this was in the best interests of the Company and shareholders. The Company would seek to clearly disclose and explain any such arrangements to shareholders as appropriate.

On the appointment of a new 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 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, therefore this will include base pay, pension contributions (or benefits allowance as appropriate) and other benefits (e.g. 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 (PSP) 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 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 major shareholders.

The Remuneration Committee takes into consideration the range of views expressed in making its decisions.

Annual report on remuneration 2014

This report explains how the remuneration policy was implemented for the financial year ending 31 December 2014 and how it will be applied for the 2015 financial year. KPMG has audited the report to the extent required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, being the sections in the annual report on remuneration 2014 below entitled 'Executive Director remuneration', 'Details of pension entitlements', 'Non Executive Director remuneration', 'Payments for loss of office and payments to past Directors' and 'Directors' shareholding and share interest'.

Executive Director remuneration

The table below sets out the remuneration received by current Executive Directors for the financial years ending 31 December 2014 and 31 December 2013.

	Year	Salary ¹ £	Benefits ² £	Bonus ³ £	Long-term incentives ⁴ £	Retirement benefits £	Total remuneration £
SJ Bridges Chief Financial Officer	2014	415,000	6,899	750,000	912,802	37,729	2,122,430
	2013	387,500	6,818	850,000	476,605	35,116	1,756,039
BE Masojada Chief Executive	2014	558,750	8,237	1,000,000	1,277,920	50,792	2,895,699
	2013	519,375	8,046	1,100,000	667,246	47,070	2,341,737
RC Watson ⁵ Chief Underwriting Officer	2014	415,000	6,899	800,000	912,802	37,729	2,172,430
	2013	252,055	4,481	850,000	476,605	22,792	1,605,933

¹Salaries are reviewed from 1 April, further detail on April 2014 increase can be found below.

²Benefits for Executive Directors include cover under the Company healthcare scheme, life insurance, income protection insurance and critical illness policies as well as gym membership and a Christmas gift hamper.

³A proportion of the bonus amount is deferred as set out on page 54 of the policy report.

⁴2014 long-term incentives relate to performance share awards granted in 2012 where the performance period ends on 31 December 2014. The award is due to vest on 19 March 2015. 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 2014 of 671.84p. The 2013 long-term incentive award relates to performance share awards granted in 2011 where the performance period ends on 31 December 2013. 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 2013 of 670.00p.

⁵RC Watson appointment as Executive Director commenced on 16 May 2013. The 2013 amounts shown are pro-rata based on qualifying services with the exception of bonus and long-term incentive which are shown in full.

Additional notes to the Executive Director remuneration table

Salary

The current salaries for the Executive Directors are as follows:

	£
SJ Bridges	420,000
BE Masojada	565,000
RC Watson	420,000

Executive Director salaries increased by 5% as part of the annual April 2014 review. This was consistent with overall UK-based employee salary increase. Salaries will next be reviewed as part of the annual April 2015 review and will be in line with the overall UK-based employee salary increases.

Bonus

Hiscox's approach to remuneration is underpinned by the belief that a reasonable portion of total remuneration should be attained through incentive awards, thereby linking rewards directly with performance.

In line with the remuneration policy, the Executive Directors, along with other employees across the Group, participated in the 2014 profit-related bonus pools. These pools were 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 hurdle ('Hurdle Rate'). The Hurdle Rate is set annually by using an investment benchmark rate which takes account of one- to three-year gilt and treasury yields, cash returns and the general investment environment. The return on equity Hurdle Rate for the 2014 financial year was set at 7%, which was 5% above the investment benchmark rate.

Individual employee profit bonuses were determined based on the results of the relevant business area, individual performance and the size of the relevant bonus pool. The Remuneration Committee determined the profit bonuses to be paid to the Executive Directors based on judgement regarding the performance of the Group and an assessment of individual performance.

Junior and mid-level employees also participated in a Personal Performance Bonus scheme. Awards under this scheme are based entirely on individual performance ratings. It is designed to ensure that employees in these roles continue to be motivated to perform their roles well, irrespective of overall Group performance. The benefit is up to 10% of relevant salaries. For the avoidance of doubt, Executive Directors did not participate in the Personal Performance Bonus Scheme.

In 2014 the Group achieved a pre-tax profit of £231.1 million compared with £244.5 million in 2013. This resulted in a pre-tax return on equity of 18.2% and as such aggregate bonuses awarded to the Executive Directors have reduced from last year's awards by 9% which reflects a profit and ROE performance which is extremely strong but below 2013.

The following table shows the average Executive Director bonus as a percentage of salary versus return on equity performance and demonstrates how we have applied our policy of paying bonuses which are proportionate to results.

As can be seen from the table, the bonuses vary significantly with performance from year-to-year.

Executive Directors' cash incentives and ROE

	Pre-tax return on equity %	Average bonus as a percentage of salary %
2005	19	54
2006	35	274
2007	36	372
2008	14	53
2009	34	287
2010	19	108
2011	1	0
2012	18	183
2013	20	209
2014	18	181

Annual report on remuneration 2014

continued

In line with the remuneration policy, 50% of the 2014 bonus will be deferred over a period of two years. Receipt of these deferred amounts is normally subject to continued service.

Bonus awards for the 2015 financial year

The bonus return on equity Hurdle Rate has been reviewed as described above and will remain unchanged for the 2015 financial year at 7%.

Long-term incentives

Performance Share Plan (PSP) awards where the performance period ends with the 2014 financial year

Executive Directors were granted awards under the PSP in 2012 for the three-year performance period 1 January 2012 to 31 December 2014. 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 the three-year performance period %	Proportion of PSP vesting %
Minimum threshold vesting	10	25
Maximum vesting	17.5	100
Straight-line vesting between these points		

Based on the three-year average post-tax return on equity of 17.7%, the awards ending with the 2014 performance year will vest at 100% on 19 March 2015. 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 60.

PSP awards granted during the 2014 financial year

On 17 March 2014 the Executive Directors were granted awards under the PSP as follows:

	Number of awards granted	Market price at date of grant £	Market value at date of grant £
SJ Bridges	110,000	6.91	760,100
BE Masojada	156,000	6.91	1,077,960
RC Watson	110,000	6.91	760,100

The performance conditions for this award are as follows:

	Required average post-tax ROE over the three-year performance period %	Proportion of PSP vesting %
Minimum threshold vesting	7	25
Maximum vesting	14.5	100
Straight-line vesting between these points		

PSP awards to be granted during 2015

In the coming year, the Committee intends to grant awards to Executive Directors and the performance conditions and targets will be unchanged from the 2014 awards.

Details of pension entitlements

All open Hiscox retirement schemes are based on defined contributions.

SJ Bridges, BE Masojada and RC Watson 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 60.

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	Transfer accrued annual pension at 31 Dec 14 £000	Transfer value of increase in accrued pension £000	Transfer value of accrued pension at 1 Jan 14 £000	Transfer value of accrued pension at 31 Dec 14 £000	Increase/ (decrease) in transfer value of accrued benefit during the year £000
SJ Bridges	60	1	36	–	754	976	222
BE Masojada	60	2	48	–	1,139	1,563	424
RC Watson	60	6	147	–	3,503	4,757	1,254

Non Executive Director remuneration

The table below sets out the remuneration received by the Non Executive Directors for the financial years ending 31 December 2014 and 31 December 2013.

	2014					2013				
	Ltd Board fee £	Ltd Committee fees ³ £	Subsidiary Board fees ⁴ £	Benefits ² £	Total Hiscox fees £	Ltd Board fee £	Ltd Committee fees £	Subsidiary Board fees £	Benefits ² £	Total Hiscox fees £
RS Childs ¹	137,500	–	137,500	2,730	277,730	116,404	–	116,404	2,459	235,267
RD Gillingwater	50,364	32,834	–	–	83,198	51,875	29,375	–	–	81,250
C Foulger	50,364	21,276	54,476	–	126,116	51,875	20,000	46,144	–	118,019
DM Healy	50,364	25,485	–	–	75,849	51,875	26,250	–	–	78,125
ER Jansen	50,364	19,417	–	–	69,781	51,875	20,000	–	–	71,875
Dr J King	50,364	22,451	38,228	–	111,043	51,875	23,125	39,375	–	114,375
R McMillan	50,364	19,417	47,330	–	117,111	51,875	20,000	48,750	–	120,625
AS Rosen	50,364	22,660	–	–	73,024	51,875	25,938	–	–	77,813
G Stokholm	50,364	20,014	56,447	–	126,825	51,875	24,375	45,000	–	121,250

2014 fees that are paid in US Dollars have been converted to Great British Pounds using an exchange rate of 1.648.

2013 fees that are paid in US Dollars have been converted to Great British Pounds using an exchange rate of 1.60.

¹RS Childs was appointed Non Executive Chairman of Hiscox Ltd, Hiscox Syndicates Ltd and Hiscox Insurance Company Ltd on 26 February 2013. The 2013 amounts are pro rata in relation to remuneration paid for qualifying services in these roles.

²RS Childs remains covered under the Company healthcare and life insurance schemes.

³Ltd Committee fee changes reflect changes in Chairmanship responsibility during 2014.

⁴Subsidiary Board fees changes reflect new appointments during 2014.

Non Executive Directors receive an annual fee in respect of their Hiscox Ltd and subsidiary board appointments. Fees were reviewed for the 2014 financial year but were not increased. Where 2014 fees differ from 2013 it is due to either an exchange rate conversion or a change in role as described in the notes section above. Fees are currently being reviewed for the 2015 financial year and any changes will be disclosed in the 2015 annual report on remuneration.

Annual report on remuneration 2014

continued

Payments for loss of office and payments to past Directors

There were no payments made to past Directors during 2014.

As detailed in last year's Director's remuneration report, the outstanding performance share awards for RS Childs from 2012 will vest in line with the scheme rules following the end of the three-year performance period ending 31 December 2014. This award relates to the period when RS Childs served as an Executive Director and Chief Underwriting Officer.

Directors' shareholding and share interests

We strongly 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 which mean that within five years of becoming an Executive Director, the Director will be expected to own Hiscox shares valued at 150% of salary. The holdings of our Executive Directors far exceed the shareholding guidelines.

Directors	31 December 2014 6p* Ordinary Shares number of shares beneficial	31 December 2013 5 55/89p* Ordinary Shares number of shares beneficial
Executive Directors		
BE Masojada	3,477,214	3,329,160
SJ Bridges	942,488	1,045,765
R Watson	921,888	842,876
Non Executive Directors		
RS Childs	1,718,031	1,930,375
C Foulger	8,900	10,000
R Gillingwater	4,450	5,000
D Healy	79,210	89,000
ER Jansen	79,678	77,019
Dr J King	–	–
R McMillan	–	–
A Rosen	71,027	67,699
G Stockholm	–	–

*Following the share capital consolidation on 19 March 2014, the nominal value of the Ordinary Shares changed from 5 55/89p to 6p.

Share options

The interests of current Executive Directors under the approved and unapproved share option scheme are set out below:

	Number of options at 1 January 2014	Number of options granted	Number of options lapsed	Number of options exercised	Number of options at 31 December 2014	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
SJ Bridges	154,578	–	–	(154,578)	–	1.499	6.933-7.219	06-Apr-08	05-Apr-15
RC Watson	128,815	–	–	(128,815)	–	1.499	6.402-6.431	06-Apr-08	05-Apr-15
Total	283,393	–	–	(283,393)	–				

Share options

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

	Number of options at 1 January 2014	Number of options granted	Number of options lapsed	Number of options exercised	Number of options at 31 December 2014	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
SJ Bridges	2,017	–	–	–	2,017	4.460	–	01-May-16	31-Oct-16
	–	1,649	–	–	1,649	5.456	–	01-Jun-17	30-Nov-17
BE Masojada	1,744	–	–	–	1,744	5.160	–	01-Dec-16	31-May-17
	–	1,649	–	–	1,649	5.456	–	01-Jun-17	30-Nov-17
RC Watson	2,933	–	–	(2,933)	–	3.077	6.995	01-May-14	31-Oct-14
	–	3,299	–	–	3,299	5.456	–	01-Jun-17	30-Nov-17
Total	6,694	6,597	–	(2,933)	10,358				

Performance Share Plan

The interests of current Directors under the Performance Share Plan are set out below:

	Number of awards at 1 January 2014	Number of awards granted	Number of awards adjusted	Number of awards lapsed	Number of awards exercised	Number of awards at 31 December 2014	Market price at date of exercise £	Date from which released
SJ Bridges	121,934	–	–	–	–	121,934	–	07-Apr-11
	188,709	–	–	–	–	188,709	–	02-Apr-12
	65,040	–	–	–	–	65,040	–	07-Apr-13
	125,000	6,778	–	(59,125)	–	72,653	–	07-Apr-14
	125,000	–	–	–	–	125,000	–	19-Mar-15
	125,000	–	–	–	–	125,000	–	02-Apr-16
	–	110,000	–	–	–	110,000	–	17-Mar-17
RS Childs	212,298	–	–	–	(212,298)	–	6.416-6.495	02-Apr-12
	75,880	–	–	–	(75,880)	–	6.460	07-Apr-13
	125,000	6,778	–	(59,125)	–	72,653	–	07-Apr-14
	125,000	–	–	–	–	125,000	–	19-Mar-15
BE Masojada	193,986	–	–	–	(193,986)	–	6.560	07-Apr-11
	259,475	–	–	–	(259,475)	–	6.560	02-Apr-12
	108,400	–	–	–	(108,400)	–	6.560	07-Apr-13
	175,000	9,490	–	(82,775)	–	101,715	–	07-Apr-14
	175,000	–	–	–	–	175,000	–	19-Mar-15
	175,000	–	–	–	–	175,000	–	02-Apr-16
	–	156,000	–	–	–	156,000	–	17-Mar-17
RC Watson	221,047	–	–	–	(221,047)	–	6.870	12-Jan-09
	125,000	6,778	–	(59,125)	(72,653)	–	6.870	07-Apr-14
	125,000	–	–	–	–	125,000	–	19-Mar-15
	125,000	–	–	–	–	125,000	–	02-Apr-16
	–	110,000	–	–	–	110,000	–	17-Mar-17
Total	2,971,769	405,824	–	(260,150)	(1,143,739)	1,973,704		

Annual report on remuneration 2014

continued

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 and Heptagon Assets Ltd. He was not remunerated for his services. SJ Bridges held directorships on the Board of Caledonia Investments plc, he does not retain the annual fee of £45,500 for his services. He also sits on the Audit Committee of the Institute of Chartered Accountants in England and Wales and is not remunerated for his services. RC Watson was appointed as a Director of White Oak Underwriting Agency Limited on 11 June 2014. He is not remunerated for his services.

Performance graph and table

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 reference points from the general market and industry peers.

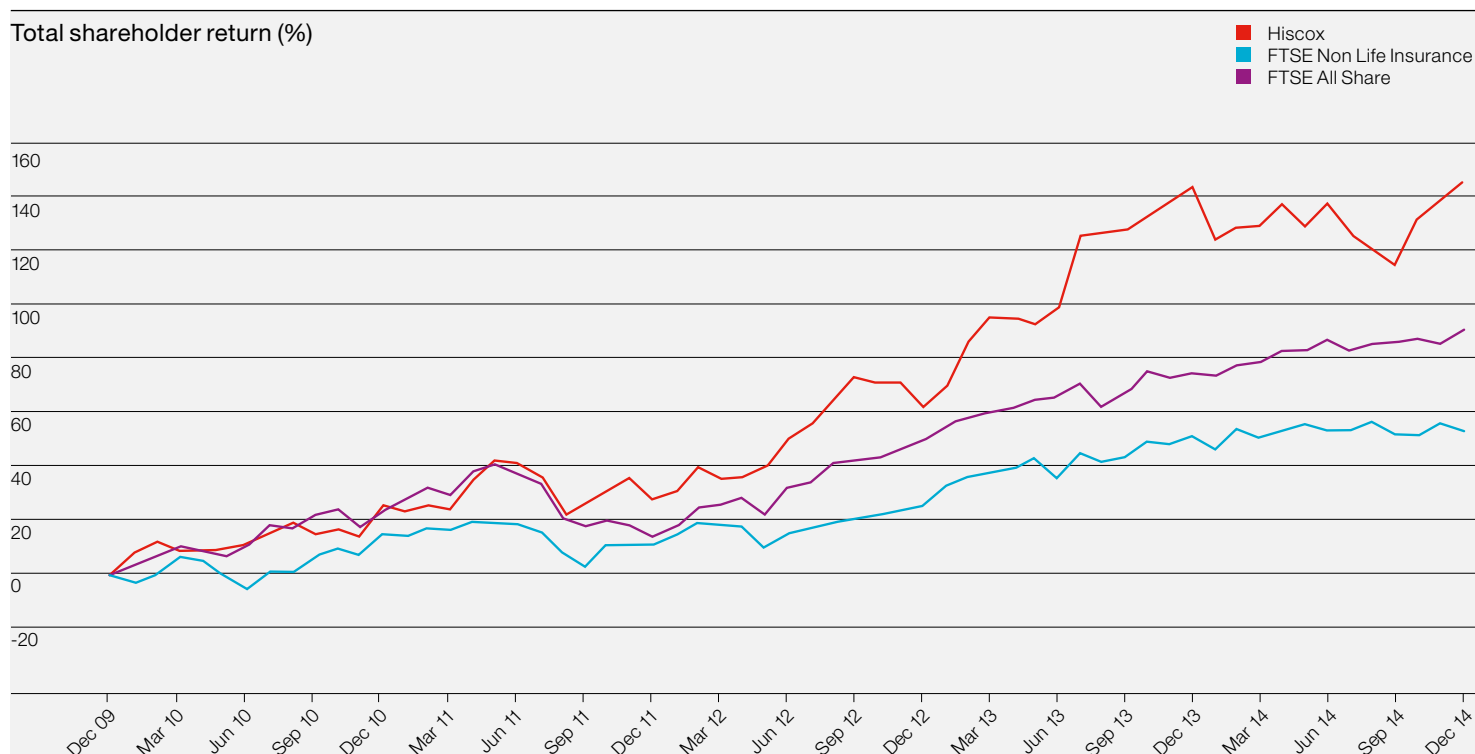


Table of historic data

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

	2009	2010	2011	2012	2013	2014
CEO Single figure of remuneration (£)	2,536,943	1,759,123	1,509,248	1,938,759	2,341,737	2,895,699
Annual bonus as % of salary	286	114	–	186	204	177
PSP vesting as % of maximum opportunity	100	100	85	39	53	100

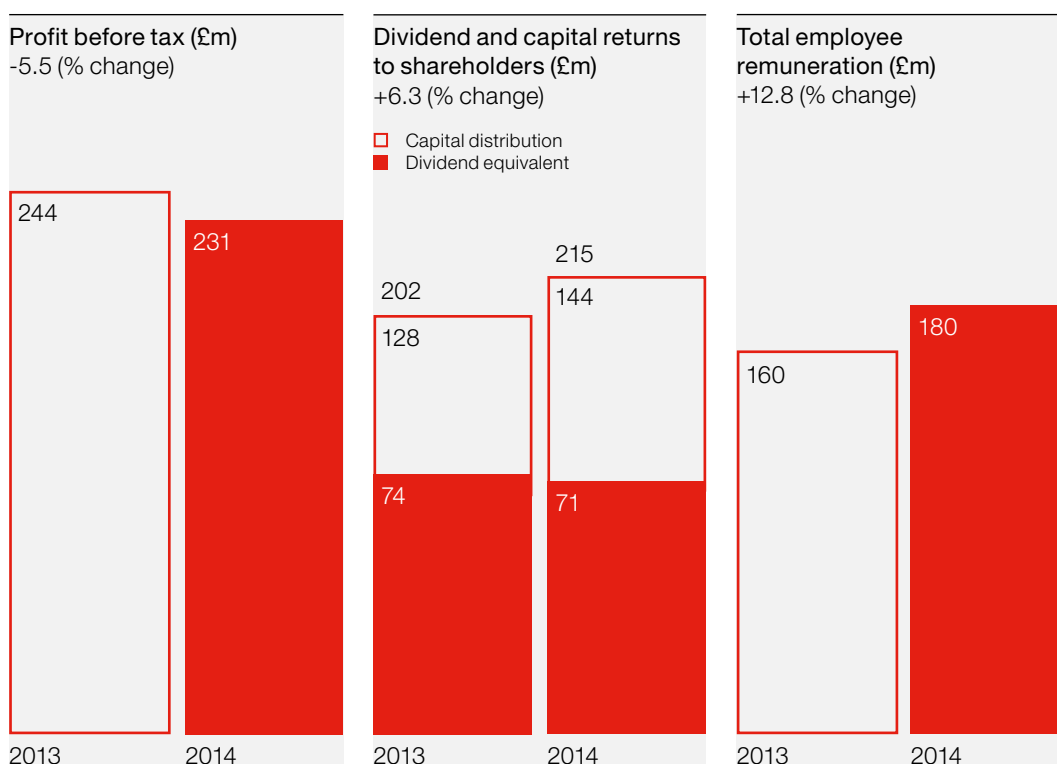
Percentage change in remuneration of Director undertaking the role of Chief Executive

The table below shows the percentage change in base salary, benefits, pension and annual bonus of the Chief Executive between the 2013 and 2014 financial years compared with the average UK-based employee. We have chosen UK-based employees rather than Group-wide employees as the comparator group 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. The change is based on UK employees who were employed and eligible for a salary review and bonus in both financial years.

	% Change 2013 to 2014	
	CEO	Employee
Base salary	5	5
Benefits (including retirement benefits)	4	2
Bonus	(9)	(7)

Relative importance of the spend on pay

The chart below shows the relative movement in profit, shareholder returns and employee remuneration for the current and prior financial year. Shareholder return for the year incorporates the distribution made on behalf of that year. Employee remuneration includes salary, benefits, bonus, long-term incentives and retirement benefits.



Annual report on remuneration 2014

continued

Membership of the Remuneration Committee

The Committee members for 2014 were, C Foulger, R Gillingwater (Chairman), DM Healy, ER Jansen, Dr J King, R McMillan, AS Rosen and G Stokholm.

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. 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 in the development of the Company's incentive arrangements. Total fees for advice provided to the Committee during the year were £23,150. The Committee is satisfied that the advice they have received has been objective and independent. During the year, Deloitte also provided other consulting and tax services.

Statement of shareholder voting

At the last AGM, the Directors' remuneration policy and annual report on remuneration received the following votes from shareholders:

	Remuneration policy	Annual report on remuneration
For	145,421,031	243,722,264
%	57.95	97.13
Against	105,514,775	7,213,562
%	42.05	2.87
Withheld	491,869	491,869
Total votes cast	250,935,806	250,935,826

Directors' report

The Directors have pleasure in submitting their Annual Report and consolidated financial statements for the year ended 31 December 2014.

The Company is a holding company for subsidiaries involved in the business of insurance and reinsurance in Bermuda, the US, the UK, Guernsey, Europe and Asia. The information that fulfils the requirements of the management report as referred to in Disclosure and Transparency Rule 4 can be found on pages 6 to 11 and 27 to 32. The key performance indicators are shown on page 2. Details of the use of financial instruments are set out in note 21 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 6 to 11. 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 1. A description of the principal risks and uncertainties can be found in the risk management section on pages 27 to 32. 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.

Corporate responsibility

Information on environmental, employee and community issues including details of the Company's policies are set out in the corporate responsibility statement on pages 33 to 35. 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 Disclosure and Transparency Rule 7.2 can be found on pages 43 to 46 and in this report.

Diversity

The composition of the Board and the Senior Executive structure are described on pages 14, 15, 40, 41 and 42. The role of a Hiscox Partner is described on page 42. 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 following table.

	Male %	Female %
Hiscox Partners	84.2	15.8
Employees	52.8	47.2

Financial results

The Group achieved a pre-tax profit for the year of £231.1 million (2013: £244.5 million). Detailed results for the year are shown in the consolidated income statement on page 75, and also within the Group financial performance section on pages 22 and 23.

Going concern

A review of the financial performance of the Group is set out on pages 22 and 23. 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 continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements.

Dividends

An interim dividend of 7.5p (net) per ordinary 6p share (2013: 7p, per ordinary 5 55/89p share (net)) was paid on 17 September 2014 in respect of the year ended 31 December 2014. The Directors are recommending the return of capital to shareholders through an issue of E/F Shares and this will be considered at an Extraordinary General Meeting to be held on 25 March 2015. It is proposed that in place of a final dividend a sum equal to 15.0p per ordinary share will be payable to shareholders as part of the return of capital. An amount equivalent to 14.0p per ordinary share was paid in lieu of a final dividend as part of the previous return of capital, the details of which were set out in the circular to shareholders issued on 25 February 2014.

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 24 to the consolidated financial statements. The ordinary shares of 6p 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 2014 Annual General Meeting to purchase in the market up to 10% of the Company's issued ordinary shares. No shares have so far been bought back under this authority.

Directors

The names and details of the individuals who served as Directors of the Company during the year are set out on pages 40 to 41. Details of the Chairman's professional commitments are included in his biography on page 40 and there were no changes during the year. The Bye-laws of the Company govern the appointment and replacement of Directors. Richard Gillingwater and Dr James King will not be submitting themselves for re-appointment at the Annual General Meeting and will retire as Directors with effect from the close of the meeting. In accordance with the UK Corporate Governance Code, all other Directors will submit themselves for re-appointment at the Annual General Meeting.

Separate resolutions for the appointment of Lynn Carter and Anne MacDonald as additional Non Executive Directors will be put to shareholders at the Annual General Meeting. The process surrounding these appointments is described on page 44. Biographical details of the two prospective Non Executive Directors and the reasons why the Board believe they should be 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 (2013: £nil). Information concerning the Group's charitable activities is contained in the report on corporate responsibility on page 35.

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 ¹ of shares	% of issued share capital as at 31 December 2014
Invesco Limited ¹	42,798,000	13.41
Massachusetts Financial Services Company ¹	31,525,696	9.88

¹Per FNS announcement there were 319,228,022 shares in issue (excluding Treasury shares) as at 31 December 2014.

²Adjusted for consolidation on 19 March 2014.

³Indirect holdings.

Any acquisitions or disposals of major shareholdings notified to the Company in accordance with Disclosure and Transparency Rule 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 circumstance (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 2014 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 2015.

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 52)
— Allotment of shares for cash pursuant to employee share schemes	Note 24 to the consolidated financial statements on employee share schemes (page 113)

Annual General Meeting

The notice of the Annual General Meeting, to be held on 20 May 2015, will be contained in a separate circular to be sent to shareholders. This will be despatched following the Extraordinary General Meeting to be held on 25 March 2015. The deadline for submission of proxies is 48 hours before the meeting.

By order of the Board
Jeremy Pinchin, Secretary,
Wessex House, 45 Reid Street
Hamilton HM12, Bermuda
2 March 2015

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.

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 Directors' 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 and the Chief Financial Officer. The statements were approved for issue on 2 March 2015.

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 performance, business model and strategy.



Financial summary

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

We have audited the accompanying consolidated financial statements of Hiscox Ltd ('the Company') on pages 75 to 127 which comprise the consolidated balance sheet as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In addition to our audit of the consolidated financial statements, the Directors have engaged us to audit the information in the annual report on remuneration 2014 that is described as having been audited, which the Directors have decided to prepare (in addition to that required to be prepared) as if the Company were required to comply with the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and, under the terms of our engagement letter, to audit the part of the annual report on remuneration 2014 that is described as having been audited.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and the part of the

annual report on remuneration 2014 to be audited are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the part of the annual report on remuneration 2014 to be audited. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the part of the annual report on remuneration 2014 to be audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements and the part of the annual report on remuneration 2014 to be audited 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the part of the annual report on remuneration 2014 to be audited.

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

We review whether the corporate governance statement reflects the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review by those rules, and we report if it does not. We are not required by the terms of our engagement to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We also read the other information contained in the Report and Accounts and consider whether it is consistent with the audited consolidated financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

Opinion

In our opinion:

— the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2014, and of its consolidated financial

performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
— the part of the annual report on remuneration 2014 which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006 as if those requirements were to apply to the Company.

KPMG Audit Limited
Hamilton, Bermuda
2 March 2015

Consolidated income statement

For the year ended 31 December 2014

	Note	2014 Total £000	2013 Total £000
Income			
Gross premiums written	4	1,756,260	1,699,478
Outward reinsurance premiums		(412,850)	(328,364)
Net premiums written	4	1,343,410	1,371,114
Expenses			
Gross premiums earned		1,674,982	1,598,879
Premiums ceded to reinsurers		(358,723)	(315,568)
Net premiums earned	4	1,316,259	1,283,311
Investment result	7	56,212	59,809
Other revenues	9	19,956	20,905
Revenue		1,392,427	1,364,025
Claims and claim adjustment expenses	26.2	(645,145)	(572,440)
Reinsurance recoveries	26.2	113,477	53,161
Claims and claim adjustment expenses, net of reinsurance	26.2	(531,668)	(519,279)
Expenses for the acquisition of insurance contracts	17	(318,616)	(305,777)
Operational expenses	9	(310,853)	(276,965)
Foreign exchange gains/(losses)	12	4,974	(9,890)
Total expenses		(1,156,163)	(1,111,911)
Results of operating activities		236,264	252,114
Finance costs	10	(6,418)	(7,176)
Share of profit/(loss) from associates after tax	16	1,229	(400)
Profit before tax		231,075	244,538
Tax expense	28	(14,923)	(6,780)
Profit for the year (all attributable to owners of the Company)		216,152	237,758
Earnings per share on profit attributable to owners of the Company			
Basic	31	67.4p	66.3p
Diluted	31	64.5p	63.5p

Consolidated statement of comprehensive income

For the year ended 31 December 2014, after tax

	2014 Total £000	2013 Total £000
Profit for the year	216,152	237,758
Other comprehensive income		
Items never reclassified to profit or loss:		
Remeasurements of the net defined benefit liability	(22,759)	9,775
Income tax relating to components of other comprehensive income	5,470	(2,865)
	(17,289)	6,910
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	34,019	(2,030)
Income tax relating to components of other comprehensive income	–	–
	34,019	(2,030)
Other comprehensive income net of tax	16,730	4,880
Total comprehensive income for the year (all attributable to owners of the Company)	232,882	242,638

The notes on pages 79 to 127 are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2014

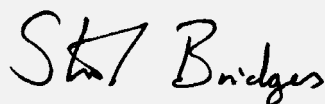
	Note	2014 £000	2013 £000
Assets			
Intangible assets	14	105,946	72,720
Property, plant and equipment	15	29,497	20,219
Investments in associates	16	10,670	7,754
Deferred tax	29	33,490	32,123
Deferred acquisition costs	17	230,373	197,628
Financial assets carried at fair value	19	2,828,847	2,585,054
Reinsurance assets	18, 26	525,345	458,822
Loans and receivables including insurance receivables	20	556,259	493,419
Current tax asset		8,031	3,530
Cash and cash equivalents	23	650,651	564,375
Total assets		4,979,109	4,435,644
Equity and liabilities			
Shareholders' equity			
Share capital	24	19,913	20,854
Share premium	24	10,417	4,953
Contributed surplus	24	89,864	89,864
Currency translation reserve	25	56,700	22,681
Retained earnings	25	1,276,446	1,271,109
Total equity (all attributable to owners of the Company)		1,453,340	1,409,461
Non-controlling interest	33	866	–
Total equity		1,454,206	1,409,461
Employee retirement benefit obligations			
Employee retirement benefit obligations	30	32,166	4,366
Deferred tax	29	26,390	75,946
Insurance liabilities	26	2,835,199	2,609,121
Financial liabilities	19	7,109	229
Current tax		32,379	32,383
Trade and other payables	27	591,660	304,138
Total liabilities		3,524,903	3,026,183
Total equity and liabilities		4,979,109	4,435,644

The notes on pages 79 to 127 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 2 March 2015 and signed on its behalf by:



RS Childs
Chairman



SJ Bridges
Chief Financial Officer

Consolidated statement of changes in equity

	Note	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Total equity attributable to owners of the Company £000	Non-controlling interest £000	Total £000
Balance at 1 January 2013		20,703	41,313	245,005	24,711	1,033,634	1,365,366	–	1,365,366
Profit for the year (all attributable to owners of the Company)		–	–	–	–	237,758	237,758	–	237,758
Other comprehensive income/ (expense) net of tax (all attributable to owners of the Company)		–	–	–	(2,030)	6,910	4,880	–	4,880
Employee share options:									
Equity settled share-based payments		–	–	–	–	12,523	12,523	–	12,523
Proceeds from shares issued	24	133	3,990	–	–	–	4,123	–	4,123
Deferred and current tax on employee share options	29	–	–	–	–	5,030	5,030	–	5,030
B Share Scheme:									
Return of capital, special distribution		–	(42,453)	(107,718)	–	–	(150,171)	–	(150,171)
Final dividend equivalent		–	–	(47,423)	–	–	(47,423)	–	(47,423)
Shares issued in relation to Scrip Dividend	24, 32	18	2,103	–	–	–	2,121	–	2,121
Dividends paid to owners of the Company	32	–	–	–	–	(24,746)	(24,746)	–	(24,746)
Balance at 31 December 2013		20,854	4,953	89,864	22,681	1,271,109	1,409,461	–	1,409,461
Profit for the year (all attributable to owners of the Company)		–	–	–	–	216,152	216,152	–	216,152
Other comprehensive income/ (expense) net of tax (all attributable to owners of the Company)		–	–	–	34,019	(17,289)	16,730	–	16,730
Employee share options:									
Equity settled share-based payments		–	–	–	–	14,439	14,439	–	14,439
Proceeds from shares issued	24	74	2,669	–	–	–	2,743	–	2,743
Deferred and current tax on employee share options	29	–	–	–	–	1,874	1,874	–	1,874
C/D Share Scheme:									
Return of capital, special distribution	32	–	(35)	–	–	(126,049)	(126,084)	–	(126,084)
Final dividend equivalent	32	–	–	–	–	(49,728)	(49,728)	–	(49,728)
Share consolidation and sub-division		(1,032)	1,032	–	–	–	–	–	–
Shares purchased by Trust		–	–	–	–	(10,593)	(10,593)	–	(10,593)
Acquisition of DirectAsia	33	–	–	–	–	–	–	866	866
Shares issued in relation to Scrip Dividend	24, 32	17	1,798	–	–	–	1,815	–	1,815
Dividends paid to owners of the Company	32	–	–	–	–	(23,469)	(23,469)	–	(23,469)
Balance at 31 December 2014		19,913	10,417	89,864	56,700	1,276,446	1,453,340	866	1,454,206

The notes on pages 79 to 127 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2014

	Note	2014 £000	2013 £000
Profit before tax		231,075	244,538
Adjustments for:			
Interest and equity dividend income		(45,146)	(42,571)
Interest expense		6,418	7,176
Net fair value gains on financial assets		(12,121)	(14,847)
Depreciation, amortisation and impairment	14, 15	12,857	9,650
Charges in respect of share-based payments	9, 24	14,439	12,523
Profit from sale of subsidiaries		–	(1,536)
Other non-cash movements		(497)	925
Effect of exchange rate fluctuations on cash presented separately		6,740	491
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		174,158	70,576
Financial assets carried at fair value		(171,076)	(170,817)
Financial liabilities carried at fair value		6,880	(72)
Other assets and liabilities		(27,943)	(527)
Cash flows from operations		195,784	115,509
Cash paid to the defined benefit pension scheme		(200)	(1,800)
Interest received		43,292	41,494
Equity dividends received		1,702	789
Interest paid		(5,990)	(5,229)
Current tax paid		(62,563)	(39,712)
Cash flows from subscriptions received in advance		169,928	4,848
Net cash flows from operating activities		341,953	115,899
Cash flows from the acquisition and sale of subsidiaries		(2,627)	20,940
Cash flows from the sale and purchase of associates	16	(1,687)	600
Cash flows from the purchase of property, plant and equipment		(11,727)	(4,545)
Cash flows from the purchase of intangible assets		(27,580)	(9,594)
Net cash flows from investing activities		(43,621)	7,401
Proceeds from the issue of ordinary shares	24	2,743	4,123
Shares repurchased	24	(10,593)	–
Distributions made to owners of the Company	24, 32	(197,466)	(220,219)
Net cash flows from financing activities		(205,316)	(216,096)
Net increase/(decrease) in cash and cash equivalents		93,016	(92,796)
Cash and cash equivalents at 1 January		564,375	657,662
Net increase/(decrease) in cash and cash equivalents		93,016	(92,796)
Effect of exchange rate fluctuations on cash and cash equivalents		(6,740)	(491)
Cash and cash equivalents at 31 December	23	650,651	564,375

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 totaling £142,617,000 (2013: £113,312,000) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held. Additionally, cash and cash equivalents includes £169,928,000 (2013: £4,848,000) for subscriptions received in advance by the Kiskadee Diversified and Select Funds that remain uninvested at 31 December 2014.

The notes on pages 79 to 127 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 1,800 staff.

The Company is registered and domiciled in Bermuda and on 12 December 2006 its ordinary shares were listed on the London Stock Exchange. As such it is required to prepare its annual audited financial information in accordance with Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority (FCA), in addition to the Bermuda Companies Act 1981. The first two pronouncements issued by the FCA require the Group to prepare financial statements which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes 1 to 38 in accordance with a recognised set of Generally Accepted Accounting Principles (GAAP).

The consolidated financial statements for the year ended 31 December 2014 include all of the Group's subsidiary companies and the Group's interest in associates. All amounts relate to continuing operations.

The financial statements were approved for issue by the Board of Directors on 2 March 2015.

2 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 at note 2.22.

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

and in accordance with the provisions of the Bermuda Companies Act 1981.

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

The Group currently applies IFRS 4 Insurance Contracts which specifies the financial reporting for insurance contracts by an insurer. The standard was issued by the IASB as the first phase in their project to develop a comprehensive standard for insurance contracts. Accordingly, to the extent that IFRS 4 does not specify the recognition or measurement of insurance contracts, transactions reported in these consolidated financial statements have been prepared in accordance with another comprehensive body of accounting principles for insurance contracts, namely accounting principles generally accepted in the UK.

In June 2013, the IASB issued their second exposure draft for Phase II of the insurance contracts project. The exposure draft in its current form will require a number of significant changes to the measurement of insurance contracts and as such adoption of a final standard in a form similar to the exposure draft will likely have a significant impact on the results of the Group. In addition, the IASB has stated they will allow approximately three full years from the date of any final standard to actual implementation, therefore 2019 is likely to be the earliest date for the adoption of a new standard.

The Group continues to monitor the progress of the project.

2.2 Basis of preparation

The financial statements are presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated. They are compiled on a going concern basis and prepared on the historical cost basis except that pension scheme assets included in the measurement of the employee retirement benefit obligation, and certain financial instruments including derivative instruments, are measured at fair value. Employee retirement benefit obligations are determined using actuarial analysis. The balance sheet of the Group is presented in order of increasing liquidity.

The accounting policies have been applied consistently by all Group entities, to all

periods presented, solely for the purpose of producing the consolidated Group financial statements.

The Group has financial assets and cash of over £3.2 billion, excluding the assets held by the Kiskadee Diversified and Select Funds. The portfolio is predominantly invested in liquid short-dated bonds and cash to ensure significant liquidity to the Group and to reduce risk from the financial markets. In addition the Group has significant borrowing facilities in place.

The Group writes a balanced book of insurance and reinsurance business spread by product and geography. The Directors believe that the Group is well placed to manage its business risk and continue to trade successfully.

As explained in note 4, during 2013 the Group restructured its reinsurance business written by the London, Bermuda and Paris teams and combined them into one operating unit, Hiscox Re. In addition we introduced a single management structure for UK and Europe and brought all retail business under one umbrella. From January 2014 the Group commenced reporting and monitoring its performance along these new reporting lines. The results of 2013 have been restated in the appropriate notes to the consolidated financial statements.

A review of the financial performance of the Group is set out on pages 22 to 23. The financial position of the Group, its cash flows and borrowing facilities are included therein. In addition, note 3 to the financial statements provides a detailed discussion on the insurance and financial risks which are inherent to the Group's business and how those risks are managed.

The Directors have an expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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

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 2014, and have been applied in preparing these consolidated financial statements.

Changes in accounting policies

IFRS 7: Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) The amendments clarify that the rights of set-off must not only be legally enforceable

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

2.2 Basis of preparation continued

Changes in accounting policies continued

in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. The amendment has no material impact on the financial statements.

IFRIC 21: *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The adoption of the interpretation has not had a material impact on the financial statements.

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015 and have not been applied in preparing these financial statements.

The Group is in the process of analysing the impact of these standards on its consolidated financial statements.

- IFRS 9: Financial Instruments
- IFRS 9: Amendment: Financial Instruments, regarding general hedge accounting
- IFRS 15: Revenue from contracts with customers
- IAS 16: Amendment: Property, plant and equipment, regarding depreciation and amortisation
- IAS 19: Amendment: Employee benefits, regarding defined benefit plans
- IAS 27: Amendment: Separate financial statement, regarding the equity method
- IAS 38: Amendment: Intangible assets, regarding depreciation and amortisation
- Annual Improvements to IFRSs 2010 – 2012 cycle
- Annual Improvements to IFRSs 2011 – 2013 cycle

2.3 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.

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 2014, HDCM owned 72.5% of Syndicate 33 (2013: 72.5%). 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.

Kiskadee Diversified Fund and Kiskadee Select Fund ('Kiskadee Funds') provide investment opportunities in property catastrophe reinsurance and insurance-linked strategies. All of the Kiskadee Funds exposures to reinsurance risk are obtained through investments in two Special Purpose Insurers ('SPI'), Kiskadee Reinsurance 1 Ltd and Kiskadee Reinsurance 2 Ltd. The Group has determined in accordance with IFRS 10 that control exists and as a result the financial statements of the Kiskadee Funds as well as the two SPIs have been included in the consolidated financial statements of the Group. The third-party investment in the Funds is recognised as a financial liability in accordance with IAS 32.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. At the date of acquisition, the Group recognises the identifiable assets acquired and liabilities assumed as part of the overall business combination transaction at their acquisition date fair value. Recognition of these items is subject

to the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements. The Group may also recognise intangible items not previously recognised by the acquired entity such as customer relationships.

(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.

2.4 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'). The functional currency of all individual entities in the Group is deemed to be Sterling with the exception of the entities operating in France, Germany, the Netherlands, Spain, Portugal, Ireland and Belgium whose functional currency is

2 Significant accounting policies continued

2.4 Foreign currency translation continued

(a) Functional currency continued

Euros, those subsidiary entities operating from the US and Bermuda whose functional currency is US Dollars, Hiscox Insurance Company (Guernsey) Limited and Syndicate 3624 whose functional currency is also US Dollars. Functional currencies of entities operating in Asia include US Dollars, Hong Kong Dollars, Singapore Dollars and Thai Baht.

(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 foreign entity's assets and liabilities and are translated at the closing rate.

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.

2.5 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 and artwork assets are not depreciated as they are deemed to have indefinite useful economic lives. 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 or revalued amounts, less their residual values, over their estimated useful lives. The rates applied are as follows:

— buildings	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.

2.6 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 this date, 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.

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. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) 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.

(c) US state authorisation licences

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.

(d) Rights to customer contractual relationships

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 20 years and are carried at cost less accumulated amortisation and impairment losses.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued 2.6 Intangible assets continued

(e) Computer software

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.

2.7 Financial assets including loans and receivables

The Group has classified 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 investments at initial recognition. The decision by the Group to designate all financial investments, comprising 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. Regular way purchases and sales of investments are accounted for at the date of trade. Financial assets are initially recognised at fair value. Subsequent to initial recognition financial assets 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.

Fair value for securities quoted in active markets is the bid price exclusive of transaction costs. For instruments where no

active market exists, fair value is determined by referring to recent transactions and other valuation factors including the discounted value of expected future cash flows. Fair value changes are recognised immediately within the investment result line in the income statement. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 22.

(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 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.

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.

(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.

(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 so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately. Impairment losses recognised in respect of goodwill are not subsequently reversed.

2.10 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 their 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

2 Significant accounting policies continued

2.10 Derivative financial instruments continued

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).

2.11 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.

2.12 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 inclusive of fair value movements on derivative instruments not formally designated for hedge accounting treatment. 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.

2.13 Insurance contracts

(a) Classification

The Group issues short-term casualty and property insurance contracts that transfer significant insurance risk. Such contracts may also transfer a limited level of 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 estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, and an estimate of the expected ultimate cost of more complex claims that may be affected by external factors e.g. court decisions.

(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 segment of the Group 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 immediately 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.

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) 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 profit or loss.

(g) 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.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

2.14 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.

2.15 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.

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, together with adjustments for unrecognised actuarial gains or losses. Plan assets exclude any 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 profit or loss 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 both

the approved and unapproved 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 (e.g. 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.

It 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.

2 Significant accounting policies continued

2.15 Employee benefits continued

(f) Accumulating compensation benefits

The Group recognises a liability and an expense for accumulating compensation benefits (e.g. 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.

2.16 Financial liabilities

All borrowings drawn are measured at amortised cost at each balance sheet date using the effective interest method. Any difference between the remeasured amortised cost carrying amount and the ultimate redemption amount is recognised in the income statement over the period of the borrowings.

The third-party investment in the Kiskadee Funds is measured at fair value.

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.

2.18 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

The Group is subject to various insurance-related assessments and guarantee fund levies. 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 critical 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 2014 is £1,143 million (2013: £1,024 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 26.

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 2014, official UK interest rates are replicated with lower yields emerging in UK corporate bond indices, a significant uplift has occurred in the reported net scheme deficit through the reduced effect of discounting outweighing any expected appreciation in asset values, as described along with a sensitivity analysis in note 30.

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. 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.

Notes to the consolidated financial statements

continued

2 Significant accounting policies continued

2.23 Reporting of additional performance measures

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

3 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 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, and ongoing compliance therewith, partially through its own enquiries but primarily 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, both of 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. 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 for accepting and managing underwriting risk, seeking to exploit identified opportunities in the light of other relevant anticipated market conditions. 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. Monthly 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'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 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 bad underwriting year.

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 17, are extreme hypothetical events selected to represent major events occurring in areas with large insured values.

3 Management of risk continued

3.1 Insurance risk continued

i) Underwriting risk continued

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 as yet untested, 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 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.

Below is a summary of the gross and net insurance liabilities for each category, split by region of risk.

Estimated concentration of gross and net insurance liabilities on balance sheet by territory coverage of premium written 31 December 2014		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
UK and Ireland	Gross	1,062	19,258	138,727	361,541	5,030	19,808	545,426
	Net	597	12,984	117,505	347,246	4,911	13,459	496,702
Europe	Gross	6,847	3,437	86,757	145,288	24,905	26,059	293,293
	Net	4,257	2,931	74,997	144,173	23,724	24,169	274,251
United States	Gross	140,396	83,686	159,758	322,116	75,562	28,031	809,549
	Net	75,508	34,341	85,594	309,998	68,715	24,120	598,276
Other territories	Gross	88,526	33,361	52,401	22,519	19,310	108,143	324,260
	Net	70,028	26,600	37,373	22,491	15,490	86,725	258,707
Multiple territory coverage	Gross	278,842	219,939	94,604	41,639	141,497	86,150	862,671
	Net	218,032	177,820	61,043	41,089	120,861	63,073	681,918
Total	Gross	515,673	359,681	532,247	893,103	266,304	268,191	2,835,199
	Net	368,422	254,676	376,512	864,997	233,701	211,546	2,309,854

Estimated concentration of gross and net insurance liabilities on balance sheet by territory coverage of premium written 31 December 2013		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
UK and Ireland	Gross	1,679	13,223	154,126	343,210	6,460	22,413	541,111
	Net	1,235	7,516	114,104	338,088	6,408	15,186	482,537
Europe	Gross	3,638	14,200	62,036	142,713	16,141	36,270	274,998
	Net	2,138	10,753	60,749	141,142	14,021	28,692	257,495
United States	Gross	165,428	84,443	139,710	290,165	45,374	36,434	761,554
	Net	101,493	40,009	87,314	276,044	38,460	32,383	575,703
Other territories	Gross	88,241	22,282	34,703	48,728	8,760	77,531	280,245
	Net	78,758	17,751	31,156	48,227	8,666	53,167	237,725
Multiple territory coverage	Gross	315,511	191,673	63,849	1,169	110,563	68,448	751,213
	Net	239,631	154,024	55,929	1,111	89,441	56,703	596,839
Total	Gross	574,497	325,821	454,424	825,985	187,298	241,096	2,609,121
	Net	423,255	230,053	349,252	804,612	156,996	186,131	2,150,299

*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 these net 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.

Notes to the consolidated financial statements

continued

3 Management of risk continued

3.1 Insurance risk continued

i) Underwriting risk continued

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.

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 etc.) 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. However the Group's specific exposure to this specific risk category is relatively limited. 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.

3 Management of risk continued

3.1 Insurance risk continued

ij) 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 26.

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 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 entity 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 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 fund, 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 2014, 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 22 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 2014 was £253 million (2013: £223 million). These may be analysed as follows:

Nature of equity and unit trust holdings

	2014 % weighting	2013 % weighting
Directly held equity securities	4	4
Units held in funds – traditional long only	64	62
Units held in funds – long and short and special strategies	32	34
Geographic focus		
Specific UK mandates	47	42
Global mandates	53	58

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. A 10% downward correction in equity prices at 31 December 2014 would have been expected to reduce Group equity and profit after tax for the year by approximately £22.6 million (2013: £19.9 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

Notes to the consolidated financial statements

continued

3 Management of risk continued

3.2 Financial risk continued

(c) Interest rate risk continued

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.

The Group may also, from time-to-time, enter into interest rate future contracts in order to minimise the interest rate risk on specific longer duration portfolios. The fair value of debt and fixed income assets in the Group's balance sheet at 31 December 2014 was £2,526 million (2013: £2,336 million). These may be analysed below as follows:

Nature of debt and fixed income holdings	2014 % weighting	2013 % weighting
Government issued bonds and instruments	30	41
Agency and government supported debt	12	9
Asset-backed securities	9	10
Mortgage-backed instruments – agency	4	5
Mortgage-backed instruments – non-agency	2	3
Mortgage-backed instruments – commercial	6	3
Corporate bonds	34	26
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 £36 million (2013: £31 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 19.

At 31 December 2014, no amounts were outstanding on the Group's borrowing facility (2013: £nil). 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 34.

(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. 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 Reinsurance Security 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. The financial analysis of reinsurers produces an assessment categorised by Standard & Poor's (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 continued

3.2 Financial risk continued

(d) Credit risk continued

The Group also mitigates counterparty credit risk by concentrating debt and fixed income investments in highly liquid instruments, including a particular emphasis on government bonds issued mainly by North American countries and the European Union. The Group has a £9.2 million exposure to sovereign debt in Spain and Italy.

An analysis of the Group's major exposures to counterparty credit risk excluding loans and receivables, based on Standard & Poor's or equivalent rating, is presented below:

As at 31 December 2014	Note	AAA £000	AA £000	A £000	Other/ non-rated £000	Total £000
Debt and fixed income securities	19	726,822	999,298	508,734	291,325	2,526,179
Deposits with credit institutions	19	–	3,482	19,296	3,607	26,385
Reinsurance assets	18	53,960	182,558	262,520	26,307	525,345
Cash and cash equivalents	23	64,260	5,050	577,834	3,507	650,651
Total		845,042	1,190,388	1,368,384	324,746	3,728,560
Amounts attributable to largest single counterparty		164,004	335,676	256,758	12,475	

As at 31 December 2013	Note	AAA £000	AA £000	A £000	Other/ non-rated £000	Total £000
Debt and fixed income securities	19	654,602	1,143,308	310,642	227,277	2,335,829
Deposits with credit institutions	19	–	4,292	1,802	146	6,240
Reinsurance assets	18	12,020	149,759	269,353	27,690	458,822
Cash and cash equivalents	23	132,415	86,436	344,868	656	564,375
Total		799,037	1,383,795	926,665	255,769	3,365,266
Amounts attributable to largest single counterparty		115,430	517,997	110,198	7,050	

The largest counterparty exposure within the AAA rating at 31 December 2014 and 2013 is the German Government. For the AA rating it is with the US Treasury at both 31 December 2014 and 2013. A significant proportion of other/non-rated assets are rated BBB and BB at both 31 December 2014 and 2013.

At 31 December 2014 and 2013 the Group held no material debt or fixed income assets that were past due or impaired beyond their reported fair values, either for the current period under review or on a cumulative basis. For the current period and prior period, the Group did not experience any material defaults on debt securities.

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 Group's AAA rated reinsurance assets include fully collateralised positions at 31 December 2014 and 2013.

Notes to the consolidated financial statements

continued

3 Management of risk continued

3.2 Financial risk continued

(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.

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	2014 Total £000	2013 Total £000
Less than one year	465,868	25,507	650,651	1,142,026	1,129,902
Between one and two years	529,526	–	–	529,526	517,064
Between two and five years	1,052,013	878	–	1,052,891	846,583
Over five years	421,616	–	–	421,616	332,822
Sub-total	2,469,023	26,585	650,651	3,146,059	2,826,371
Lloyd's deposits	57,156	–	–	57,156	80,073
Total	2,526,179	26,385	650,651	3,203,215	2,906,444

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 monthly or more frequently as required.

Average contractual maturity analysed by denominational currency of investments as at 31 December

	2014 Years	2013 Years
Pound Sterling	2.76	2.35
US Dollar	6.43	5.86
Euro	2.33	2.25
Canadian Dollar	1.86	1.79

3 Management of risk continued

3.2 Financial risk continued

(e) Liquidity risk continued

The following is an analysis by liability type of the estimated timing of net cash flows based on the net 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 net 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	2014 Total £000
Reinsurance inwards	143,946	71,902	71,750	24,377	311,975
Property – marine and major assets	79,272	46,400	50,942	17,770	194,384
Property – other assets	86,444	56,704	18,449	4,924	166,521
Casualty – professional indemnity	165,465	173,795	220,867	92,612	652,739
Casualty – other risks	43,700	35,999	64,639	31,183	175,521
Other*	47,906	16,078	19,214	15,207	98,405
Total	566,733	400,878	445,861	186,073	1,599,545

Liquidity requirements to settle estimated profile of net 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	2013 Total £000
Reinsurance inwards	166,697	84,103	82,144	20,486	353,430
Property – marine and major assets	58,849	33,052	40,302	13,657	145,860
Property – other assets	90,546	43,530	18,577	2,686	155,339
Casualty – professional indemnity	138,587	107,378	308,010	45,128	599,103
Casualty – other risks	33,359	26,731	55,147	16,999	132,236
Other*	51,992	19,133	25,150	10,873	107,148
Total	540,030	313,927	529,330	109,829	1,493,116

*Includes a diverse mix of certain specialty lines such as kidnap and ransom, terrorism, bloodstock 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 21 and 27.

(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:

- 1) Structural foreign exchange risk through consolidation of net investments in subsidiaries with different functional currencies within the Group results; and
- 2) 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.

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 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 13).

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 21. All foreign currency derivative transactions with external parties are managed centrally. Included in the tables on pages 94 and 95 are net non-monetary liabilities of £197 million (2013: £196 million) which are denominated in foreign currencies.

Notes to the consolidated financial statements

continued

3 Management of risk continued

3.2 Financial risk continued

(f) Currency risk continued

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. Further details of the impact of the accounting treatment are provided in note 12.

The currency profile of the Group's assets and liabilities is as follows:

As at 31 December 2014	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	95,542	7,259	–	3,145	105,946
Property, plant and equipment	23,145	4,456	886	1,010	29,497
Investments in associates	10,125	–	545	–	10,670
Deferred tax	–	32,250	1,240	–	33,490
Deferred acquisition costs	62,792	132,742	29,467	5,372	230,373
Financial assets carried at fair value	653,160	1,846,260	295,219	34,208	2,828,847
Reinsurance assets	55,790	406,073	40,534	22,948	525,345
Loans and receivables including insurance receivables	179,638	311,111	40,802	24,708	556,259
Current tax asset	–	–	7,981	50	8,031
Cash and cash equivalents	130,829	355,229	87,500	77,093	650,651
Total assets	1,211,021	3,095,380	504,174	168,534	4,979,109
	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Employee retirement benefit obligations	32,166	–	–	–	32,166
Deferred tax	26,390	–	–	–	26,390
Insurance liabilities	675,086	1,695,425	356,092	108,596	2,835,199
Financial liabilities	–	7,033	–	76	7,109
Current tax	31,455	–	924	–	32,379
Trade and other payables	143,528	409,741	14,342	24,049	591,660
Total liabilities	908,625	2,112,199	317,358	132,721	3,524,903

3 Management of risk continued

3.2 Financial risk continued

(f) Currency risk continued

As at 31 December 2013	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	66,412	6,308	–	–	72,720
Property, plant and equipment	15,198	4,023	998	–	20,219
Investments in associates	7,648	–	106	–	7,754
Deferred tax	–	30,526	1,597	–	32,123
Deferred acquisition costs	59,263	106,386	27,168	4,811	197,628
Financial assets carried at fair value	633,631	1,638,455	273,732	39,236	2,585,054
Reinsurance assets	58,885	348,888	39,149	11,900	458,822
Loans and receivables including insurance receivables	157,583	256,103	57,427	22,306	493,419
Current tax asset	–	–	3,530	–	3,530
Cash and cash equivalents	162,746	250,121	103,539	47,969	564,375
Total assets	1,161,366	2,640,810	507,246	126,222	4,435,644

	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Employee retirement benefit obligations	4,366	–	–	–	4,366
Deferred tax	75,946	–	–	–	75,946
Insurance liabilities	670,049	1,499,514	345,130	94,428	2,609,121
Financial liabilities	–	229	–	–	229
Current tax	32,332	–	51	–	32,383
Trade and other payables	115,136	159,734	23,542	5,726	304,138
Total liabilities	897,829	1,659,477	368,723	100,154	3,026,183

Sensitivity analysis

As at 31 December 2014, the Group used closing rates of exchange of £1:€1.28 and £1:\$1.56 (2013: £1:€1.20 and £1:\$1.65). 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 2014	Effect on equity after tax £m	Effect on profit before tax £m
Strengthening of US Dollar	112.1	41.7
Weakening of US Dollar	(91.4)	(33.8)
Strengthening of Euro	15.7	16.3
Weakening of Euro	(12.8)	(13.2)

Notes to the consolidated financial statements

continued

3 Management of risk continued

3.2 Financial risk continued

(g) Limitations of sensitivity analysis

The sensitivity information given in notes (a) to (f) above 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 at note 30 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.

3.3 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; and
- to maintain financial strength ratings of A in each of its insurance entities.

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 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.

There were no changes in the Group's approach to capital risk management during the current or prior year under review.

Gearing

The Group currently utilises short- to medium-term 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 \$875 million may be drawn as cash (under a revolving credit facility), Letter of Credit or a combination thereof, providing that the cash portion does not exceed \$400 million. This facility was re-secured during 2014 by the Company's subsidiary Hiscox plc. The Letter of Credit availability period ends on 31 December 2015. This enables the Group to utilise the Letter of Credit as Funds at Lloyd's to support underwriting on the 2014, 2015 and 2016 years of account. The revolving credit facility has a maximum three-year contractual period for repayment. At 31 December 2014 US\$441.5 million was drawn by way of Letter of Credit to support the Funds at Lloyd's requirement and there were no cash drawings (2013: \$333 million and

£nil million respectively) to support general trading activities;

- external Names – 27.5% 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 £72 million for the 2014 year of account (2013 year of account: £66 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.

The funds raised through Letters of Credit and loan facilities have been applied to support both the 2014 year of account for Syndicates 33 and 3624 and the capital requirements of Hiscox Insurance Company (Bermuda) Limited.

Financial strength

The financial strength ratings of the Group's significant insurance company subsidiaries are outlined below:

	A.M. Best	Fitch	Standard & Poor's
Hiscox Insurance Company Limited	A (Excellent)	A+	A (Strong)
Hiscox Insurance Company (Bermuda) Limited	A (Excellent)	A+	–
Hiscox Insurance Company (Guernsey) Limited	A (Excellent)	A+	–
Hiscox Insurance Company Inc.	A (Excellent)	–	–

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 Standard & Poor's 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 maintains its cost of capital levels and its debt to overall equity ratios in line with others in the non-life insurance industry.

3 Management of risk continued

3.3 Capital risk management continued

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 and Hiscox Insurance Company Inc. 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.

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 to meet these requirements.

The current capital regime in the UK requires insurance companies to calculate their own capital requirements through Individual Capital Assessments (ICA). Hiscox Insurance Company Limited and Hiscox's Lloyd's operations maintain models in accordance with this regime. Hiscox's Lloyd's operations now use the internal model that has been built to meet the requirements of the forthcoming Solvency II regime to carry out the ICA as part of Lloyd's transition towards Solvency II. The models are concentrated specifically on the particular product lines, market conditions and risk appetite of each entity. The Group uses its own integrated modeling expertise to produce the ICA calculations. The results mirror those driving the existing internal capital setting process.

For Syndicate 33 and Syndicate 3624, the ICA process produces a result that is uplifted by Lloyd's to identify the capital required to hold the A rating. The strong control and risk management environment, together with the sophistication of the modeling, have produced a capital ratio below that suggested under the previous risk-based capital regime. Another key area of capital modeling for Hiscox is to identify which insurance vehicle produces the best return on capital employed for the Group, given certain restraints from licences, reinsurance and the regulatory environment. This modeling takes into account transactional costs and tax, in addition to the necessary capital ratios. It proves the capital efficiency of Lloyd's, despite a tax disadvantage against offshore entities, and the cost advantage of processing smaller premium business outside of Lloyd's. In addition to the ICA modeling process,

the EU Insurance Groups Directive of 1998, as amended by the Financial Groups Directive (FGD), compels insurance companies that are members of a group to consider the solvency margin of their ultimate parent company. This consideration must refer to the surplus assets of the ultimate parent's related insurers, reinsurers, intermediate holding companies and other regulated entities.

The FGD has been applied in the UK through the Integrated Prudential Sourcebook for Insurers (INSPRU) and General Prudential Sourcebook (GENPRU). In accordance with these provisions, the parent company's solvency margin consideration became a minimum capital requirement for the Group from 31 December 2006 onwards. The Group complied with the requirement for the current and prior year.

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.

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. During 2013 the Group restructured its reinsurance business written by the London, Bermuda and Paris teams and combined them into one operating unit, Hiscox Re. In addition we introduced a single management structure for UK and Europe and brought all retail business under one umbrella. From January 2014 the Group commenced reporting and monitoring its performance along these new reporting lines.

The changes from the 2013 structure comprised:

- separating the London Market business unit into insurance and reinsurance lines, forming the London Market Insurance division and combining the reinsurance business with Hiscox Bermuda to make Hiscox Re;
- bringing together Hiscox UK and Europe with Hiscox Guernsey, Hiscox US and the newly acquired DirectAsia business to form Hiscox Retail;
- the Corporate Centre division has remained unchanged.

As a consequence of the change in reportable segments, the corresponding operating results and combined ratios for earlier periods presented have been restated on a comparable basis. There is no impact to the overall profit before tax or the net asset value of the Group for prior periods.

The Group's four revised primary business segments are identified as follows:

- **Hiscox Retail** brings together the results of the UK and Europe, and Hiscox International being the US, Guernsey 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. 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.
- **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. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage, auto extended warranty and aviation business.
- **Hiscox Re** 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 also included. The segment also captures the performance of Kiskadee, the Hiscox Group's Insurance Linked Securities business.
- **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 13. Corporate Centre forms a reportable segment due to its investment activities which earn significant external returns.

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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 2014					Year to 31 December 2013 restated				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000
Gross premiums written	891,115	510,825	354,320	–	1,756,260	819,388	468,587	411,503	–	1,699,478
Net premiums written	825,878	336,895	180,637	–	1,343,410	751,144	359,941	260,029	–	1,371,114
Net premiums earned	790,721	332,497	193,041	–	1,316,259	711,081	303,251	268,979	–	1,283,311
Investment result	25,934	8,719	9,348	12,211	56,212	19,134	6,262	14,381	20,032	59,809
Other revenues	6,643	6,283	6,777	253	19,956	7,841	6,426	5,485	1,153	20,905
Revenue	823,298	347,499	209,166	12,464	1,392,427	738,056	315,939	288,845	21,185	1,364,025
Claims and claim adjustment expenses, net of reinsurance	(325,806)	(159,864)	(45,998)	–	(531,668)	(299,781)	(136,788)	(82,710)	–	(519,279)
Expenses for the acquisition of insurance contracts	(205,748)	(93,569)	(19,299)	–	(318,616)	(188,414)	(86,108)	(31,255)	–	(305,777)
Operational expenses	(209,213)	(40,597)	(39,623)	(21,420)	(310,853)	(184,348)	(27,981)	(41,027)	(23,609)	(276,965)
Foreign exchange gains/(losses)	(5,121)	9,044	2,682	(1,631)	4,974	(3,911)	(1,873)	(3,308)	(798)	(9,890)
Total expenses	(745,888)	(284,986)	(102,238)	(23,051)	(1,156,163)	(676,454)	(252,750)	(158,300)	(24,407)	(1,111,911)
Results of operating activities	77,410	62,513	106,928	(10,587)	236,264	61,602	63,189	130,545	(3,222)	252,114
Finance costs	–	(46)	(1,365)	(5,007)	(6,418)	–	(45)	(1,563)	(5,568)	(7,176)
Share of profit/(loss) of associates after tax	655	182	–	392	1,229	(423)	–	–	23	(400)
Profit before tax	78,065	62,649	105,563	(15,202)	231,075	61,179	63,144	128,982	(8,767)	244,538

4 Operating segments continued
(a) Profit before tax by segment continued

The following charges are included within the consolidated income statement:

	Year to 31 December 2014					Year to 31 December 2013 restated				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000
Depreciation	2,098	472	208	96	2,874	1,917	444	205	85	2,651
Amortisation of intangible assets	6,892	2,522	504	65	9,983	4,232	1,820	818	64	6,934

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.

100% ratio analysis	Year to 31 December 2014					Year to 31 December 2013 restated				
	Hiscox Retail	Hiscox London Market	Hiscox Re	Corporate Centre	Total	Hiscox Retail	Hiscox London Market	Hiscox Re	Corporate Centre	Total
Claims ratio (%)	40.9	47.4	22.0	–	39.8	41.6	43.5	30.9	–	39.8
Expense ratio (%)	52.0	39.8	29.6	–	44.9	52.1	36.8	26.4	–	42.3
Combined ratio excluding foreign exchange impact (%)	92.9	87.2	51.6	–	84.7	93.7	80.3	57.3	–	82.1
Foreign exchange impact (%)	0.6	(3.0)	(1.8)	–	(0.8)	0.6	1.1	1.6	–	0.9
Combined ratio (%)	93.5	84.2	49.8	–	83.9	94.3	81.4	58.9	–	83.0
Combined ratio excluding non-monetary foreign exchange impact (%)	93.1	86.1	49.8	–	84.5	94.4	80.8	58.9	–	82.8

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. The combined ratio excluding non-monetary foreign exchange impact is calculated by adjusting the net premiums earned and the expenses for the acquisition of insurance contracts by the movement arising from retranslating net unearned premiums and net deferred acquisition costs at year-end rates of exchange. 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:

	Year to 31 December 2014				Year to 31 December 2013 restated			
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000
At 100% level (note 4b)								
1% change in claims or expense ratio	8,089	4,273	2,293	–	7,284	3,889	3,181	–
At Group level								
1% change in claims or expense ratio	7,907	3,325	1,930	–	7,111	3,033	2,690	–

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4 Operating segments continued

(b) 100% operating result by segment

	Year to 31 December 2014					Year to 31 December 2013 restated				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000
Gross premiums written	914,372	647,094	421,599	–	1,983,065	841,251	595,932	486,938	–	1,924,121
Net premiums written	844,471	434,133	215,534	–	1,494,138	768,518	447,819	303,520	–	1,519,857
Net premiums earned	808,876	427,342	229,343	–	1,465,561	728,361	388,867	318,086	–	1,435,314
Investment result	26,191	11,722	10,364	12,211	60,488	19,290	8,575	15,180	20,032	63,077
Other revenues	2,618	–	1,136	253	4,007	5,418	–	1,832	1,153	8,403
Claims and claim adjustment expenses, net of reinsurance	(330,554)	(202,670)	(50,434)	–	(583,658)	(303,326)	(168,990)	(98,379)	–	(570,695)
Expenses for the acquisition of insurance contracts	(211,407)	(120,417)	(23,760)	–	(355,584)	(193,659)	(109,453)	(38,463)	–	(341,575)
Operational expenses	(208,961)	(49,242)	(44,048)	(21,420)	(323,671)	(185,772)	(33,594)	(45,627)	(23,609)	(288,602)
Foreign exchange (losses)/gains	(5,196)	12,713	4,080	(1,631)	9,966	(4,034)	(4,444)	(4,947)	(798)	(14,223)
Results of operating activities	81,567	79,448	126,681	(10,587)	277,109	66,278	80,961	147,682	(3,222)	291,699

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.

(c) Segmental analysis of assets and liabilities

The segment assets and liabilities at 31 December and the capital expenditure for the year then ended are as follows:

	As at 31 December 2014				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000
Intangible assets	63,541	27,291	5,686	9,428	105,946
Deferred acquisition costs	141,039	69,052	20,282	–	230,373
Financial assets	690,683	743,475	1,163,449	241,910	2,839,517
Reinsurance assets	159,878	202,793	162,674	–	525,345
Other assets	543,787	157,626	516,230	60,285	1,277,928
Total assets	1,598,928	1,200,237	1,868,321	311,623	4,979,109
Insurance liabilities	1,258,729	1,015,742	560,728	–	2,835,199
Other liabilities	174,730	130,832	360,055	24,087	689,704
Total liabilities	1,433,459	1,146,574	920,783	24,087	3,524,903
Capital expenditure	20,914	3,137	519	14,692	39,262

	As at 31 December 2013 restated				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000
Intangible assets	30,691	27,102	5,039	9,888	72,720
Deferred acquisition costs	124,111	54,587	18,930	–	197,628
Financial assets	683,748	610,106	1,069,436	229,518	2,592,808
Reinsurance assets	160,584	138,879	159,359	–	458,822
Other assets	457,285	137,277	338,874	180,230	1,113,666
Total assets	1,456,419	967,951	1,591,638	419,636	4,435,644
Insurance liabilities	1,167,121	842,453	599,547	–	2,609,121
Other liabilities	113,985	110,810	152,250	40,017	417,062
Total liabilities	1,281,106	953,263	751,797	40,017	3,026,183
Capital expenditure	10,162	2,757	1,603	2,860	17,382

4 Operating segments continued

(c) Segmental analysis of assets and liabilities continued

Segment assets and liabilities primarily consist of operating assets and liabilities, which represent the majority of the balance sheet. Intragroup assets and liabilities that cross segments are presented under the separate category heading 'Intragroup items and eliminations'.

Capital expenditure comprises expenditure on intangible assets (note 14) other than goodwill, and additions to property, plant and equipment (note 15), but excluding assets acquired on business combinations.

(d) 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 Hong Kong.

The following table provides an analysis of the Group's gross premium revenues earned by material geographical location from external parties:

Gross premium revenues earned from external parties	Year to 31 December 2014					Year to 31 December 2013 restated				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re £000	Corporate Centre £000	Total £000
UK and Ireland	345,281	7,608	2,471	–	355,360	319,339	8,364	3,599	–	331,302
Europe	190,999	17,757	14,198	–	222,954	187,663	11,648	17,034	–	216,345
United States	206,443	264,415	178,389	–	649,247	170,148	204,890	221,728	–	596,766
Rest of World	116,868	170,397	160,156	–	447,421	96,029	181,979	176,458	–	454,466
	859,591	460,177	355,214	–	1,674,982	773,179	406,881	418,819	–	1,598,879

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 Group has not reported geographical segmental details of non-current assets excluding financial instruments and including loans and receivables, rights and obligations under insurance and reinsurance contracts, investments in associates and subsidiaries as such details are not used by the chief operating decision-maker to evaluate the performance of the Group.

5 Net asset value per share

	2014		2013	
	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	1,454,206	462.5	1,409,461	402.2
Net tangible asset value	1,348,260	428.8	1,336,741	381.4

The net asset value per share is based on 314,419,567 shares (2013: 350,460,458 shares), being the adjusted number of shares in issue at 31 December.

Net tangible assets comprise total equity excluding intangible assets.

6 Return on equity

	2014 £000	2013 £000
Profit for the year (all attributable to owners of the Company)	216,152	237,758
Opening shareholders' equity	1,409,461	1,365,366
Adjusted for the time-weighted impact of capital distributions and issuance of shares	(142,812)	(134,580)
Adjusted opening shareholders' equity	1,266,649	1,230,786
Annualised return on equity (%)	17.1	19.3

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7 Investment result

The total result for the Group before taxation comprises:

	Note	2014 £000	2013 £000
Investment income including interest receivable		45,146	42,571
Net realised (losses)/gains on financial investments at fair value through profit or loss		(1,055)	2,391
Net fair value gains on financial investments at fair value through profit or loss		12,264	13,962
Investment result – financial assets	8	56,355	58,924
Fair value (losses)/gains on derivative financial instruments	21	(143)	885
Total result		56,212	59,809

Investment expenses are presented within other expenses (note 9).

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:

	2014 %	2013 %
Sterling	2.7	3.4
US Dollar	1.5	1.5
Other	1.5	0.7

(b) Investment return

	2014		2013	
	£000	%	£000	%
Debt and fixed income securities	36,714	1.5	17,105	0.7
Equities and shares in unit trusts	17,604	7.6	39,289	18.3
Deposits with credit institutions/cash and cash equivalents	2,037	0.4	2,530	0.5
	56,355	1.8	58,924	1.9

9 Other revenues and operational expenses

	2014 £000	2013 £000
Agency-related income	8,060	7,100
Profit commission	9,965	9,161
Other underwriting income	1,136	1,832
Other income	795	2,812
Other revenues	19,956	20,905
Wages and salaries	108,622	101,780
Social security cost	19,551	20,498
Pension cost – defined contribution	8,112	6,593
Pension cost – defined benefit	660	1,000
Share-based payments	14,439	12,523
Marketing expenses	31,829	30,550
Investment expenses	4,192	3,833
Depreciation, amortisation and impairment	12,857	9,650
Other expenses	110,591	90,538
Operational expenses	310,853	276,965

10 Finance costs

	Note	2014 £000	2013 £000
Interest and expenses associated with bank borrowings		1,931	2,457
Interest and charges associated with Letters of Credit	34	3,894	4,050
Interest charges on experience account		593	669
		6,418	7,176

11 Auditors' remuneration

Fees payable to the Group's main external auditors, KPMG, its member firms and its associates (exclusive of VAT) include the following amounts recorded in the consolidated income statement:

Group	2014 £000	2013 £000
Amounts receivable by the auditor and associates in respect of:		
The auditing of the accounts of any associate of the Group	1,201	966
All audit-related assurance services	189	80
All non-audit-related assurance services	88	88
	1,478	1,134

The full audit fee payable for the Syndicate audit has been included above, although an element of this is borne by the third-party participants in the Syndicate.

12 Net foreign exchange gains/(losses)

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

	2014 £000	2013 £000
Exchange gains/(losses) recognised in the consolidated income statement	4,974	(9,890)
Exchange gains/(losses) classified as a separate component of equity	34,019	(2,030)
Overall impact of foreign exchange-related items on net assets	38,993	(11,920)

The above excludes profit or losses on foreign exchange derivative financial instruments which are included within the investment result.

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

	2014 £000	2013 £000
Opening balance sheet impact of non-retranslation of non-monetary items	(4,790)	(2,674)
Gain/(loss) included within profit representing the non-retranslation of non-monetary items	6,398	(2,116)
Closing balance sheet impact of non-retranslation of non-monetary items	1,608	(4,790)

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13 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.

	Consolidated income statement 2014 £000	Consolidated other comprehensive income 2014 £000	Total impact on equity 2014 £000
Impact as at 31 December 2014			
Unrealised translation gains/(losses) on intragroup borrowings	677	(677)	–
Total gains/(losses) recognised	677	(677)	–

	Consolidated income statement 2013 £000	Consolidated other comprehensive income 2013 £000	Total impact on equity 2013 £000
Impact as at 31 December 2013			
Unrealised translation (losses)/gains on intragroup borrowings	(849)	849	–
Total (losses)/gains recognised	(849)	849	–

14 Intangible assets

	Goodwill £000	Syndicate capacity £000	State authorisation licences £000	Software and development costs £000	Other £000	Total £000
At 1 January 2013						
Cost	10,405	24,505	6,308	34,086	9,982	85,286
Accumulated amortisation and impairment	(2,530)	–	–	(10,793)	(2,346)	(15,669)
Net book amount	7,875	24,505	6,308	23,293	7,636	69,617
Year ended 31 December 2013						
Opening net book amount	7,875	24,505	6,308	23,293	7,636	69,617
Other additions	–	–	–	10,102	–	10,102
Amortisation charges	–	–	–	(6,434)	(500)	(6,934)
Impairment	(65)	–	–	–	–	(65)
Closing net book amount	7,810	24,505	6,308	26,961	7,136	72,720
At 31 December 2013						
Cost	10,405	24,505	6,308	44,188	9,982	95,388
Accumulated amortisation and impairment	(2,595)	–	–	(17,227)	(2,846)	(22,668)
Net book amount	7,810	24,505	6,308	26,961	7,136	72,720
Year ended 31 December 2014						
Opening net book amount	7,810	24,505	6,308	26,961	7,136	72,720
Acquisitions on purchase of subsidiary (note 33)	2,079	–	–	6,390	6,666	15,135
Other additions	–	–	–	19,551	8,523	28,074
Amortisation charges	–	–	–	(8,947)	(1,036)	(9,983)
Impairment	–	–	–	–	–	–
Closing net book amount	9,889	24,505	6,308	43,955	21,289	105,946
At 31 December 2014						
Cost	12,319	24,505	6,308	70,129	25,171	138,432
Accumulated amortisation and impairment	(2,430)	–	–	(26,174)	(3,882)	(32,486)
Net book amount	9,889	24,505	6,308	43,955	21,289	105,946

14 Intangible assets continued

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to country of operation and 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.

All intangible assets have a finite useful life except for the Syndicate capacity and goodwill.

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 6.6% (2013: 6.8%), 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 2013, the £65,000 impairment recognised in the year for goodwill is included in operational expenses in the consolidated income statement. There was no impairment for 2014.

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 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 2014 auction, the carrying value of Syndicate capacity recognised on the balance sheet is significantly below the market price.

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 businesses. 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.

Other intangible assets relate to the costs of acquiring rights to customer contractual relationships. These intangible assets are amortised on a straight-line basis over their useful economic life. 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 testing show that no impairment is due.

Capitalised software and development costs are amortised when the assets become available for use on a straight-line basis over the expected useful life of the asset. 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. No impairment is due as at 31 December 2014.

The amortisation charge for the year includes £7,385,000 (2013: £6,434,000) relating to capitalised internally generated software costs and is included in operational expenses in the consolidated income statement.

The net book value of capitalised internally generated software costs at 31 December 2014 was £37,565,000 (2013: £26,961,000). There are no charges for impairment during the current or prior financial year.

At 31 December 2014 there were £17,672,000 of assets under development on which no amortisation has been charged (2013: £9,647,000).

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15 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 2013					
Cost	5,498	3,816	114	43,743	53,171
Accumulated depreciation	(494)	(1,598)	(44)	(32,980)	(35,116)
Net book amount	5,004	2,218	70	10,763	18,055
Year ended 31 December 2013					
Opening net book amount	5,004	2,218	70	10,763	18,055
Additions	848	1,064	83	5,285	7,280
Disposals	(2,471)	–	(77)	(6)	(2,554)
Depreciation charge	(50)	(685)	(15)	(1,901)	(2,651)
Impairment	–	–	–	–	–
Foreign exchange movements	103	(15)	–	1	89
Closing net book amount	3,434	2,582	61	14,142	20,219
At 31 December 2013					
Cost	3,834	4,820	120	40,253	49,027
Accumulated depreciation	(400)	(2,238)	(59)	(26,111)	(28,808)
Net book amount	3,434	2,582	61	14,142	20,219
Year ended 31 December 2014					
Opening net book amount	3,434	2,582	61	14,142	20,219
Additions	6,947	302	38	3,901	11,188
Acquired purchase of subsidiary	–	179	1	590	770
Disposals	–	–	–	(83)	(83)
Depreciation charge	(39)	(556)	(42)	(2,237)	(2,874)
Impairment	–	–	–	–	–
Foreign exchange movements	–	121	–	156	277
Closing net book amount	10,342	2,628	58	16,469	29,497
At 31 December 2014					
Cost	10,781	5,573	159	44,932	61,445
Accumulated depreciation	(439)	(2,945)	(101)	(28,463)	(31,948)
Net book amount	10,342	2,628	58	16,469	29,497

The Group's land and buildings assets relate to freehold property in the UK.

There was no impairment charge during the year (2013: £nil).

Assets with a net book value of £nil were held under finance leases (2013: £nil).

During the year, £7,795,000 was recognised in the carrying value of land and buildings that is under the course of construction (2013: £848,000).

16 Investments in associates

Year ended 31 December	2014 £000	2013 £000
At beginning of year	7,754	9,054
Additions during the year	2,103	–
Disposals during the year	(416)	(900)
Net profit/(loss) from investments in associates	1,229	(400)
At end of year	10,670	7,754

16 Investments in associates continued

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
2014					
Associates incorporated in the UK	from 10% to 35%	76,176	52,281	38,089	4,086
Associates incorporated in Europe	from 10% to 49%	1,965	1,627	2,752	242
Total at the end of 2014		78,141	53,908	40,841	4,328
2013					
Associates incorporated in the UK	from 25% to 35%	67,657	48,671	28,540	2,589
Associates incorporated in Europe	from 25% to 49%	1,935	1,114	2,625	257
Total at the end of 2013		69,592	49,785	31,165	2,846

During 2013, the Group disposed of its holding in Senior Wright Indemnity Ltd. During 2014, the Group acquired a 10.6% holding in White Oak Underwriting Agency Limited as well as a 10% holding in Carl Rieck GmbH for a total consideration of £2,103,000 as referred to in note 33.

As at 31 December 2014, the Group had an amount receivable from Lark Ltd of £6,896,000 (2013: £6,896,000), and reported this within other debtors.

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.

17 Deferred acquisition costs

	2014			2013		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance deferred at 1 January	197,628	(23,479)	174,149	166,041	(18,340)	147,701
Acquisition costs incurred in relation to insurance contracts written	425,773	(87,328)	338,445	405,504	(71,401)	334,103
Acquisition costs expensed to the income statement	(399,658)	81,042	(318,616)	(371,663)	65,886	(305,777)
Foreign exchange adjustment	6,630	(450)	6,180	(2,254)	376	(1,878)
Balance deferred at 31 December	230,373	(30,215)	200,158	197,628	(23,479)	174,149

The deferred amount of insurance contract acquisition costs attributable to reinsurers of £30,215,000 (2013: £23,479,000) is not eligible for offset against the gross balance sheet asset and is included separately within trade and other payables (note 27).

The amounts expected to be recovered before and after one year are estimated as follows:

	2014 £000	2013 £000
Within one year	183,810	153,286
After one year	16,348	20,863
	200,158	174,149

18 Reinsurance assets

	Note	2014 £000	2013 £000
Reinsurers' share of insurance liabilities		526,085	459,603
Provision for non-recovery and impairment		(740)	(781)
Reinsurance assets	26	525,345	458,822

The amounts expected to be recovered before and after one year, based on historical experience, are estimated as follows:

	2014 £000	2013 £000
Within one year	287,528	229,060
After one year	237,817	229,762
	525,345	458,822

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 20). The Group recognised a gain during the year of £41,000 (2013: £217,000) in respect of previously impaired balances.

Notes to the consolidated financial statements

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19 Financial assets and liabilities

Financial assets are measured at their bid price values, with all changes from one accounting period to the next being recorded through the income statement.

	Note	2014 Fair value £000	2013 Fair value £000
Debt and fixed income securities		2,526,179	2,335,829
Equities and shares in unit trusts		252,916	223,024
Deposits with credit institutions		26,385	6,240
Total investments		2,805,480	2,565,093
Insurance linked fund		22,888	19,917
Derivative financial instruments	21	479	44
Total financial assets carried at fair value		2,828,847	2,585,054

	Note	2014 Fair value £000	2013 Fair value £000
Third-party investment in Kiskadee Funds		7,033	–
Derivative financial instruments	21	76	229
Total financial liabilities carried at fair value		7,109	229

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).

The Group has made a total investment of \$30.0 million into the Third Point Reinsurance Opportunities Fund ('the Fund'), \$13.2 million in 2012 and an additional \$16.8 million in 2013. During the year the Fund made a gain of \$2.8 million (2013: \$2.9 million). The Fund specialises in catastrophe reinsurance opportunities and is classified by the Group as an insurance linked fund. The Group submitted a full redemption effective 1 January 2015, after notification was received that the Fund will be winding down. During January 2015, \$12.7 million was received as the first redemption payment and the remaining \$23.0 million was issued as redemption shares which will pay out when the underlying contracts expire at 30 June 2015.

In 2014 and 2013, the Group participated in a quota share arrangement with Third Point Re Cat Ltd, a wholly-owned reinsurance entity of the Fund. During the year, contracts with a premium of \$2.1 million were ceded to the entity (2013: \$3.3 million).

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

	2014 £000	2013 £000
Debt and fixed income securities		
Sterling	490,440	510,769
US Dollars	1,707,643	1,512,992
Euro and other currencies	328,096	312,068
	2,526,179	2,335,829
Equities and shares in unit trusts		
Sterling	137,179	118,991
US Dollars	115,737	104,033
Euro and other currencies	–	–
	252,916	223,024
Deposits with credit institutions		
Sterling	25,507	3,871
US Dollars	–	1,469
Euro and other currencies	878	900
	26,385	6,240
Total investments	2,805,480	2,565,093

20 Loans and receivables including insurance receivables

	2014 £000	2013 £000
Gross receivables arising from insurance and reinsurance contracts	482,641	422,405
Provision for impairment	(2,131)	(1,282)
Net receivables arising from insurance and reinsurance contracts	480,510	421,123
Due from contract holders, brokers, agents and intermediaries	349,955	302,820
Due from reinsurance operations	130,555	118,303
	480,510	421,123
Prepayments and accrued income	9,068	6,754
Other loans and receivables:		
Net profit commission receivable	25,116	18,905
Accrued interest	9,448	9,463
Share of Syndicates' other debtors' balances	12,952	12,192
Other debtors including related party amounts	19,165	24,982
Total loans and receivables including insurance receivables	556,259	493,419

The amounts expected to be recovered before and after one year are estimated as follows:

Within one year	534,921	474,316
After one year	21,338	19,103
	556,259	493,419

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 £849,000 (2013: loss of £296,000) for the impairment of receivables during the year ended 31 December 2014.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

21 Derivative financial instruments

The Group entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2014. 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 2014 all mature within one year of the balance sheet date and are detailed below:

31 December 2014	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Derivative financial instruments included on balance sheet				
Foreign exchange forward contracts	25,875	479	(76)	403
Interest rate futures contracts	31,421	–	–	–
Credit default swaps	1,639	–	–	–

The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below:

Gross fair value of assets	19,596	3,003	22,599
Gross fair value of liabilities	(19,117)	(3,079)	(22,196)
	479	(76)	403

31 December 2013	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Derivative financial instruments included on balance sheet				
Foreign exchange forward contracts	26,793	44	(229)	(185)
Interest rate futures contracts	37,083	–	–	–
Credit default swaps	–	–	–	–

The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below:

Gross fair value of assets	7,622	15,686	23,308
Gross fair value of liabilities	(7,578)	(15,915)	(23,493)
	44	(229)	(185)

All derivatives contracts settle within three months of the year end.

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21 Derivative financial instruments continued

Foreign exchange forward contracts

During the current and prior year the Group entered into a series of conventional over-the-counter forward contracts in order to secure translation gains made on Euro, US Dollar and other non-Pound Sterling denominated monetary assets. The contracts require the Group to forward sell a fixed amount of the relevant currency for Pound Sterling at pre-agreed future exchange rates. The Group made a gain on these forward contracts of £1,941,000 (2013: loss of £77,000) as included in note 7. The opposite exchange gain is included within financial investments. 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 and sovereign futures denominated in a range of currencies to informally hedge substantially all of the interest rate risk on specific long portfolios of the matching currencies denominated corporate bonds. All contracts are exchange traded and the Group made a loss on these futures contracts of £2,078,000 (2013: gain of £1,175,000) as included in note 7.

Equity index options

The Group did not purchase equity options during 2014. During 2013 the Group purchased and disposed of an equity index option to protect against a decline in equity prices. The Group made a loss of £213,000 on this contract.

22 Fair value measurements

In accordance with IFRS 13: *Fair Value Measurement*, the fair value of financial instruments, based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value, is provided below.

As at 31 December 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	682,940	1,843,239	–	2,526,179
Equities and shares in unit trusts	–	239,238	13,678	252,916
Deposits with credit institutions	26,385	–	–	26,385
Insurance linked fund	–	–	22,888	22,888
Derivative instrument assets	–	479	–	479
Total	709,325	2,082,956	36,566	2,828,847
Financial liabilities				
Third-party investment in Kiskadee Funds	–	–	7,033	7,033
Derivative financial instruments	–	76	–	76
Total	–	76	7,033	7,109
As at 31 December 2013				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	875,882	1,459,947	–	2,335,829
Equities and shares in unit trusts	–	208,960	14,064	223,024
Deposits with credit institutions	6,240	–	–	6,240
Insurance linked fund	–	–	19,917	19,917
Derivative instrument assets	–	44	–	44
Total	882,122	1,668,951	33,981	2,585,054
Financial liabilities				
Derivative financial instruments	–	229	–	229
Total	–	229	–	229

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.

22 Fair value measurements continued

Investments in mutual funds comprise a portfolio of stock investments in trading entities which are invested in various quoted investments. The fair value of shares in unit trusts 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 and exchange-traded equities which are measured based on quoted prices in active markets.

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.

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 and no further analysis has been performed. The Group invested into the insurance linked fund in December 2012, and it was subject to a two-year initial lock-up period. The fund specialises in catastrophe reinsurance opportunities. The fair value of the fund is estimated to be the net asset value reported by the fund administrator at the balance sheet date. This net asset value is based on the fair value of the underlying insurance contracts in the fund which are sensitive to estimates of insurance losses that have occurred. A change in these loss estimates could have had a material impact on the valuation of the fund. The fund was partially redeemed in January 2015 with remaining redemption shares issued which will pay out when the underwriting contracts expire at 30 June 2015.

The third-party investment in the Kiskadee Funds consists of the third-party interest of investors in the Kiskadee Funds that is classified as a financial liability in the Group consolidated financial statements in accordance with IAS 32. The fair value of the Kiskadee Funds is estimated to be the net asset value reported to investors as at the balance sheet date by the external fund administrator. The net asset value is based on the fair value of the underlying reinsurance contracts in the fund. Significant inputs and assumptions in calculating the fair value of the underlying reinsurance contracts include the fair value of cash and cash equivalents as well as estimates of insurance assets and liabilities. 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.

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			Financial liability
	Equities and shares in unit trusts £000	Insurance linked fund £000	Total £000	Third-party investment in Kiskadee Funds £000
31 December 2014				
Balance at 1 January	14,064	19,917	33,981	–
Fair value gains or losses through profit or loss*	2,920	1,725	4,645	(589)
Foreign exchange gains/(losses)	284	1,246	1,530	(408)
Purchases	6	–	6	(6,036)
Settlements	(3,596)	–	(3,596)	–
Closing balance	13,678	22,888	36,566	(7,033)
Unrealised gains and losses in the year on securities held at the end of the year	3,204	2,971	6,175	(589)

*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			Financial liability
	Equities and shares in unit trusts £000	Insurance linked fund £000	Total £000	Third-party investment in Kiskadee Funds £000
31 December 2013				
Balance at 1 January	13,535	8,098	21,633	–
Fair value gains or losses through profit or loss*	575	1,832	2,407	–
Foreign exchange losses	(91)	(762)	(853)	–
Purchases	522	10,749	11,271	–
Settlements	(477)	–	(477)	–
Closing balance	14,064	19,917	33,981	–
Unrealised gains and losses in the year on securities held at the end of the year	484	1,070	1,554	–

*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.

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23 Cash and cash equivalents

	2014 £000	2013 £000
Cash at bank and in hand	400,245	384,925
Short-term deposits	39,220	174,602
Cash held by special purpose vehicle	41,258	–
Subscriptions received in advance	169,928	4,848
	650,651	564,375

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 cash held by special purpose vehicle consists of underlying interests held by the Kiskadee Funds which are consolidated by the Group but in which the Group has an interest of less than 100%. The remaining interests are held by third-party investors and included in the consolidated balance sheet as financial liabilities in accordance with IAS 32.

Subscriptions received in advance consist of cash received as at 31 December by the two Kiskadee Funds and not yet invested at the balance sheet date. As a result the Group has recognised a liability under trade and other payables for the same amount.

24 Share capital

Group	31 December 2014		31 December 2013	
	Share capital £000	Number of shares	Share capital £000	Number of shares
Authorised ordinary share capital of 6p (2013: 5 55/89p)	40,000	666,666,667	40,000	712,000,000
Issued ordinary share capital of 6p (2013: 5 55/89p)	19,913	331,873,654	20,854	371,215,489

On 28 March 2013 the Company passed a special resolution to increase the authorised share capital by £200,000,000 (400,000,000 shares at a par value of 50.0p per share) to facilitate the capital distribution of the B Shares in 2013. There are no B Shares outstanding at 31 December 2014 as all shares have been redeemed or cancelled.

The authorised but unissued ordinary share capital was also used to create and issue the C/D Shares in 2014. There are no C/D Shares outstanding or in issue at 31 December 2014 as all shares have been redeemed or cancelled.

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	B Shares £000	C Shares £000	D Shares £000
At 1 January 2013	20,703	41,313	245,005	–	–	–
Employee share option scheme – proceeds from shares issued	133	3,990	–	–	–	–
Issue of B Shares	–	(42,453)	(155,141)	197,594	–	–
Redemption of B Shares	–	–	–	(197,594)	–	–
Scrip dividends to owners of the Company	18	2,103	–	–	–	–
At 31 December 2013	20,854	4,953	89,864	–	–	–
Employee share option scheme – proceeds from shares issued	74	2,669	–	–	–	–
Issue of C/D Shares	–	(35)	–	–	128,988	46,824
Redemption of C/D Shares	–	–	–	–	(128,988)	(46,824)
Share consolidation and subdivision	(1,032)	1,032	–	–	–	–
Scrip dividends to owners of the Company	17	1,798	–	–	–	–
At 31 December 2014	19,913	10,417	89,864	–	–	–

Contributed surplus is a distributable reserve and arose on the reverse acquisition of Hiscox plc on 12 December 2006.

On 24 February 2014, the Group announced its intention to return approximately £178 million of share capital, which included a final dividend equivalent of 14.0p per share, £49,728,000, to shareholders by way of a C/D Share issue. This was also combined with a consolidation of Hiscox's existing shares as described overleaf and was subsequently approved by the shareholders at an Extraordinary General Meeting held on 18 March 2014.

24 Share capital continued

C/D Shares were issued on 19 March 2014 to existing shareholders on the basis of one C/D Share (at the choice of the shareholder) for each ordinary share held on 18 March 2014. Each C Share enabled the shareholder to receive a dividend of 50p per share at 9 April 2014. Alternatively the shareholder could elect to receive a D Share which were sold for 50 pence each to UBS Limited, pursuant to the purchase offer on 7 April 2014. Following the purchase of the D Shares by UBS Limited from shareholders, UBS exercised its put option and the Group was required to purchase the D Shares for 50p per share.

There were no C/D Shares outstanding at 31 December 2014 as all shares have been redeemed and cancelled. Total capital of £175,812,000 has been returned to shareholders, of which £35,000 has been charged against share premium and the remaining £175,777,000 has been charged against retained earnings. An additional £1,789,000 of C Shares were distributed to the Employee Benefit Trust. The amount is not reported as a distribution as the trust forms part of the consolidated result.

To ensure the return of capital maintained the net tangible asset per share pre and post the return of capital, a share consolidation was also performed. Each existing ordinary share in Hiscox Ltd was subdivided into 89 ordinary shares of par value 500/7921p each and then these were further subdivided so that 100 of such shares were consolidated into one new share of 6 2474/7921p. Finally the 6 2474/7921p share was split into one new ordinary share of 6p and one deferred share of 2474/7921p. The deferred shares carried almost no economic benefit and no voting rights and had no value. The deferred shares were purchased and cancelled by the Group on 9 April 2014.

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.

Share repurchase

The Trustees of the Group's Employee Benefit Trust purchased Hiscox Ltd shares through the market during the period for £10,593,000 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) 2014	Number of ordinary shares in issue (thousands) 2013
At 1 January		371,215	414,069
Employee share option scheme – ordinary shares issued		1,236	2,458
Scrip dividends to owners of the Company	32	271	324
Share consolidation as a result of the special capital distribution		(40,848)	(45,636)
At 31 December		331,874	371,215

Up until 9 April 2014, the Group issued 5 55/89p ordinary shares. From this date, new ordinary shares of 6p each exist. All issued shares are fully paid.

Share options and performance share plan awards

Performance share plan awards are granted to Directors and to senior employees. Up until 2005, share options were also granted. The exercise price of the granted options is equal to the closing mid-market price of the shares on the day before the date of the grant. 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 £14,439,000 (2013: £12,523,000). This comprises charges of £13,968,000 (2013: £12,158,000) in respect of performance share plan awards and £471,000 (2013: £365,000) 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, and discounted cash flow methodology in respect of performance share plan awards.

Notes to the consolidated financial statements

continued

24 Share capital continued

Share options and performance share plan awards continued

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	2014	2013
Annual risk-free rates of return and discount rates (%)	1.09-1.32	0.32-0.78
Long-term dividend yield (%)	4.46	4.67
Expected life of options (years)	3.25	3.25
Implied volatility of share price (%)	20.5	27
Weighted average share price (p)	684.9	570.5

The weighted average fair value of each share option granted during the year was 122.0p (2013: 112.9p). The weighted average fair value of each performance share plan award granted during the year was 688.5p (2013: 568.0p).

Movements in the number of share options and performance share plan awards during the year and details of the balances outstanding at 31 December 2014 for the Executive Directors are shown in the Directors' remuneration report. The total number of options and performance share plan awards outstanding is 12,460,938 (2013: 14,260,162) of which 3,723,170 are exercisable (2013: 4,702,962). The total number of SAYE options outstanding is 2,013,508 (2013: 1,604,065).

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.

25 Retained earnings and other reserves

	2014 £000	2013 £000
Currency translation reserve at 31 December	56,700	22,681
Retained earnings at 31 December	1,276,446	1,271,109

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 purchased its own shares during 2014 for a net amount of £10,593,000 and placed them in the Trust for future utilisation on vesting of performance share plan awards (2013: £nil).

At 31 December 2014 Hiscox Ltd held 12,645,632 shares in Treasury (2013: 16,145,888). Additional details are shown in note 37 to these financial statements in respect of additional Hiscox Ltd shares held by subsidiaries.

26 Insurance liabilities and reinsurance assets

	Note	2014 £000	2013 £000
Gross			
Claims reported and claim adjustment expenses		825,017	829,548
Claims incurred but not reported		1,142,847	1,023,514
Unearned premiums		867,335	756,059
Total insurance liabilities, gross		2,835,199	2,609,121
Recoverable from reinsurers			
Claims reported and claim adjustment expenses		129,134	146,946
Claims incurred but not reported		239,185	213,000
Unearned premiums		157,026	98,876
Total reinsurers' share of insurance liabilities	18	525,345	458,822
Net			
Claims reported and claim adjustment expenses		695,883	682,602
Claims incurred but not reported		903,662	810,514
Unearned premiums		710,309	657,183
Total insurance liabilities, net		2,309,854	2,150,299

26 Insurance liabilities and reinsurance assets continued

The amounts expected to be recovered and settled before and after one year, based on historical experience, are estimated as follows:

	2014 £000	2013 £000
Within one year	1,222,114	1,123,849
After one year	1,087,740	1,026,450
	2,309,854	2,150,299

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 2014 and 2013 are not material.

26.1 Insurance contracts assumptions

(a) Process used to decide on assumptions

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Uncertainty over the timing and amount of future claim payments necessitates the holding of significant reserves for liabilities that may only emerge a number of accounting periods later.

For all risks, the Group uses several statistical methods to incorporate the various assumptions made into the ultimate cost of claims. There is close communication between the actuaries involved in the estimation process and the Group's underwriters to ensure that all parties are aware of material factors relating to outstanding claims reserves. Adjustments are made within the claims reserving methodologies to remove distortions in the historical claims development patterns from large or isolated claims not expected to reoccur in the future. An allowance is also made for the current rating and inflationary environment.

Outstanding claims reserves are actuarially estimated primarily using the Chain Ladder and Bornhuetter-Ferguson methods.

The Chain Ladder method may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. Where losses in the earliest underwriting years or years of account have yet to fully develop, an adjustment is made to the pattern to allow for further expected development. The selected development factors are then applied to cumulative claims data for each accident year to produce an estimated ultimate claims cost for each accident year.

The Chain Ladder method is adopted for mature classes of business where sufficient claims development data is available. This methodology produces optimal estimates when a large claims development history is available and the claims development patterns throughout the earliest years are stable. Chain Ladder techniques are less suitable in cases in which the insurer does not have developed claims history data for a particular class of business (e.g. in relation to more recent underwriting years or years of account). In these instances the Group's actuaries make reference to the Bornhuetter-Ferguson method.

The Bornhuetter-Ferguson method is based on the Chain Ladder approach but utilises estimated ultimate loss ratios. This method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

Catastrophe events which are expected to impact multiple business units in the Group are analysed by the central analysis team. They combine information from underwriters, the claims team and past experience of similar events to produce gross and net estimates of the ultimate loss cost to each part of the Group. These figures are then incorporated by the actuarial team into the quarterly reserving exercise. This process ensures that a consistent approach is taken across the Group.

In exceptional cases the required provision is calculated with reference to the actual exposures on individual policies. In addition, the reserves determined for the managed Syndicate are converted to annually accounted figures using earnings patterns that are consistent with those for the underlying Syndicate business.

The choice of selected results for each accident year of each class of business depends on an assessment of the technique

that has been most appropriate to observed historical developments. This often means that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business. Estimates of ultimate claims 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.

(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, which has increased significantly over the last ten years. Analysis at the 100% level is required in order to avoid distortions arising from reinsurance to close arrangements which subsequently increase the Group's share of ultimate claims for each accident year, three years after the end of that accident year.

The top half of each table, 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.

Notes to the consolidated financial statements

continued

26 Insurance liabilities and reinsurance assets continued

26.1 Insurance contracts assumptions continued

(b) Claims development tables continued

Insurance claims and claim adjustment expenses reserves – gross at 100%

Accident year	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year	1,167,629	596,460	798,898	1,122,920	846,961	1,020,921	1,310,216	1,098,545	890,535	973,977	9,827,062
one year later	1,292,691	570,684	711,966	950,357	703,726	877,502	1,194,916	994,129	782,856	–	8,078,827
two years later	1,295,819	549,963	675,728	926,613	646,417	819,753	1,144,378	909,188	–	–	6,967,859
three years later	1,277,729	519,355	687,319	887,005	639,461	804,579	1,160,292	–	–	–	5,975,740
four years later	1,271,809	528,466	681,104	851,003	637,494	788,776	–	–	–	–	4,758,652
five years later	1,272,604	518,090	651,140	817,596	634,264	–	–	–	–	–	3,893,694
six years later	1,227,639	505,290	635,027	808,919	–	–	–	–	–	–	3,176,875
seven years later	1,220,862	500,007	619,265	–	–	–	–	–	–	–	2,340,134
eight years later	1,222,165	498,017	–	–	–	–	–	–	–	–	1,720,182
nine years later	1,212,717	–	–	–	–	–	–	–	–	–	1,212,717
Current estimate of cumulative claims	1,212,717	498,017	619,265	808,919	634,264	788,776	1,160,292	909,188	782,856	973,977	8,388,271
Cumulative payments to date	(1,152,561)	(479,011)	(575,065)	(756,506)	(542,770)	(599,212)	(886,585)	(608,635)	(353,858)	(204,296)	(6,158,499)
Liability recognised at 100% level	60,156	19,006	44,200	52,413	91,494	189,564	273,707	300,553	428,998	769,681	2,229,772
Liability recognised in respect of prior accident years at 100% level											81,163
Total gross liability to external parties at 100% level											2,310,935

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2014.

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

Accident year	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
Current estimate of cumulative claims	1,212,717	498,017	619,265	808,919	634,264	788,776	1,160,292	909,188	782,856	973,977	8,388,271
Less: attributable to external Names	(305,498)	(104,346)	(120,507)	(153,263)	(106,850)	(121,195)	(170,825)	(121,309)	(89,291)	(116,704)	(1,409,788)
Group's share of current ultimate claims estimate	907,219	393,671	498,758	655,656	527,414	667,581	989,467	787,879	693,565	857,273	6,978,483
Cumulative payments to date	(1,152,561)	(479,011)	(575,065)	(756,506)	(542,770)	(599,212)	(886,585)	(608,635)	(353,858)	(204,296)	(6,158,499)
Less: attributable to external Names	290,777	99,672	111,280	143,000	91,789	86,102	129,113	80,922	33,848	18,738	1,085,241
Group's share of cumulative payments	(861,784)	(379,339)	(463,785)	(613,506)	(450,981)	(513,110)	(757,472)	(527,713)	(320,010)	(185,558)	(5,073,258)
Liability for 2005 to 2014 accident years recognised on Group's balance sheet	45,435	14,332	34,973	42,150	76,433	154,471	231,995	260,166	373,555	671,715	1,905,225
Liability for accident years before 2005 recognised on Group's balance sheet											62,639
Total Group liability to external parties included in balance sheet – gross**											1,967,864

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

26 Insurance liabilities and reinsurance assets continued

26.1 Insurance contracts assumptions continued

(b) Claims development tables continued

Insurance claims and claim adjustment expenses reserves – net at 100%

Accident year	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year	685,378	532,264	698,091	786,744	702,058	817,612	1,021,869	805,898	777,594	809,047	7,636,555
one year later	787,487	524,676	633,994	702,569	587,981	721,122	953,477	718,326	687,551	–	6,317,183
two years later	778,302	507,481	612,562	698,422	562,157	679,913	904,975	664,831	–	–	5,408,643
three years later	753,207	465,362	583,458	657,951	563,239	662,563	898,983	–	–	–	4,584,763
four years later	742,700	481,091	579,524	624,453	556,338	652,763	–	–	–	–	3,636,869
five years later	742,865	468,562	553,421	617,493	551,806	–	–	–	–	–	2,934,147
six years later	721,424	461,897	549,315	610,784	–	–	–	–	–	–	2,343,420
seven years later	712,801	462,098	535,957	–	–	–	–	–	–	–	1,710,856
eight years later	705,063	460,028	–	–	–	–	–	–	–	–	1,165,091
nine years later	690,705	–	–	–	–	–	–	–	–	–	690,705
Current estimate of cumulative claims	690,705	460,028	535,957	610,784	551,806	652,763	898,983	664,831	687,551	809,047	6,562,455
Cumulative payments to date	(639,821)	(441,326)	(497,953)	(562,757)	(475,597)	(505,060)	(682,243)	(445,918)	(318,328)	(180,042)	(4,749,045)
Liability recognised at 100% level	50,884	18,702	38,004	48,027	76,209	147,703	216,740	218,913	369,223	629,005	1,813,410
Liability recognised in respect of prior accident years at 100% level											45,736
Total net liability to external parties at 100% level											1,859,146

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2014.

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

Accident year	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
Current estimate of cumulative claims	690,705	460,028	535,957	610,784	551,806	652,763	898,983	664,831	687,551	809,047	6,562,455
Less: attributable to external Names	(166,979)	(96,216)	(104,194)	(108,092)	(85,754)	(87,912)	(118,219)	(75,287)	(71,306)	(90,344)	(1,004,303)
Group's share of current ultimate claims estimate	523,726	363,812	431,763	502,692	466,052	564,851	780,764	589,544	616,245	718,703	5,558,152
Cumulative payments to date	(639,821)	(441,326)	(497,953)	(562,757)	(475,597)	(505,060)	(682,243)	(445,918)	(318,328)	(180,042)	(4,749,045)
Less: attributable to external Names	154,017	91,466	95,829	98,129	72,415	64,022	89,784	47,093	28,005	15,995	756,755
Group's share of cumulative payments	(485,804)	(349,860)	(402,124)	(464,628)	(403,182)	(441,038)	(592,459)	(398,825)	(290,323)	(164,047)	(3,992,290)
Liability for 2005 to 2014 accident years recognised on Group's balance sheet	37,922	13,952	29,639	38,064	62,870	123,813	188,305	190,719	325,922	554,656	1,565,862
Liability for accident years before 2005 recognised on Group's balance sheet											33,683
Total Group liability to external parties included in the balance sheet – net**											1,599,545

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

Notes to the consolidated financial statements

continued

26 Insurance liabilities and reinsurance assets continued

26.2 Movements in insurance claims liabilities and reinsurance claims assets

Year ended 31 December	2014			2013		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Total at beginning of year	(1,853,062)	359,946	(1,493,116)	(1,932,904)	453,439	(1,479,465)
Claims and claim adjustment expenses for year	(645,145)	113,477	(531,668)	(572,440)	53,161	(519,279)
Cash paid for claims settled in the year	591,796	(124,194)	467,602	640,505	(147,926)	492,579
Exchange differences and other movements	(61,453)	19,090	(42,363)	11,777	1,272	13,049
Total at end of year	(1,967,864)	368,319	(1,599,545)	(1,853,062)	359,946	(1,493,116)
Claims reported and claim adjustment expenses	(825,017)	129,134	(695,883)	(829,548)	146,946	(682,602)
Claims incurred but not reported	(1,142,847)	239,185	(903,662)	(1,023,514)	213,000	(810,514)
Total at end of year	(1,967,864)	368,319	(1,599,545)	(1,853,062)	359,946	(1,493,116)

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

Year ended 31 December	2014			2013		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Current year claims and claim adjustment expenses	(845,086)	141,189	(703,897)	(761,179)	101,561	(659,618)
Over-provision in respect of prior year claims and claim adjustment expenses	199,941	(27,712)	172,229	188,739	(48,400)	140,339
Total claims and claim adjustment expenses	(645,145)	113,477	(531,668)	(572,440)	53,161	(519,279)

27 Trade and other payables

	Note	2014 £000	2013 £000
Creditors arising out of direct insurance operations		11,969	15,364
Creditors arising out of reinsurance operations		248,267	130,814
		260,236	146,178
Share of Syndicates' other creditors' balances		3,212	8,230
Social security and other taxes payable		9,782	14,764
Subscriptions received in advance		169,928	4,848
Other creditors		11,968	8,052
		194,890	35,894
Reinsurers' share of deferred acquisition costs	17	30,215	23,479
Accruals and deferred income		106,319	98,587
Total		591,660	304,138

The amounts expected to be settled before and after one year are estimated as follows:

Within one year	563,663	277,386
After one year	27,997	26,752
	591,660	304,138

The amounts expected to be settled after one year of the balance sheet date primarily relate to deferred bonuses and the Group's provision of sabbatical leave employee benefits.

Subscriptions received in advance consist of cash received as at 31 December by the two Kiskadee Funds and not yet invested at the balance sheet date.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

28 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 37. The amounts charged in the consolidated income statement comprise the following:

	2014 £000	2013 £000
Current tax		
Expense for the year	65,537	65,950
Adjustments in respect of prior years	(3,365)	6,475
Total current tax expense	62,172	72,425
Deferred tax		
Credit for the year	(45,633)	(49,865)
Adjustments in respect of prior years	(811)	(7,500)
Effect of rate change	(805)	(8,280)
Total deferred tax credit	(47,249)	(65,645)
Total tax charged to the income statement	14,923	6,780

The standard rate of corporation tax in Bermuda is 0% whereas the effective rate of tax for the Group is 6.5% (2013: 2.8%). A reconciliation of the difference is provided below:

	2014 £000	2013 £000
Profit before tax	231,075	244,538
Tax calculated at the standard corporation tax rate applicable in Bermuda: 0% (2013: 0%)	–	–
Effects of Group entities subject to overseas tax at different rates	14,703	8,729
Impact of overseas tax rates on:		
Effect of rate change	(805)	(8,280)
Expenses not deductible for tax purposes	2,911	4,460
Tax losses for which no deferred tax asset is recognised	4,218	3,532
Other	(972)	721
S1013 CTA 2009 deduction and share-based payments	(64)	3
Non-taxable income	(892)	(1,360)
Prior year tax adjustments	(4,176)	(1,025)
Tax charge for the period	14,923	6,780

29 Deferred tax

	2014 £000	2013 £000
Deferred tax assets		
Trading losses in overseas entities	33,490	32,123
Net deferred tax liabilities		
Deferred tax assets	33,804	16,055
Deferred tax liabilities	(60,194)	(92,001)
Total net deferred tax liability	(26,390)	(75,946)

Deferred tax assets and deferred tax liabilities relating to the same tax authority are presented net in the Group's balance sheet.

(a) Group deferred tax assets analysed by balance sheet headings

	2014 £000	2013 £000
At 1 January	32,123	25,608
Income statement credit	1,367	6,515
Transfer from equity	–	–
At 31 December	33,490	32,123

Notes to the consolidated financial statements

continued

29 Deferred tax continued

(b) Net Group deferred tax liabilities analysed by balance sheet headings

At 31 December	2013 £000	Income statement (charge)/credit £000	Transfer from equity £000	2014 £000
Tangible assets	1,178	(98)	–	1,080
Trading losses in UK entities	789	589	–	1,378
Trade and other payables	4,363	(119)	–	4,244
Intangible assets – Syndicate capacity	2,328	(173)	–	2,155
Retirement benefit obligations	1,200	(1,090)	5,470	5,580
Reinsurance premiums	–	13,675	–	13,675
Other items	6,197	1,289	(1,794)	5,692
Total deferred tax assets	16,055	14,073	3,676	33,804
Financial assets	(2,062)	(1,878)	–	(3,940)
Insurance contracts – equalisation provision†	(28,897)	(1,436)	–	(30,333)
Reinsurance premiums	(45,079)	45,079	–	–
	(76,038)	41,765	–	(34,273)
Open years of account	(15,963)	(9,958)	–	(25,921)
Total deferred tax liabilities	(92,001)	31,807	–	(60,194)
Net total deferred tax liabilities	(75,946)	45,880	3,676	(26,390)

†The solvency regulations in the UK require certain entities within the Group to establish an equalisation provision, to be utilised against abnormal levels of future losses in certain lines of business. The regulations prescribe that the provision is increased every year by an amount that is calculated as a percentage of net premiums written for those lines of business during the financial year subject to a maximum percentage. The amount of each annual increase is a deductible expense for tax purposes, and the equalisation provision is taxed when released. Equalisation provisions are not permitted under IFRS which therefore results in the temporary difference for tax purposes. Following a change in the legislation at the end of 2008, Lloyd's Corporate Members are also entitled to a tax deduction for claims equalisation losses although this is not a solvency requirement for Lloyd's. The Group has provided for the deferred tax liability on its Corporate Members' claims equalisation reserve during the year.

UK deferred income tax assets and liabilities are calculated at 20% for the year ended 31 December 2014 (2013: 20%).

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 £7,344,000, comprising £3,668,000 deferred tax and £3,676,000 current tax (2013: £603,000 deferred tax and £2,768,000 current tax).

Deferred tax assets of £33,490,000 (2013: £32,123,000), 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 temporary 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 seven years. £32,250,000 (2013: £30,526,000) of the tax losses to which these assets relate will expire after ten years or later; the balance of tax losses carried forward has no time limit. The Group has not provided for deferred tax assets totalling £12,926,000 (2013: £10,087,000) including £12,926,000 (2013: £10,087,000) in relation to losses in overseas companies of £40,359,000 (2013: £28,821,000). 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 £33,490,000 (2013: £32,123,000).

30 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.

30 Employee retirement benefit obligations continued

The gross amount recognised in the Group balance sheet in respect of the defined benefit scheme is determined as follows:

	2014 £000	2013 £000
Present value of scheme obligations	227,375	179,479
Fair value of scheme assets	(195,209)	(185,666)
Deficit/(surplus) for funded plans	32,166	(6,187)
Effect of asset ceiling/onerous liability	–	10,553
Net amount recognised as a defined benefit obligation	32,166	4,366

The unrecognised net actuarial losses are the net cumulative gains and losses on both the scheme's obligations and underlying assets.

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 2011, and updated at each intervening balance sheet date by the actuaries. 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	2014 £000	2013 £000
Managed fund pooled investment vehicles		
UK equity funds	81,163	74,959
Emerging market equity funds	8,340	7,996
Global equity funds	43,974	37,258
Bond funds	43,542	39,048
US equities	14,770	13,173
Cash	3,420	13,232
	195,209	185,666

All managed fund pooled investment vehicles and equity holdings have quoted prices in active markets.

The majority of the scheme's debt and fixed income assets are held through the ownership of units in managed credit funds issued by Standard Life Assurance Limited which invest in a broad spread of high-quality corporate bonds with derivatives used in controlled conditions to extend durations in some cases.

The amounts recognised in total comprehensive income are as follows:

	Note	2014 £000	2013 £000
Interest cost on defined benefit obligation		8,309	7,700
Interest income on plan assets		(8,589)	(6,934)
Interest expense on effect of onerous liability		496	–
Net interest cost		216	766
Administrative expenses and taxes		444	234
Total expense recognised in operational expenses in the income statement	9	660	1,000
Remeasurements			
Effect of change in demographic assumptions		–	6,975
Effect of change in financial assumptions		44,976	(3,982)
Effect of experience adjustments		–	–
Return on plan asset (excluding interest income)		(6,587)	(25,287)
Changes in asset ceiling/onerous liability (excluding interest income)		(11,049)	10,553
Remeasurement of third-party Names share of defined benefit obligation		(4,581)	1,966
Total remeasurement included in other comprehensive income		22,759	(9,775)
Total defined benefit charge/(credit) recognised in comprehensive income		23,419	(8,775)

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continued

30 Employee retirement benefit obligations continued

The movement in liability recognised in the Group's balance sheet is as follows:

	2014 £000	2013 £000
Group defined benefit liabilities at beginning of the year	4,366	16,907
Third-party Names' share of liability	(731)	(3,083)
Net defined benefit liability at beginning of year	3,635	13,824
Defined benefit cost included in net income	660	1,000
(Charge)/recovery from third-party Names	(110)	85
Total remeasurement included in other comprehensive income	22,759	(9,775)
Employer contributions by Hiscox Group	(200)	(1,800)
Less contributions received by Hiscox Group from third-party Names	–	301
Net defined benefit liability at end of year	26,744	3,635
Third-party Names' share of liability	5,422	731
Group defined benefit liability at end of year	32,166	4,366

A reconciliation of the fair value of scheme assets is as follows:

	2014 £000	2013 £000
Opening fair value of scheme assets	185,666	156,513
Interest income	8,589	6,934
Cash flows		
Contribution by the employer	200	1,800
Benefit payments	(5,389)	(4,634)
Administration expenses	(444)	(234)
Remeasurements		
Return on plan assets (excluding interest income)	6,587	25,287
Closing fair value of scheme assets	195,209	185,666

A reconciliation of the present value of scheme obligations of the scheme is as follows:

	2014 £000	2013 £000
Opening present value of scheme obligations	179,479	173,420
Interest expense	8,309	7,700
Cash flows		
Benefit payments	(5,389)	(4,634)
Remeasurements		
Changes in demographic assumptions	–	6,975
Changes in financial assumptions	44,976	(3,982)
Impact of experience adjustments	–	–
Closing present value of scheme obligations	227,375	179,479

Additional memorandum information at the end of the current and previous six accounting periods is presented below:

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of scheme obligations	227,375	179,479	173,420	155,685	146,737	140,676	101,615
Fair value of scheme assets	(195,209)	(185,666)	(156,513)	(140,517)	(144,056)	(118,391)	(115,166)
Present value of unfunded obligations/ (surplus scheme assets)	32,166	(6,187)	16,907	15,168	2,681	22,285	(13,551)
Effect of asset ceiling/onerous liability	–	10,553	–	–	–	–	–
Gross liability recognised on balance sheet	32,166	4,366	16,907	–	–	–	–

Assumptions regarding future mortality experience are set based on professional advice, published statistics and actual experience.

30 Employee retirement benefit obligations continued

The average life expectancy in years of a pensioner retiring at age 60 on the balance sheet date is as follows:

	2014 years	2013 years
Male	28.9	28.8
Female	30.3	30.2

The average life expectancy in years of a pensioner retiring at 60, 15 years after the balance sheet date, is as follows:

	2014 years	2013 years
Male	30.3	30.2
Female	31.8	31.7

The weighted average duration of the defined benefit obligation at 31 December 2014 was 26.2 years.

Other principal actuarial assumptions are as follows:

	2014 %	2013 %
Discount rate	3.7	4.7
Inflation assumption (RPI)	3.0	3.4
Inflation assumption (CPI)	2.0	2.4
Pension increases	3.0	3.4

The triennial valuation carried out as at 31 December 2011 resulted in a deficit position of £19.7 million. The Group agreed to fund the £19.7 million deficit paying instalments over five years. During the year the scheme was estimated to be fully funded on the trustee's statutory funding objective, as such the trustees and the Group agreed to put in place a new schedule of contributions effective from 20 August 2014. Under this Schedule no future deficit correction contributions are currently required, therefore the onerous obligation for 31 December 2014 is nil. The Group paid £200,000 to the scheme for the expenses of the fund (2013: £200,000). The scheme is currently in an overall surplus position, on an actuarial basis, at the balance sheet date.

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 £6,987,000 at 31 December 2014 (2013: £4,892,000), and would increase the recorded net deficit on the balance sheet by £6,987,000 (2013: no impact).

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 2014 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 3.95%	32,166	17,987	14,179
Use of discount rate of 3.45%	32,166	47,564	(15,398)
Effect of an increase in inflation			
Use of RPI inflation assumption of 3.25%	32,166	36,783	(4,617)
Use of RPI inflation assumption of 2.75%	32,166	27,805	4,361

31 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.

	2014	2013
Profit for the year attributable to the owners of the Company (£000)	216,152	237,758
Weighted average number of ordinary shares (thousands)	320,554	358,652
Basic earnings per share (pence per share)	67.4p	66.3p

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continued

31 Earnings per share continued

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.

	2014	2013
Profit for the year attributable to the owners of the Company (£000)	216,152	237,758
Weighted average number of ordinary shares in issue (thousands)	320,554	358,652
Adjustments for share options (thousands)	14,315	15,860
Weighted average number of ordinary shares for diluted earnings per share (thousands)	334,869	374,512
Diluted earnings per share (pence per share)	64.5p	63.5p

Diluted earnings per share has been calculated after taking account of 13,527,726 (2013: 15,131,711) options and awards under employee share option and performance plan schemes and 787,419 (2013: 728,284) options under SAYE schemes.

32 Dividends paid to owners of the Company

	2014 £000	2013 £000
Interim dividend for the year ended:		
31 December 2014 of 7.5p (net) per share	23,469	–
31 December 2013 of 7.0p (net) per share	–	24,746
	23,469	24,746

The final dividend equivalent for the year ended 31 December 2013 was paid as part of the C/D Share Scheme (2012: B Share Scheme), see note 24. 261,555,693 C and 93,647,894 D Shares were issued, of which 14p per share was in lieu of a final dividend for 2013 of a cash value of £49,728,000. During 2013, the final dividend equivalent for the year ended 31 December 2012 was settled as 395,188,526 B Shares of 50p each, of which 12p per share was issued in lieu of a final cash dividend of £47,423,000.

The interim dividends for 2014 and 2013 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 2014 was paid in cash of £22,049,000 (2013: £22,625,000) and 270,917 shares for the scrip dividend (2013: 324,261).

Subject to shareholder approval at the forthcoming Extraordinary General Meeting on 25 March 2015, the Board proposes to pay 15.0p per ordinary share instead of a final dividend for the year ended 31 December 2014. Together with the interim dividend of 7.5p per ordinary share, this represents a total dividend for 2014 of 22.5p per ordinary share. In addition, the Board proposes to pay a special distribution of 45.0p per ordinary share. Such amounts will be paid by way of a E/F Share Scheme. A scrip dividend alternative will not be offered to shareholders.

33 Business combinations

DirectAsia

On 31 March 2014, the Group acquired 100% of the share capital and voting rights of Direct Asia Insurance (Holdings) Pte Ltd (DirectAsia) for US\$24,575,000 (£14,804,000). In addition the Group purchased the outstanding debt of the company totalling US\$31,750,000 (£19,127,000) from the previous owners. DirectAsia's primary business is motor insurance, with ancillary lines in travel, personal accident, healthcare and term life products sold as an agent. This acquisition provides the Group with a distribution platform in Asia providing opportunities for future growth.

Purchase consideration

	£000
Initial cash consideration	14,334
Contingent consideration	470
Total purchase consideration	14,804
Fair value of net assets acquired	(13,591)
Non-controlling interest	866
Goodwill	2,079

33 Business combinations continued

The contingent consideration reflected on page 124 of £470,000 represents the current fair value estimate of the expected additional consideration that may be payable to the seller. The contingent consideration is payable based on DirectAsia exceeding certain revenue targets during the first four years post the acquisition.

Whilst the Group acquired 100% of the share capital and voting rights of the parent company Direct Asia Insurance (Holdings) Pte Ltd, within the DirectAsia Group there exists an equity interest by a third-party. This has been accounted for as a non-controlling interest in accordance with IFRS 3. The value of the interest is calculated on identifiable assets.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount £000	Fair value and accounting policy adjustments £000	Fair value £000
Intangible assets	3,257	9,799	13,056
Property, plant and equipment	670	–	670
Reinsurance assets	4,678	–	4,678
Loans and receivables, including insurance receivables	5,113	–	5,113
Cash and cash equivalents	32,184	–	32,184
Total assets	45,902	9,799	55,701
Insurance liabilities	17,437	–	17,437
Trade and other payables	5,546	–	5,546
Long-term loans	19,127	–	19,127
Total liabilities	42,110	–	42,110
Net assets acquired	3,792	9,799	13,591

The goodwill shown above is primarily from acquiring the skilled workforce of DirectAsia who will provide strong insight into operating in these new territories. The Group incurred acquisition-related expenses of £1,259,000 on legal fees and due diligence costs. These expenses have been included in operational expenses.

DirectAsia contributed a loss of £11.4 million to the Group's profit before tax for the period between 31 March 2014 and 31 December 2014. If the acquisition of DirectAsia had been completed on the first day of the financial year, the Group result for the period would have been a profit before tax of £229.2 million and the gross written premium would have been £1,760.7 million.

Applewell Ltd

On 8 August 2014 the Group acquired 100% of Applewell Ltd, an insurance broker specialising in events business for an amount that is not considered to be material to the financial statements.

Associates

On 11 June 2014 the Group acquired a 10.6% stake in White Oak Underwriting Agency Limited (White Oak) for £1,700,000. White Oak specialises in auto extended warranty and auto physical damage business. Additionally, on 28 May 2014, the Group acquired a 10% stake in Carl Rieck GmbH, a German intermediary, for €500,000. Carl Rieck underwrites high net worth private clients, professional indemnity and specialist commercial business.

On 14 February 2014 the Group disposed of its 25% holding in Barta & Partner – Versicherungsmaklergesellschaft m.b.H, for €500,000. The investment previously had been fully impaired.

During 2013, the Group disposed of its holding in Bracken Hill Specialty Insurance Company Inc. for \$32.8 million, realising a gain of \$2.4 million. In addition, the Group sold its interest in Senior Wright Indemnity Limited, an associate of the Group for £900,000, £300,000 of which was receivable at 31 December 2013. The sale realised a loss of £1.1 million on disposal.

34 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:

- Hiscox Ltd and Hiscox Capital Ltd have entered into deeds of covenant in respect of a subsidiary, Hiscox Dedicated Corporate Member Limited, to meet the subsidiary's obligations at Lloyd's. The total guarantee given under these deeds of covenant (subject to limitations) amounts to £29 million (2013: £25 million) in respect of Hiscox Ltd supported by £29 million of investment securities (2013: £28 million) and US\$274 million (2013: US\$258 million) in respect of Hiscox Capital Ltd supported by US\$262 million of investment securities (2013: US\$271 million). The obligations in respect of this deed of covenant are secured by a fixed and floating charge over certain of the investments and other assets of the Company in favour of Lloyd's. Lloyd's has a right to retain the income on the charged investments in circumstances where it considers there to be a risk that the covenant might need to be called.
- Hiscox plc continued with its Letter of Credit and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, for a total US\$875 million which may be drawn in cash (under a revolving credit facility), Letter of Credit or a combination thereof, providing that the cash portion does not exceed US\$400 million. In addition, the terms also provide that upon request the facility may

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continued

34 Contingencies and guarantees continued

be drawn in a currency other than US Dollar. At 31 December 2014 US\$441.5 million (2013: US\$333 million) was drawn by way of Letter of Credit to support the Funds at Lloyd's requirement and no cash drawings were outstanding (2013: £nil).

- (c) Hiscox Insurance Company Limited has arranged a Letter of Credit of £50,000 (2013: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's, the arrangement is collateralised with cash of £50,000 (2013: £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. In 2012, Hiscox Bermuda renegotiated its 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 entered into new Letter of Credit facility agreements with the Royal Bank of Scotland and Commerzbank AG. The agreements combined are a three-year secured facility that allowed Hiscox Bermuda to request the issuance of up to US\$350 million in Letters of Credit (2013: US\$400 million). Letters of Credit issued under these facilities are collateralised by US Government and Corporate Securities of Hiscox Insurance Company (Bermuda) Limited. Letters of Credit under this facility totaling US\$98.7 million were issued with an effective date of 31 December 2014 (2013: US\$112.7 million on a US\$400 million facility) and these were collateralised by US Government and Corporate Securities with a fair value of US\$115.6 million (2013: US\$131.4 million).

35 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 £1,976,000 (2013: £1,902,000).

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 totaled £9,031,000 (2013: £8,677,000). Operating lease rental income for the year totaled £595,000 (2013: £547,000).

The aggregate minimum lease payments required by the Group under non-cancellable operating leases, over the expected lease terms, are as follows:

		2014 £000	2013 £000
No later than one year	Land and buildings	9,082	7,883
	Office equipment	276	330
Later than one year and no later than five years	Land and buildings	30,080	25,734
	Office equipment	432	347
Later than five years	Land and buildings	15,161	15,093
		55,031	49,387

The total future aggregate minimum lease rentals receivable by the Group as lessor under non-cancellable operating property leases are as follows:

	2014 £000	2013 £000
No later than one year	191	395
Later than one year and no later than five years	–	180
Later than five years	–	–
	191	575

Obligations under finance leases

There were no finance lease arrangements in place at 31 December 2014 or 31 December 2013.

Finance lease interest expense for the year was £nil (2013: £nil).

36 Events after the balance sheet date

On 27 February 2015, the Group acquired R&Q Marine Services Ltd ('RQMS') for a consideration of £7,375,000 plus a further amount contingent on the business generating levels of gross premiums written over the next 12 months. RQMS are a managing agent specialising in yachts and general marine leisure which underwrites on behalf of other insurers.

37 Principal subsidiary companies of Hiscox Ltd at 31 December 2014

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
Kiskadee Capital Ltd*	Holding company	Bermuda
Kiskadee Reinsurance 1 Ltd	Special purpose insurer	Bermuda
Kiskadee Reinsurance 2 Ltd	Special purpose insurer	Bermuda
Direct Asia Insurance (Holdings) Pte Ltd	Holding company	Singapore
Direct Asia Insurance (Singapore) Pte Limited	General insurance	Singapore
Direct Asia Insurance (Hong Kong) Limited	General insurance	Hong Kong

*Held directly.

**Hiscox Holdings Limited held 43,216 shares in Hiscox Ltd at 31 December 2014 (2013: 48,558).

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

38 Related-party transactions

Details of the remuneration of the Group's key personnel are shown in the annual report on remuneration 2014 on pages 60 to 68. 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 2014 £000	31 December 2013 £000	31 December 2014 £000	31 December 2013 £000
Hiscox Syndicates Limited	42,368	39,136	55,623	36,271
Hiscox Group insurance carriers	33,576	25,924	55,070	23,654
Hiscox Group insurance intermediaries	5,365	11,246	(13,920)	(7,646)
Other Hiscox Group companies	–	–	(9,381)	(7,893)
	81,309	76,306	87,392	44,386

(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.

	2014 Total £000	2013 Total £000
Gross premium income achieved through associates	102,396	14,474
Commission expense charged by associates	9,099	3,557
Amounts payable to associates at 31 December	2,520	37
Amounts receivable from associates at 31 December	52,230	9,769

Details of the Group's associates are given in note 16.

(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.

Five-year summary

	2014 £000	2013 £000	2012 restated* £000	2011 £000	2010 £000
Results					
Gross premiums written	1,756,260	1,699,478	1,565,819	1,449,219	1,432,674
Net premiums written	1,343,410	1,371,114	1,268,140	1,174,011	1,131,627
Net premiums earned	1,316,259	1,283,311	1,198,621	1,145,007	1,131,158
Profit before tax	231,075	244,538	217,454	17,271	211,366
Profit for the year after tax	216,152	237,758	208,026	21,272	178,800
Assets employed					
Intangible assets	105,946	72,720	69,617	67,552	64,108
Financial assets carried at fair value	2,828,847	2,585,054	2,406,269	2,368,636	2,459,107
Cash and cash equivalents	650,651	564,375	657,662	516,547	336,017
Insurance liabilities and reinsurance assets	(2,309,854)	(2,150,299)	(2,056,223)	(2,007,745)	(1,817,102)
Other net assets	178,616	337,611	288,041	310,909	223,984
Net assets	1,454,206	1,409,461	1,365,366	1,255,899	1,266,114
Net asset value per share (p)	462.5	402.2	346.4	323.5	332.7
Key statistics					
Basic earnings per share (p)	67.4	66.3	53.1	5.5	47.2
Diluted earnings per share (p)	64.5	63.5	51.0	5.3	45.4
Combined ratio (%)	83.9	83.0	85.5	99.5	89.3
Return on equity (%)	17.1	19.3	17.1	1.7	16.5
Dividends per share (p)	22.5	21.0	18.0	17.0	16.5
Share price – high [†] (p)	735.0	695.0	489.4	424.7	381.4
Share price – low [†] (p)	624.5	453.6	369.3	340.5	317.0

*The 2012 results have been restated to reflect the revised pension accounting standard.
[†]Closing mid-market prices.

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