Hiscox Ltd
Report and Accounts
2016

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Hiscox is a global specialist insurer, headquartered in Bermuda and listed on the London Stock Exchange. We can trace our roots in the Lloyd's market back to 1901 and our adaptability has meant we have evolved organically over time.

We are now a diversified international insurance group with a powerful brand, strong balance sheet and plenty of room to grow. Our values define our business, with a focus on quality, courage, excellence in execution and our people.

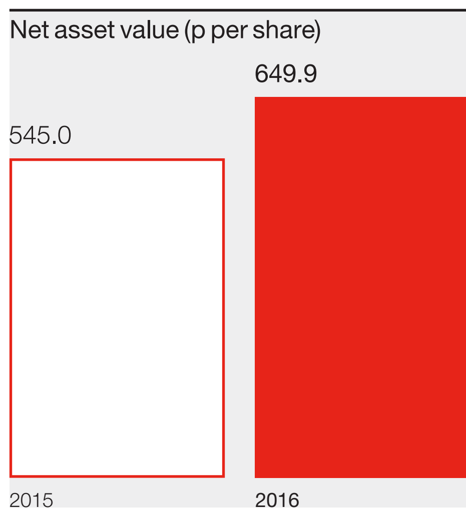
Financial highlights

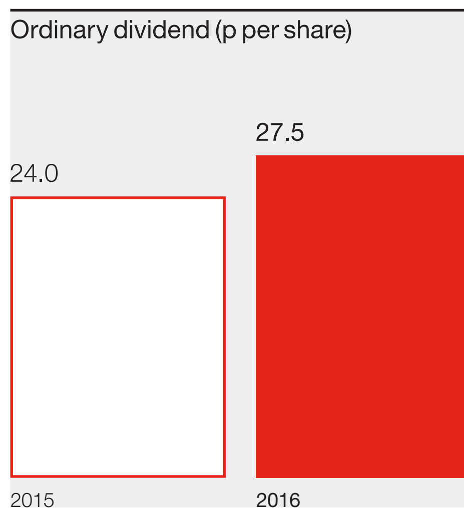
Our 2016 result is a record profit of £354.5 million, reflecting a year of good underwriting, favourable foreign exchange gains and a strong investment return.

649.9p
Net asset value per share increased by over £1.

27.5p
Total ordinary dividend per share up by 15%.

£354.5m
Profit before tax increased by 64%.





Group key performance indicators*

	2016	2015
Gross premiums written (£m)	2,402.6	1,944.2
Net premiums earned (£m)	1,675.0	1,435.0
Profit before tax (£m)	354.5	216.1
Profit after tax (£m)	337.0	209.9
Earnings per share (p)	119.8	72.8
Total ordinary dividend per share for year (p)	27.5	24.0
Special dividend (p)	–	16.0
Net asset value per share (p)	649.9	545.0
Group combined ratio (%)	84.4	85.0
Group combined ratio excluding foreign exchange (%)	90.8	85.7
Return on equity (%)	23.0	16.0
Investment return (%)	1.9	1.0
Reserve releases (£m)	213.0	205.9

*Additional performance measures are discussed on page 25.

Why invest in Hiscox?

Hiscox is a uniquely balanced insurer with a clear vision for the future. Our ambition is to be a respected specialist insurer valued by our customers, business partners and shareholders, with a diverse portfolio by product and geography.

Our strategy

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

Our success is due to this long-held strategy. It provides opportunity throughout the insurance cycle, allowing us to deliver in the short, medium and long term.

What do we mean by big-ticket and retail business?

We characterise **big-ticket** as larger premium, catastrophe-exposed business written through Hiscox Re and ILS and Hiscox London Market. We expand and shrink these lines according to market conditions.

Retail is smaller premium, less volatile business written through Hiscox Retail. Investment in our brand and specialist knowledge differentiates us here. We aim to grow this business between 5-15% per annum.

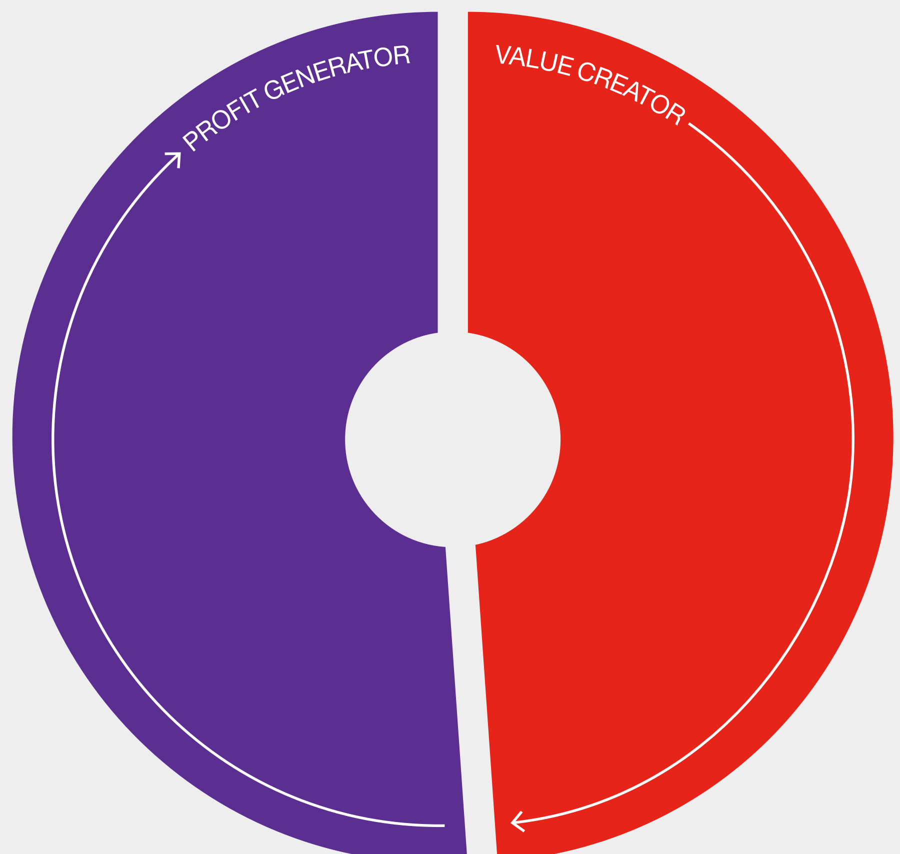
Building balance – a symbiotic relationship

Big-ticket business

- Larger premium, globally-traded, catastrophe-exposed.
- Shrinks and expands according to rates.
- Excess profits allow investment in retail development.

Retail business

- Smaller premium, locally-traded, less volatile.
- Growth between 5-15% per annum.
- Pays dividends.
- Brand builds strong market position.
- Profits act as additional capital.



Our operations span every continent and we are not overly reliant on any one of our divisions for the Group's overall profits.

2,300+

The Hiscox Group has over 2,300 people in 13 countries.

Europe

Hiscox Europe delivers a record result. Hiscox Germany expands their classic car and cyber insurance offerings.

London

Hiscox London Market delivers good growth in challenging markets, with new teams and products including product recall and cargo.

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

UK
Birmingham, Colchester, Glasgow, London, Maidenhead, Manchester, York

Guernsey
St Peter Port

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

HISCOX
Bermuda
Hamilton

Latin American gateway
Miami

Bermuda

Adaptability of Hiscox Re and ILS drives excellent result. Kiskadee AUM now over $1.25 billion.

USA

Hiscox USA is a stand-out performer with growth of over 30% as our investment in marketing and talent pays off.

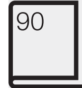
UK and Ireland

Hiscox UK and Ireland invests in infrastructure and new specialist products, launching a homeowners' renovation and extension cover and crime cover for small businesses.

Asia
Bangkok, Singapore

Long-term shareholder value

Hiscox has always had a focus on creating long-term shareholder value with a progressive dividend policy. We have consistently out-performed the market over the medium to long term and returned £881 million of capital to shareholders over the last five years.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A resilient business

Strong underwriting discipline, a diversified strategy and sound capital management led to a lower risk profile for the Group.

We always underwrite for profit, not for market share, and we actively manage our business mix according to the conditions in each sector.

The Hiscox businesses maintain strong and stable credit ratings: A by A.M. Best and S&P and A+ by Fitch. The Group has an increasingly diversified capital base and is in a strong position to take advantage of future growth opportunities.

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A track record of profitable growth

Over the last five years the Hiscox Group has:

increased gross written premiums by 53.4% to

£2.40bn

delivered an average combined ratio of

84.4%

reported average return on equity of

18.5%

achieved compound dividend growth of

11.2%

returned capital to shareholders of

£881m

Unique culture and strong brand

The excellence of our people has been a crucial factor in our continuing success. Their expertise, courage and dedication continue to drive our reputation for quality and professionalism. In return we strive to provide them with a working environment in which they can flourish. In our annual global employee engagement survey we looked at how connected employees feel to Hiscox, their managers, their teams and their roles. Hiscox enjoys very high employee engagement, which averages in the top quartile of over 200 companies worldwide. Of our employees, 89% said they are proud to work for us, while 94% said they believed in our corporate values.

We are market leaders in many of the sectors in which we operate, while our commitment to provide clients with quick responses, clear coverage and superb service is at the heart of everything we do. We have invested significantly in creating a powerful, differentiated brand that reflects our values and customer service ethos, with which our target clients identify. For example, our brand awareness in the US has doubled in the last year, the result of a long-term campaign highlighting the courage of small businesses.

Specialist expertise that is valued by our customers

In France, 98% of small business customers are satisfied with our services. In the US, Hiscox small business customers rated us 4.8 out of 5 for customer service.

96%

In the UK, 96% of Hiscox home insurance customers who have made a claim would recommend us*.

*Source: Insight Now, 347 surveys, June-November 2016.

#1

Our broker partners value our claims expertise, rating Hiscox number one in the Gracechurch London Claims Report for overall service quality.

For the past ten years running, Defaqto has awarded Hiscox Home Insurance five stars. Defaqto is an independent financial research company, which rates products from 1 to 5 depending on the level of quality and comprehensiveness of the features and benefits it offers.

In 2016 we received a number of industry accolades across the Group:

- Hiscox London Market won Best Product Innovation at The Lloyd's Market Innovation Awards for its FloodPlus product, and Kieran Giddons was announced as the Insurance Insider Honours Young Claims Professional of the Year;
- Hiscox Re and ILS won Underwriting Team of the Year at the Insurance Day London Market Awards;
- Hiscox UK and Ireland received the Consumer Intelligence 2016 Best Claims Award;
- DirectAsia Singapore won Best Online Buying Experience at the TripZilla Excellence Awards.
- Hiscox London Market won Insurance Team of the Year and Marketing Team of the Year.

Hiscox UK and Ireland received Underwriting Team of the Year, Cyber/ Technology Risks Team of the Year and Professional Indemnity and Directors' & Officers' Team of the Year.

Top 100

Hiscox USA was recognised in the Top 100 Small Business Influencer Awards.

Challenging convention

At Hiscox our core values include challenging 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.

Chairman's statement

I am pleased to announce a final dividend of 19.0p, a step up in the full year ordinary dividend to 27.5p, which is an increase of 15%.

Dividend, balance sheet and capital management

I am pleased to report a record profit of £354.5 million (2015: £216.1 million), over 60% more than last year. This year we maintained our underwriting discipline and benefited from a very favourable foreign exchange gain and good investment return.

On-going investment in our brand, infrastructure, and the hard work of our highly talented, energetic teams have all contributed to a strong result for Hiscox Retail. Hiscox USA has performed particularly well and continues to represent an excellent growth opportunity for the Group.

Hiscox London Market delivered a good result against a backdrop of fierce competition in specialty classes of business. Profitability is under pressure in most lines, and on the whole we are exercising caution. We hunt for opportunities where we can but are not afraid to sit on our hands where margins are thin. We are cautiously growing in some lines, particularly in new product areas and in our fledgling MGA business, which gives us access to attractive returns, helping to offset reductions elsewhere.

Hiscox Re and ILS (insurance-linked securities) has been very successful. Our strategy of reducing volatility in our earnings by diversifying our operations saw us create an ILS business in 2013 which has grown quickly to reach US$1.25 billion in assets under management and is now firmly in the premier league of ILS businesses. It performs a number of very useful functions for the Group, enabling us to leverage our underwriting expertise to give clients a full range of solutions, as well as providing an attractive source of regular fee income. It sits comfortably alongside our well-developed partnership with various quota share reinsurers.

Hiscox has had the same strategy for the 30 years I have been here. We continue to grow the retail businesses between 5% and 15% on average each year, whilst managing the more volatile London Market and reinsurance businesses more aggressively up and down as the opportunity and conditions dictate. This strategy has resulted in our transformation from a niche Lloyd's underwriter to an international insurance group with a strong consumer brand. This has required discipline and persistence by an experienced management team led by our CEO, Bronek Masojada. Our retail business, outside of the London Market and Bermuda, now delivers 45% of profits (60% excluding foreign exchange gains), 49% of income and again its profits cover the dividend.

Results

The result for the year ending 31 December 2016 was a record profit before tax of £354.5 million (2015: £216.1 million). Gross written premium increased by 23.6% to £2,402.6 million (2015: £1,944.2 million). The combined ratio was 84.4% (2015: 85.0%). Earnings per share increased to 119.8p (2015: 72.8p) and the net asset value per share increased by 19.2%, or over £1, to 649.9p (2015: 545.0p). Return on equity was 23.0% (2015: 16.0%).

Dividend, balance sheet and capital management

In view of the performance of the Group, the growing contribution of the retail business, and the diversification of our reinsurance offering, I am pleased to announce a final dividend of 19.0p, a step up in the full year ordinary dividend to 27.5p, which is an increase of 15%. Going forward we will maintain our progressive dividend policy. The record date for the dividend will be 12 May 2017 and the payment date will be 20 June 2017.

The Board proposes to offer a scrip alternative subject to the terms and conditions of Hiscox Ltd's 2016 Scrip Dividend Scheme. The last date for receipt of scrip elections will be 19 May 2017 and the reference price will be announced on 30 May 2017.

The Group continues to use retained profits to capitalise on the opportunities for profitable growth which we have created. Despite our shifting profile towards retail, as in previous years our key capital constraint remains the view of rating agencies on our solvency.

Investments

We made a much improved investment return of £74.8 million (2015: £33.7 million), excluding derivatives, which equates to a return of 1.9% (2015: 1.0%) on total assets under management. We would happily have accepted this at the beginning of the year, particularly given the political surprises that added considerably to the already challenging investment environment.

Robert Childs
Chairman

Our bond portfolios, which traditionally deliver the majority of our returns, all benefited from the dramatic decline in yields following the UK referendum outcome. However, in the US Dollar market, where the bulk of our assets are invested, yields soon rose again, which created a particularly difficult end to the year, although we were somewhat protected by our focus on investment grade credit and short-duration investments. Our risk assets portfolio also made a useful contribution in absolute terms over the year, but lagged our benchmark.

In 2017, our expectation is that yields are more likely to rise than fall. Our largely short-duration portfolio means we are well positioned to take advantage of such a move. Capital gains will be harder to come by in such an environment and income will play a more important role, so our preference for corporate credit is likely to remain given the higher coupons available. The outlook remains unclear, and we therefore expect another year of relatively modest investment returns.

Industry stress test

Last year I talked about my desire to gain consensus on an industry-wide 'dry run' to test the London Market's ability to withstand a mega-catastrophe. This year, I'm delighted to say we have accomplished that task. It is rare for such an initiative to be driven by the industry rather than the regulator, but we succeeded in bringing together insurers, brokers, Lloyd's, rating agencies, regulators and Her Majesty's Treasury.

We learnt a number of valuable lessons from the exercise. The industry has a vital part to play in the economy in the aftermath of a major event, and this exercise demonstrated that it has all the ingredients it needs not just to survive such a market-turning event, but to thrive. We confirmed that the resilience of the London Market depends on the robustness of reinsurance and recapitalisation arrangements and the ability of firms to implement these arrangements during a turbulent financial environment. We also resolved that out of five critical factors – capital, rates, liquidity, underwriting expertise and regulatory response – it is a deep underwriting expertise and surefooted regulatory response that will differentiate the London insurance market in a market-turning event.

The London Market is the world's pre-eminent insurance market and our industry-led approach to this exercise is one of many reasons this market is so special. This exercise sets us apart from others at a time when there is greater fluidity of capital and a growing expertise in other territories to challenge us. We now have a blueprint for what the London insurance market needs to do to maintain its leadership position.

People

We should never think that we know everything. For the Group to thrive, it needs to continually adapt to the changes in our industry, and to do that we must embrace new ideas and perspectives. That is why it is so important to us to attract and retain the brightest and best people from a range of backgrounds.

2016 was a great year for us in this respect. Further consolidation in the London Market enabled us to recruit several market-leading specialty teams, and our new apprenticeship scheme for non-graduates also saw us take on clever, enthusiastic young people whose positive attitude and fresh outlook are beneficial to our business.

It has also been pleasing to see our Board and Executive Committee boosted by the addition of Aki Hussain, our new Chief Financial Officer, who brings different skills to our top team as well as important regulatory experience. His positive impact is already being felt and we are learning a lot from him.

Ultimately our people and our culture set us apart. I am always hugely impressed by the passion and positivity I encounter when I visit any of our 30 offices around the world. I am grateful to all our people for their focus and commitment to excellence, and thank them for their hard work over the year.

Outlook

In 2016 we saw favourable foreign exchange movements produce increased profits despite declining margins. We are very happy to take the exchange gain but are equally aware it can go the other way. Margins are under pressure in big-ticket business and are not likely to improve next year. This is where our retail strategy comes into its own. We have plenty of room for growth in all retail segments as our penetration in professional lines and homeowners is far from complete.

The last time I saw market conditions like this was in the 1990s, but the difference between then and now is that the Group has a depth of expertise and experience and more tools to deal with market challenges than before. Hiscox remains disciplined, and our longstanding strategy serves us well. We expect the tension between underwriting discipline and market relevance to continue in 2017, particularly in the London Market, and will respond by retreating in those lines where margins are vanishing.

Despite the difficult trading environment, the Hiscox Group has never been in better shape. The strategy we began so many years ago is guiding us in the soft market, giving us precisely the kind of options and flexibility that we could only have dreamt of some years ago. We look forward with optimism and confidence.

Robert Childs
27 February 2017

Chief Executive's report

Our adaptability has meant we have evolved organically over the past decade. We are now a lot more than a Lloyd's business with a retail play on the side.

Our 2016 result represents a record year for Hiscox with profits before tax of £354.5 million (2015: £216.1 million), beating our previous record of £320.6 million achieved in 2009. The improvement since last year is thanks to increased investment returns, significant foreign exchange gains and good underwriting which has offset the impact of a softening market. At the same time we were able to grow our revenues to £2,402.6 million (2015: £1,944.2 million), an increase of 14.1% at constant exchange rates.

Hiscox Retail is becoming an ever more important part of our business, growing revenues by 13.2% in local currency and doubling profits to £158.0 million (2015: £78.6 million). Our retail business has come of age and now accounts for 49% of the Group's GWP, 61% of NWP and 45% of profits (60% excluding foreign exchange gains), and again covers the dividend. Our long-held strategy of balance and diversity gives us choice and flexibility in this soft market and the symbiotic relationship we have created between our retail operations and bigger-ticket, more volatile lines, is not quickly replicated. It is the culmination of years of investment in infrastructure, our skills and our brand.

These very good results mask ongoing soft market challenges. Our London Market business continues to face pricing pressure in most lines. Despite this, it delivered a strong profit of £44.0 million (2015: £54.6 million) and growth in local currency of 14.2%. Our investment in new teams has offset the decline in some established lines. We expect the soft market conditions to continue in 2017, and that particularly tortured London Market lines will shrink.

Hiscox Re and ILS has spent the last three years evolving and adapting to market disruption, successfully navigating new capital and declining rates to become a premier league player in the reinsurance and ILS space. Through good underwriting and good fortune we have avoided significant losses in what has been the worst year for catastrophes since 2012, increasing profits to £115.5 million (2015: £97.5 million).

Our adaptability has meant we have evolved organically over the past decade. We are now a lot more than a Lloyd's business with a retail play on the side. We are a diversified international insurance group with a powerful brand, strong balance sheet and plenty of room to grow. We are not afraid to take bets, make difficult decisions or shrink as we adapt to the markets around us.

Hiscox Retail

Hiscox Retail continues to grow in significance and this year generated almost half of the Group's gross written premiums at £1,181.4 million (2015: £989.8 million). It is the single biggest segment in the Group, a strong profit contributor, and it differentiates us from our peers. We continue to invest heavily in our brand and our significant investment in IT infrastructure in both the UK and USA will support our next phase of growth.

Bronek Masojada
Chief Executive

Hiscox Retail

	2016 £m	2015 £m
Gross premiums written	1,181.4	989.8
Net premiums earned	1,020.5	888.0
Underwriting profit	99.5	72.2
Investment result	31.3	17.4
Foreign exchange and other*	27.2	(11.0)
Profit before tax	158.0	78.6
Combined ratio	88.1%	92.9%
Combined ratio excluding foreign exchange	91.9%	92.0%

*Includes impairments and accelerated amortisation.

Our retail businesses doubled profits to £158.0 million (2015: £78.6 million) and delivered a combined ratio of 88.1% (2015: 92.9%), the result of good underwriting decisions and a modest year for claims. Rates are broadly flat in retail, with marginal increases in select areas offset by declines elsewhere. Hiscox UK and Ireland saw increases in personal lines, though new business rates in casualty remain under pressure.

Hiscox Retail comprises Hiscox UK and Ireland, Hiscox Europe, and Hiscox International. I review them in turn below.

Hiscox UK and Europe

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

Our retail businesses in the UK and Europe doubled profits to £122.0 million (2015: £59.6 million) and experienced a benign year for claims, with minimal exposure to Storm Katie in the UK and Storm Elvira in France.

Hiscox UK and Ireland

Our most mature retail operation, Hiscox UK and Ireland, increased gross written premiums by 12.5% to £498.6 million (2015: £443.3 million), with every region contributing.

The broker channel remains a key driver of growth, particularly in professions and specialty commercial lines where we have expanded our appetite for larger risks. Within our technology book, our cyber and data risks product continues to perform well, supported by a focused marketing campaign. Underwriting partnerships grew by over 60% and we have made good progress in motor following our acquisition of RH Classics in 2015. Our market-leading position in media, entertainment and events, and specialised claims handling team, continue to set us apart, achieving double-digit premium growth in the period.

In our direct-to-consumer business, the investment in infrastructure that I have spoken about previously is bearing fruit. We completed our migration to a new online platform with an improved user experience, and that has helped to drive good growth, particularly in commercial lines where we have broadened our appetite to include more businesses at the 'medium' end of the SME scale. In direct home, we are already benefiting from our new IT system's ability to tailor pricing intelligently.

In 2016 we successfully launched a number of new products. These included Hiscox Trader, an e-trading solution for commercial brokers to make it easier for them to quote and sell Hiscox products to their clients; a renovation and extension product that provides homeowners with additional protection when undertaking sizable building works; a liability product for tradespeople and contractors; and a crime product to protect small businesses from a broad range of fraudulent acts. All have performed well so far, particularly Hiscox Trader, which has helped us to streamline the way we quote and process small risks.

2016 was also the year we saw the much-debated Flood Re scheme go live. We are proud to have supported our customers by successfully campaigning for higher council tax band homes to be included within the scheme. However, we were disappointed to see the Government announce further increases to Insurance Premium Tax (IPT) in the Autumn Statement. This is the third price increase in 18 months, taking IPT from 10% to 12% from June 2017 and, alongside the Flood Re levy of 4%, punishes the prudent. The latest hike amounts to a 300% increase since the introduction of IPT in 1994 and is hitting consumers' pockets and their ability to protect their assets – which I am sure is not the aim of HM Revenue and Customs.

It has been little over a year since we opened our landmark office in York, the home of our UK direct business. We now have 255 people working there and were pleased to be recognised by the British Council for Offices, winning the Best Workplace in the North Award.

Continued investment in our brand saw us achieve some of our strongest ever brand health scores in 2016. Targeted small business and cyber insurance campaigns boosted brand affinity amongst SMEs to a record high of 53%. Our home insurance marketing also delivered strong results amongst target customer groups and helped new business to grow by 21%.

Our strong brand, established broker and partner relationships and award-winning claims service continue to deliver good opportunities in the UK market.

Hiscox Europe

Hiscox Europe grew gross written premiums to £174.7 million (2015: £148.3 million), 9.0% in constant currency. This good growth was driven by Germany, Spain and Benelux, all of which exceeded expectations at both the top and bottom line, and by our specialty commercial business, which performed well in all markets.

Our German operations are doing very well. Here, core homeowner and small business products continue to deliver, while a focus on classic cars, the expansion of our cyber business, and new products launched for online shops and IT freelancers all help to differentiate us. It is a similar story in

Benelux, where our classic car product (available through brokers) is proving popular, and our cyber offering is gaining traction. Cyber is a growing area of focus for our business, and this year a refined cyber offering will be launched in both France and Iberia.

In Spain, all lines are growing, with a particularly good performance in professional indemnity and directors and officers' business. We have also expanded our appetite for partnerships with financial service providers, with promising early signs.

Hiscox France experienced a difficult year following the loss of a number of key underwriters in 2015 and the cancellation of a challenged home surveyors' scheme. Our direct operations are performing well, helped by a move away from brand-building activity towards more focused acquisition marketing.

Our shared service centre in Lisbon continues to improve our expense ratio for Europe. Around one third of our 325 Hiscox Europe staff are based there, and the team are involved not only in credit control and collection processes, but also in underwriting, pricing, broker relations, claims and IT.

Hiscox International

This division comprises Hiscox USA, Hiscox Special Risks and DirectAsia. Its revenues grew by 27.6% to £508.1 million (2015: £398.2 million), 16.9% at constant currency, and it achieved a combined ratio of 93.6% (2015: 93.9%). Hiscox USA was the biggest contributor to the division's growth and profit improvement.

Hiscox USA

Hiscox USA underwrites small-to-mid market commercial risks through brokers, other insurers and directly to businesses online and over the telephone. The outstanding momentum in this business has not stopped, delivering excellent growth of 30% in constant currency to £400.0 million (2015: £280.7 million) and a second year of aggregate profitability. Our business model is working.

Our broker business and direct and partnerships division have both performed well, with key contributors being our professional liability and cyber lines. The general liability account is also now established. Our first mover advantage in the direct and partnerships division is reaping rewards, delivering almost US$100 million in premium in 2016 and increasing its customer base to 175,000 policyholders. The low loss environment which benefited our terrorism line was offset by a more normal loss experience in the property account to deliver a good result in a challenging market.

During the year we expanded our cyber and data risk solutions to include Hiscox CyberClear, a product aimed at small and medium-sized enterprises in the US with less than US$1 billion in annual revenue. This complements our existing offering for larger businesses. We also launched a new workplace violence coverage for our management liability product, and re-launched our industry-leading terrorism product to include a wider range of risks, such as the threat of an 'active shooter'.

Our operating model continues to adapt and evolve to accommodate a fast-growing business. We now have over 20 professionals working in a dedicated underwriting centre in Atlanta to service small accounts efficiently, which in turn enables our field underwriters to win more complex middle-market business, and we are benefiting from this approach. We are also embarking on a major project to replace our underlying US infrastructure with a more digital-friendly environment to ensure we have the capacity to support the size of business we would like to build.

On-going investment in the brand, including a US$28 million marketing spend, is paying off, with brand affinity amongst our target customers growing to 23% (2015: 7%). Our UK experience is that brand investment combined with good service drives customer growth, and that certainly appears to be the case here. We remain very optimistic about our ability to grow profitably in the US market. We expect that Hiscox's combination of flexible underwriting delivered locally and our willingness to challenge convention by developing our direct offering will continue to differentiate us.

Hiscox Special Risks

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

The business delivered gross written premiums of £95.2 million (2015: £99.3 million), a decrease of 4.2% or 11.6% in constant currency, due to intense competition and rate pressure across all lines. We continue to find opportunities in new and established markets though, helped by disciplined underwriting and careful expense management to protect profitability. In the Middle East, our fine art offering has been well received, and Latin America remains a source of great opportunity. New partnerships and distribution channels have also proven successful.

In partnership with global risk consultants Control Risks, we have developed a broader security-based offering for corporate and private clients, beyond our traditional kidnap and ransom product. The Security Incident Response product includes cover for criminal threats, workplace violence, corporate espionage and cyber extortion, and so responds to the changing needs of our clients. We expect these initiatives will return the business to growth in 2017.

DirectAsia

DirectAsia is a direct-to-consumer business in Singapore and Thailand that sells predominantly motor insurance. Hiscox acquired the business in April 2014. Its premiums shrank to £13.0 million (2015: £18.2 million), following the sale of our business in Hong Kong.

The team is navigating a highly competitive motor insurance market in Singapore, where restrictions on car ownership limit the size of the opportunity. In 2017 the Singapore team will focus on the core motor market and begin exploring the potential to use our digital platform to enter other lines of business.

£400.0m

Hiscox USA gross premiums written, an increase of 30% in constant currency.

Hiscox London Market

	2016 £m	2015 £m
Gross premiums written	726.0	571.0
Net premiums earned	443.1	366.4
Underwriting (loss)/profit	(3.4)	40.9
Investment result	13.4	6.8
Foreign exchange and other*	34.0	6.9
Profit before tax	44.0	54.6
Combined ratio	91.0%	86.6%
Combined ratio excluding foreign exchange	99.7%	88.8%

*Includes impairment.

In Thailand we see strong growth potential and our brand-building work continues to deliver results. Thailand has some 60 million people and over 12 million cars, so the opportunity for us here is significant. The challenge is to build the operational infrastructure to a level which can efficiently convert enquiries into sales. This will remain our focus for 2017.

Hiscox London Market

Conditions in the London Market remain challenging, with pressure on rates, terms and conditions, and acquisition costs. Against this backdrop, our London Market business delivered a profit of £44.0 million (2015: £54.6 million) whilst increasing premiums by 27.1% to £726.0 million (2015: £571.0 million). On a constant currency basis, premium growth was 14.2%.

Hiscox London Market's combined ratio of 91.0% (2015: 86.6%), reflects the impact of the challenging market combined with a return to a more normal loss experience. This included claims in property (where we saw losses from Hurricane Matthew, the Alberta wildfires, Houston floods and Texas hailstorm), marine and energy (including the Jubilee Oil Field loss), personal accident and terrorism (where we had a small exposure to the Brussels terrorist attack), and a number of large directors and officers' claims.

The current trading environment is reminiscent of the London Market in the 1990s. The ongoing abundance of capital and a lack of major loss events have resulted in pricing pressure and led to a conflict between underwriting discipline and marketplace relevance. This is the reality of the market, and our response is to remain disciplined and accept that we may need to shrink and even exit lines of business where we cannot see the opportunity for long-term profitability. We are growing very selectively in areas where we have introduced new lines – like US flood, where we believe we have an edge over our competitors – or where we have employed new teams, such as general liability, product recall and cargo.

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 and small commercial lines traded in the London Market.

Our property teams shrank in areas where rates are under most pressure such as large commercial property, power and mining. It has seen some growth in catastrophe-exposed personal and small commercial lines, where rates have held up. We see real opportunity for growth in US flood insurance, where the market is deregulating. Our new FloodPlus product has been well received by the market and was awarded Best Product Innovation at the Lloyd's Market Innovation Awards.

Marine and energy

Our marine and energy business is one of the most challenged divisions, yet continues to deliver excellent profits. The marine and energy liability and hull accounts are broadly flat, with some reductions in the upstream energy book. Due to rate reductions, a lack of new business, and the continuing depression in oil prices, we are actively managing our business in these lines. The cargo team we hired in 2016 is already bringing us new opportunities and we will cautiously grow in 2017. We have avoided some of the large cargo losses in the market.

Casualty

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

Market challenges are less pronounced in our casualty business, where we have invested in new teams and products. We have received good support from brokers for our new general liability product as the team brings business to London which would otherwise have been written elsewhere. We will continue to grow in these lines in 2017, particularly in cyber which remains an opportunity for the Group.

Aerospace and specialty

This division includes our aviation, space, contingency, terrorism, political risks, personal accident and product recall business. It has had a mixed year, with some lines under more pressure than others.

In aviation we have significantly reduced our airline account as prices remain under pressure, but have looked to grow our products and airports business. Personal accident had a challenging year as the market was hit by a number of losses but we saw good top line growth. Our focus for 2017 is to ensure this account is well balanced and profitable. Terrorism has benefited from a lack of losses, and our leadership position in the market stands us in good stead, however this is an area of the market where broker pressure on acquisition costs is at its most severe. We continue to grow the product recall account, where we have a market-leading team, and will expand in both product and distribution in 2017. We have taken the decision to exit political risks as the growing length of cover – now regularly over five years – and greater role of credit has moved it outside of our risk appetite.

Alternative distribution

Our support for the underwriting agency White Oak has been a major part of our business, but after five years of working together we are materially reducing

our involvement in 2017. We will not be renewing the extended warranty business and will write a much reduced line on the physical damage portfolio.

The role of the alternative distribution division is to facilitate innovation in the use of technology and specialist data to serve different markets, but to succeed at this requires a degree of selection and discipline. We are expanding in our portfolio business, where we are supporting other expert underwriters with not only capacity but also claims, wordings and pricing expertise. We have a very strong pipeline of opportunities and this area is growing profitably.

Hiscox MGA
Hiscox MGA underwrites and distributes products where customers' requirements for capacity exceed Hiscox's own risk appetite. It operates out of London, Paris and Miami.

Our mega yacht business faced a challenging year and was not without losses, but our focus on the Mediterranean yacht market – and local presence – is already bearing fruit. For 2017, our Paris-based space team will become part of Hiscox MGA. Space is a longstanding class of business for us, and in offering material line sizes by underwriting on behalf of not only Hiscox but other insurers, we can remain relevant in this challenging market. In Miami, which serves as our gateway to Latin America, we have made good progress in our fine art, property and terrorism lines, and will be launching a casualty offering to the market in 2017. We have also extended the reach of our terrorism and political violence coverage, writing risks in the Middle East and Africa from London.

Hiscox Re and ILS
Hiscox Re and ILS comprises the Group's reinsurance businesses across the world and ILS activity through our flagship Kiskadee funds.

Gross written premiums for Hiscox Re and ILS increased by 29.1% to £495.2 million (2015: £383.4 million), 16.1% in constant currency, driven by growth in casualty and specialty lines as well as business written on behalf of Kiskadee. Net of cessions to supporting capital partners, premiums remained constant at £226.8 million (2015: £225.0 million), although declined 10.7% in constant currency. In a challenging trading environment, the business delivered a profit of £115.5 million (2015: £97.5 million) and a 53.7% combined ratio (2015: 46.6%), an excellent result boosted by a material contribution from fees and profit commissions. This was down to good risk selection, which saw the business avoid significant losses in a year of high frequency, and lower severity catastrophe activity.

The market continues to be awash with capital from new and traditional sources, which has seen rating pressure across the portfolio. While single-digit rate reductions at the important January renewals were within expectations, we remain willing to walk away from unattractively priced business. We are finding opportunity in non-catastrophe-exposed lines, such as smaller-ticket casualty and specialty reinsurance.

Product innovation continues to be a key focus for the team. New products developed in 2016 include cyber reinsurance covers and a collateralised reinsurance ILS offering which was launched for the 2017 renewal season.

Kiskadee assets under management reached US$1.25 billion in 2016. Demand for participation in the funds continues to increase, with the only constraint to growth being access to adequately priced opportunities. Pleasingly, the Hiscox Re and ILS team were awarded Underwriting Team of the Year at the Insurance Day London Market Awards.

Claims
We sell a promise to pay should the worst happen, and claims is where that promise is tested. We were therefore delighted to be rated number one in the Gracechurch London Claims Report for overall service quality for the second year in a row. One of our staff also received the Young Claims Professional of the Year Award at the Insurance Insider Honours Awards, and our net promoter scores remained at very positive levels. These are all signs that our ongoing investment in claims does not go unnoticed and is in fact recognised by clients, brokers and competitors alike.

In 2016 the global insurance market returned to a more normal claims environment with earthquakes in Japan and Ecuador, Hurricanes Hermine and Matthew, wildfires in Alberta and floods in Louisiana. With the exception of Hurricane Matthew these events had limited impact on Hiscox.

Hurricane Matthew was the first material storm to make landfall on the east coast of the United States since Hurricane Sandy in 2012. The Group set aside net US$35 million for the event, based on an insured market loss of US$8 billion, to cover claims and reduced profit commissions. This event was within our expected catastrophe loss budget for the year.

Hiscox's prudent approach to reserving is again reflected in reserve releases for 2016 of £213.0 million (2015: £205.9 million).

£42.1m
Investment in marketing and brand building in 2016.

Marketing
In 2016 the Group invested £42.1 million on marketing and brand-building activity (2015: £44.5 million). This was focused on our key retail businesses with incremental marketing investment accelerating the growth of our direct-to-consumer lines around the world. In the UK our consistent marketing approach helped maintain excellent brand awareness and relevance in the small business sector and a new home insurance marketing campaign contributed to a 25% year-on-year increase in new business premium. In the US we doubled brand awareness to a record 38% (2015: 21%) through the successful activation of the 'Encourage Courage' campaign, which also helped to deliver 45% growth in our direct small business division.

This year saw the successful activation of some new sponsorships, including the London to Brighton Veteran Car Run in the UK and the International Edelweiß Bergpreis in Germany, both of which helped to promote our classic car and high net worth business. In order to drive awareness of DirectAsia, we became the Official Club Partner of

Hiscox Re and ILS

	2016 £m	2015 £m
Gross premiums written	495.2	383.4
Net premiums earned	211.4	180.7
Underwriting profit	82.5	85.9
Investment result	11.7	4.7
Foreign exchange and other*	21.3	6.9
Profit before tax	115.5	97.5
Combined ratio	53.7%	46.6%
Combined ratio excluding foreign exchange	65.6%	51.4%

*Includes finance cost.

Leicester City Football Club (LCFC) for the 2016/17 season.

We continue to support the arts through corporate sponsorship such as Sculpture in the City, and through key local partnerships, particularly in York where we are establishing ourselves as a major local employer.

IT

Robust infrastructure is required as we grow into a business whose customer numbers will be measured in the millions, not the tens of thousands, so an investment in IT is a multi-year priority for the Group.

We are undertaking some significant IT infrastructure projects, particularly within our Retail businesses. In the UK, a new underwriting and policy administration platform will allow the business to grow scale efficiently, adapt to the increasingly digital world and meet customers' changing expectations. The UK direct business has already migrated to our new platform and is already benefiting from better conversion rates, more targeted pricing and improved customer service. The UK broker channel commercial business will follow suit during 2017. Hiscox USA is beginning the task of replacing its policy and claims administration system to ensure we are fit for future growth. This will be another multi-year investment.

We expect that as these new systems come on stream their impact on efficiency will more than offset the increased depreciation cost.

Investments

We have learnt to live with lower investment returns for the last few years and have resisted the temptation to stretch for yield given the high valuations that prevail in many parts of the bond and equity markets. Our strategy, however, has been one of low risk rather than no risk given that so-called risk free returns remain at minimal, and in many parts of the world negative, levels. The result for 2016 therefore is a good one and certainly exceeds the expectations we had at the beginning of the year. Our investments, before derivatives, made £74.8 million (2015: £33.7 million) equating to a return of 1.9% (2015: 1.0%). The significant improvement on last year is pleasing and masks the volatility in bond and equity markets which arose following the main political events on either side of the Atlantic. Whilst the Brexit vote in June provided a boost for our bond portfolios, the election of President Trump in November reversed much of the benefit, particularly in the US bond market where many of our assets are invested. Our bond managers performed well in the fast changing conditions and the overall return of 1.9% from the bond portfolios is the highest for several years and comfortably ahead of the benchmarks against which they are measured. After initial weakness both outcomes were viewed as being positive for equities but with a wide range of performance between sectors. The risk assets portfolio delivered 6.2% in a challenging year for active managers.

There is currently much debate as to whether the increase in US yields that has occurred recently will persist in 2017. We have seen numerous false dawns on this front but with the Federal Reserve indicating that they intend to continue along a path of gradually increasing interest rates, our hope and expectation is that they will indeed rise. Such a move would be welcome and, given the short duration of our bond portfolios, we are well positioned to benefit. On balance we continue to err on the side of caution. Whilst there are signs of improvement economically, emergency monetary measures remain in place in many parts of the world prolonging the period of artificially elevated asset prices and doing little to reduce the overall levels of debt in the world. Political uncertainty can be added to the likely source of volatility in 2017 and, as 2016 has shown us, predicting outcomes and market reaction to them is something of a lottery. At risk of repetition, the outlook for 2017 therefore seems no clearer or more predictable than of late and our focus on resilience over return is likely to remain in place.

Capital management

The key measure of value creation in insurance is return on equity. All of our internal financial incentives are focused on having a good return on equity, with reasonable leverage and within a tightly defined appetite for risk. In 2016 we delivered a 23.0% return on equity (2015: 16.0%).

Retaining our capital efficiency is an important priority. We are proposing a 15% increase in our annual dividend and remain committed to progressive increases in the future whilst retaining the balance of our profits to fund our growth. Areas for capital deployment include our retail businesses in the UK, US and Europe. In our London Market business we do not expect an immediate capital release as this business shrinks and we have to manage the associated reserving risk as the business on our books matures.

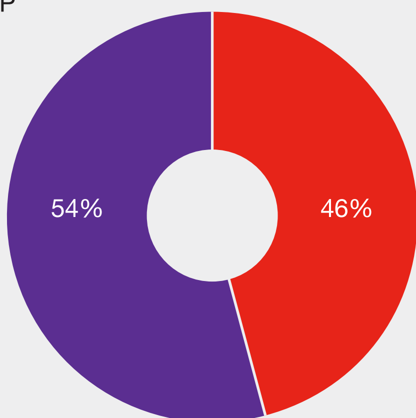
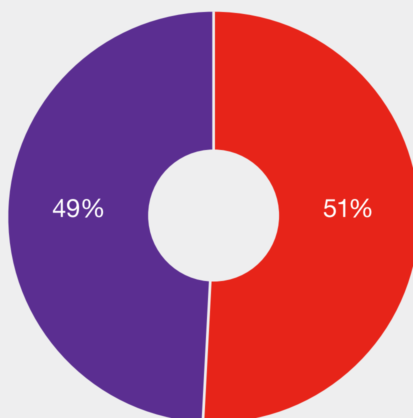
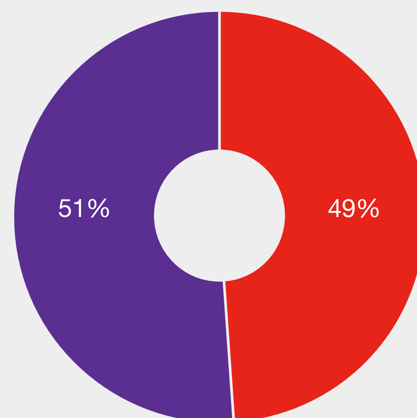
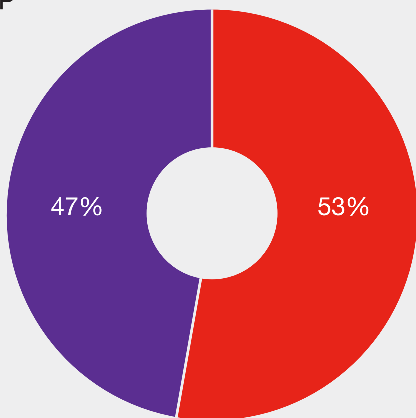
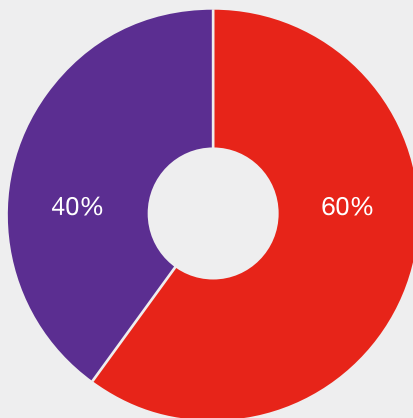
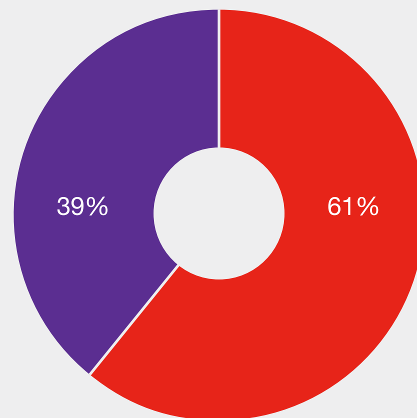
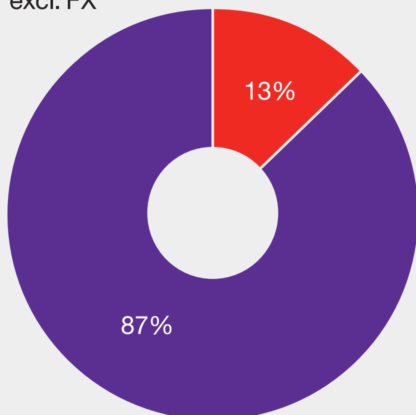
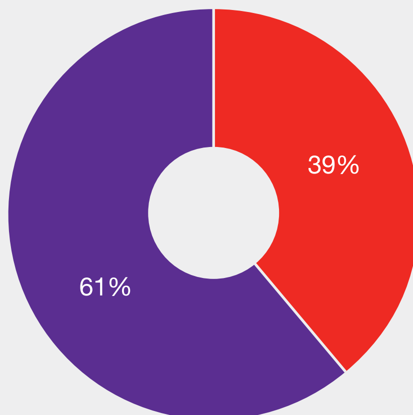
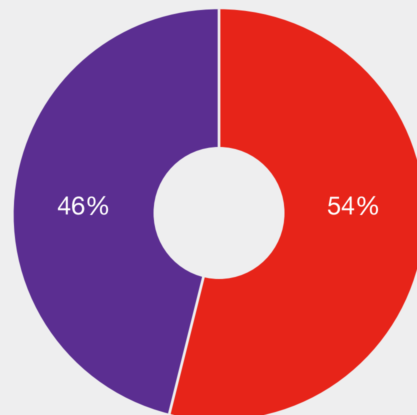
A further demand for capital will be to fund the creation of an EU-27 carrier to allow us to trade in Europe post-Brexit. This will require some initial capital commitment, though we expect that as the European business with our UK carrier develops there will be a release of capital here. Inevitably though there will be a timing difference.

For some time we have been communicating to rating agencies and regulators that Hiscox has a broad diversified business, both by product and geography, and we are no longer a London Market business with a retail operation on

Evolution of Hiscox
Growth of our retail business

■ Big-ticket
■ Retail

*PBT excludes Corporate Centre.

	2010 split %	2015 split %	2016 split %
GWP			
NWP			
PBT excl. FX*			

2017 will represent yet another step change in the evolution of our business.

Outlook

the side. Slowly they are seeing this in our results, and this year with retail contributing to 45% of pre-tax profits, I think that they will see that reality matches our message.

Political environment

2016 has seen some major changes in the political environment. Brexit is becoming a reality and it is possible that the US may enact major changes to its trading and taxation relationships with other countries.

Hiscox has been planning for a Brexit in which the UK will have regulatory equivalence with the EU-27, but no passporting or freedom of services. This means that to continue to conduct business in Europe we will have to incorporate a new carrier within the EU-27. Our European business employs 300 people, underwrites £174.7 million in premiums and has a combined ratio of 86.3%, so we have an incentive to retain and expand this business. We are in discussions with two regulators about domiciling our new legal entity in their country. We expect to begin the process of incorporation in the first half of this year, so that we are in a position to write new business into the new carrier before the end of 2018.

The only difficulty we see at the moment is the handling of claims on in-force or historic policies. The cost of a Part VII court approved process to transfer these liabilities to a new EU-27 carrier is significant. In the Brexit negotiations to come we hope that pragmatism will prevail and practical transition arrangements will be developed.

Another source of business uncertainty is the emerging conversation in the US on its relationship with the rest of the world. There is much talk of 'border adjustment taxes', changes to the taxation of related party transactions and a reduction in the headline rate of corporation tax. It is very uncertain what will be enacted by Congress and the Senate and approved by the President. We currently feel that Hiscox has the flexibility and capital to adjust to these developments as they unfold, but we will be keeping a close eye on trends in the US.

People

During 2016 we successfully managed a number of senior changes. In September we welcomed Aki Hussain as our new Group Chief Financial Officer. Aki is already proving to be an excellent addition to our senior team, bringing extensive financial services experience, strong regulatory exposure, and a fresh perspective. I would like to take this opportunity to thank John Worth, our interim CFO, for his great contribution over his tenure.

During the year Pierre-Olivier Desaulle stepped down as Managing Director of Hiscox Europe. When Pierre-Olivier assumed leadership of this business it had a premium income of €19.5 million and was loss making. It is now a €218.5 million business and a valuable profit contributor to the Group. I would like to thank Pierre-Olivier for his endeavours over his tenure. He is succeeded by Stéphane Flaquet, Group IT Director and formerly Chief Operating Officer of Hiscox Europe. His knowledge of our business and the European territories in which we operate is already having a positive effect and we look forward to continued growth and steadily increasing profits under his leadership.

After five years in Bermuda Jeremy Pinchin, Chief Executive Officer of Hiscox Re and ILS and Chief Executive Officer of Hiscox Bermuda, is to return to London next year where he will continue to serve as our Global Head of Claims and also join the Board of Hiscox Special Risks. Mike Krefta, currently the Chief Underwriting Officer of Hiscox Re and ILS, will succeed Jeremy in these roles with effect from 1 August 2017, subject to regulatory and immigration approvals. Jeremy has made a major contribution to this business in his time in Bermuda. He brought together the Bermuda, London and Paris reinsurance teams into a powerful single unit, made innovation a core part of our client interaction and was instrumental in the creation of Kiskadee Investment Managers. Hiscox remains a material participant in the reinsurance market thanks to Jeremy's leadership.

There is, understandably, interest in the inclusiveness of businesses and their gender pay gap. There are two elements to this – first, whether individuals performing the same roles with the same level of competence are paid equally, and second, the gender mix at different levels of seniority. Hiscox conducted an audit of the first and has corrected any anomalies. In the second, despite a 50/50 gender split at entry level, Hiscox sees a decline in females filling senior roles. Although this has been a focus in the last two years, we have decided to take further steps to address this and Richard Watson, our Chief Underwriting Officer, has become the champion of our internal efforts in this regard.

As Hiscox grows and evolves, we are pleased that our people are able to fulfil their personal ambitions and build their careers here. The success and adaptability of Hiscox is thanks to the collective endeavours of each person. I would like to thank all 2,300 of my colleagues for their commitment and achievements throughout the year.

Outlook

2017 will represent yet another step change in the evolution of our business, with our retail businesses further growing in importance. We have diversity by earnings, investments, geography, product and distribution. We are increasingly leveraging our underwriting expertise and brand to generate fees and commissions.

We talk a lot about the symbiotic relationship between our retail and big-ticket businesses. This has never been more relevant than this business plan cycle as we proactively reduce the big-ticket insurance lines, but continue to grow the retail lines to drive growth and profits.

There are uncertainties, both from the insurance and the political environments, but Hiscox has the right talent, footprint and financial power to adapt to what lies ahead, taking advantage of trends for the benefit of shareholders, customers and staff.

Bronek Masojada
27 February 2017

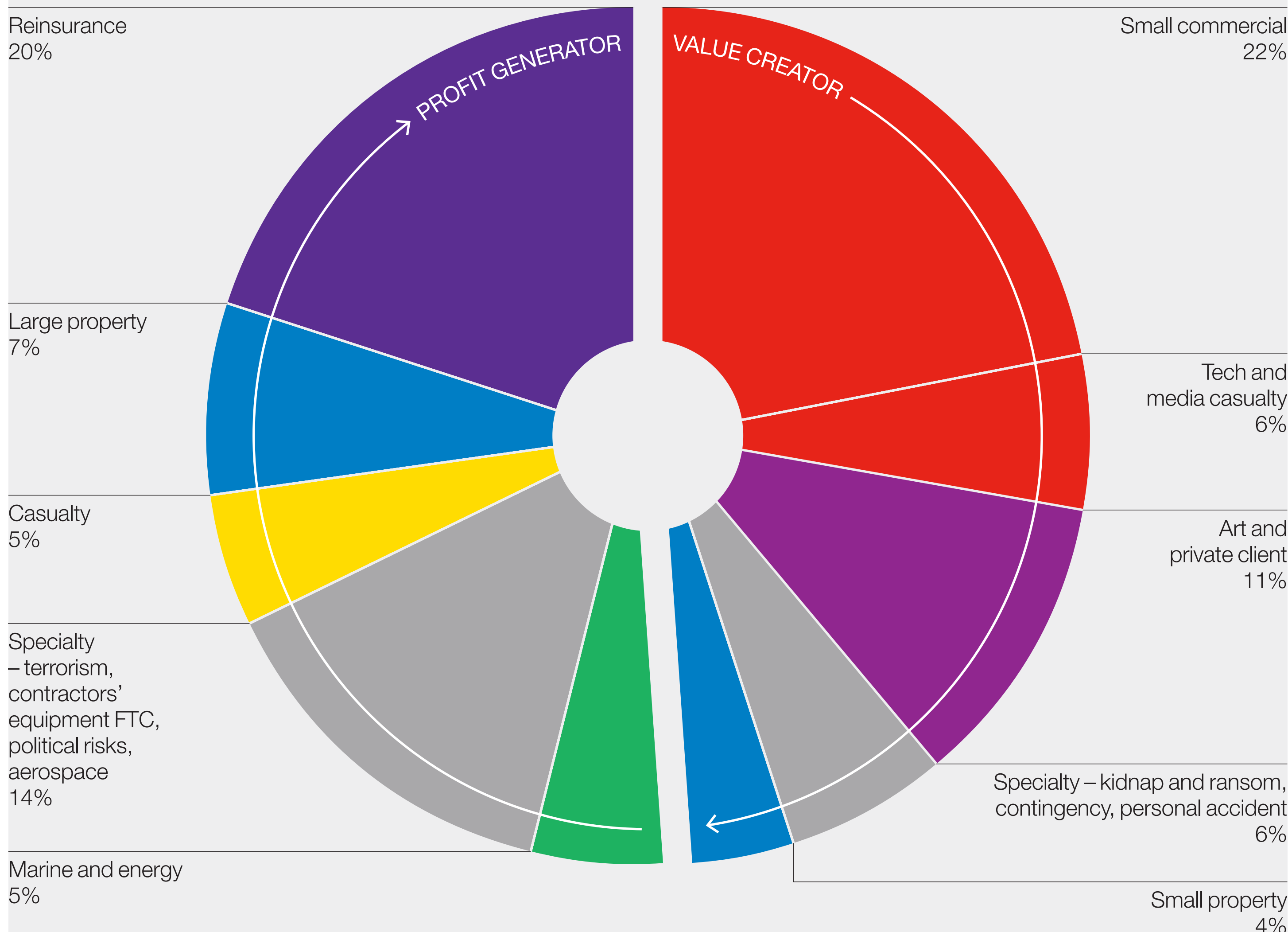
Building a balanced business

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

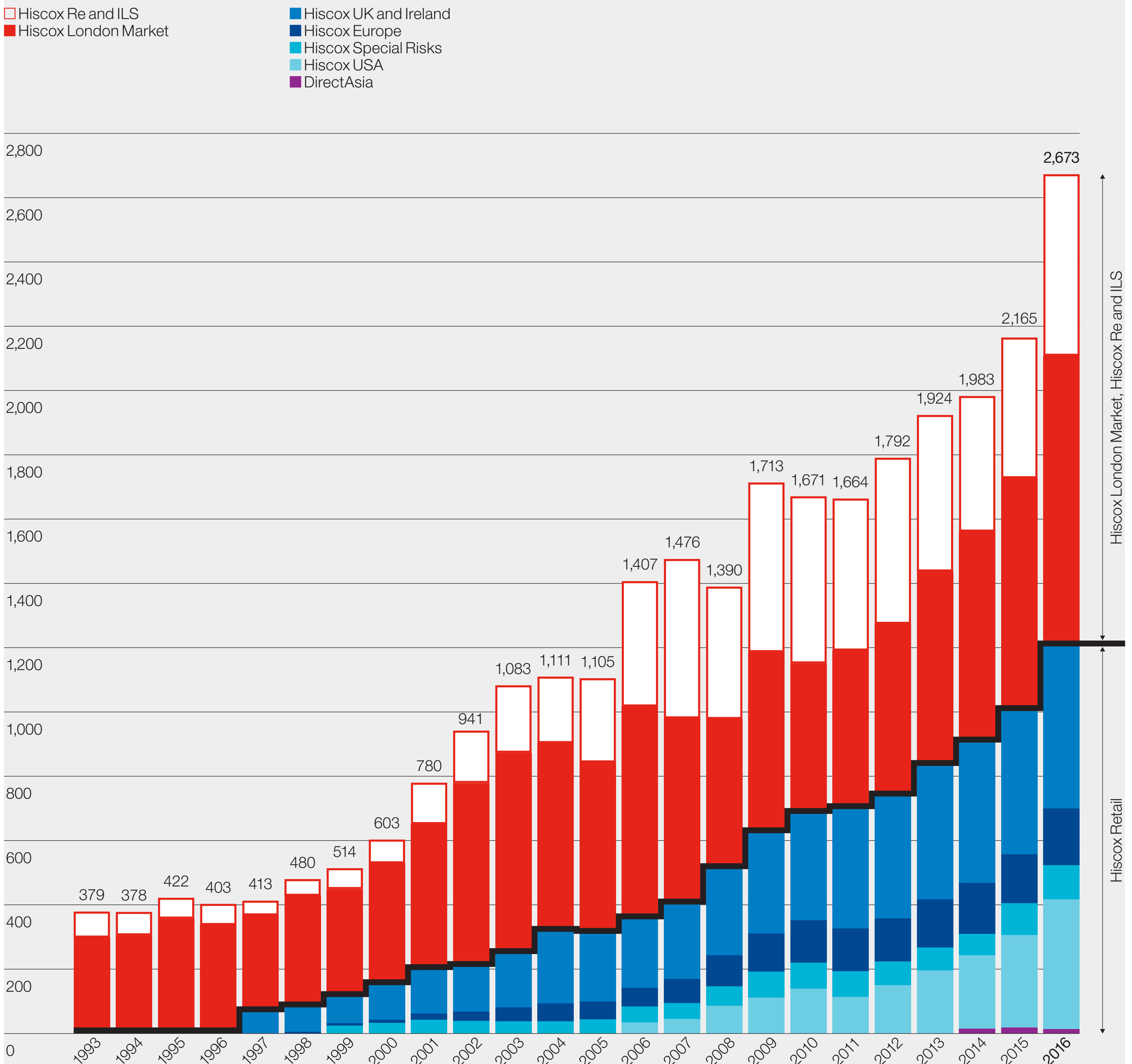
Total Group controlled income for 2016
100% = £2,673m

Big-ticket business
- Larger premium, globally-traded, catastrophe-exposed.
- Shrinks and expands according to rates.
- Excess profits allow investment in retail development.

Retail business
- Smaller premium, locally-traded, less volatile.
- Growth between 5-15% per annum.
- Pays dividends.
- Brand builds strong market position.
- Profits act as additional capital.



Gross premiums written at 100% level
(£m)

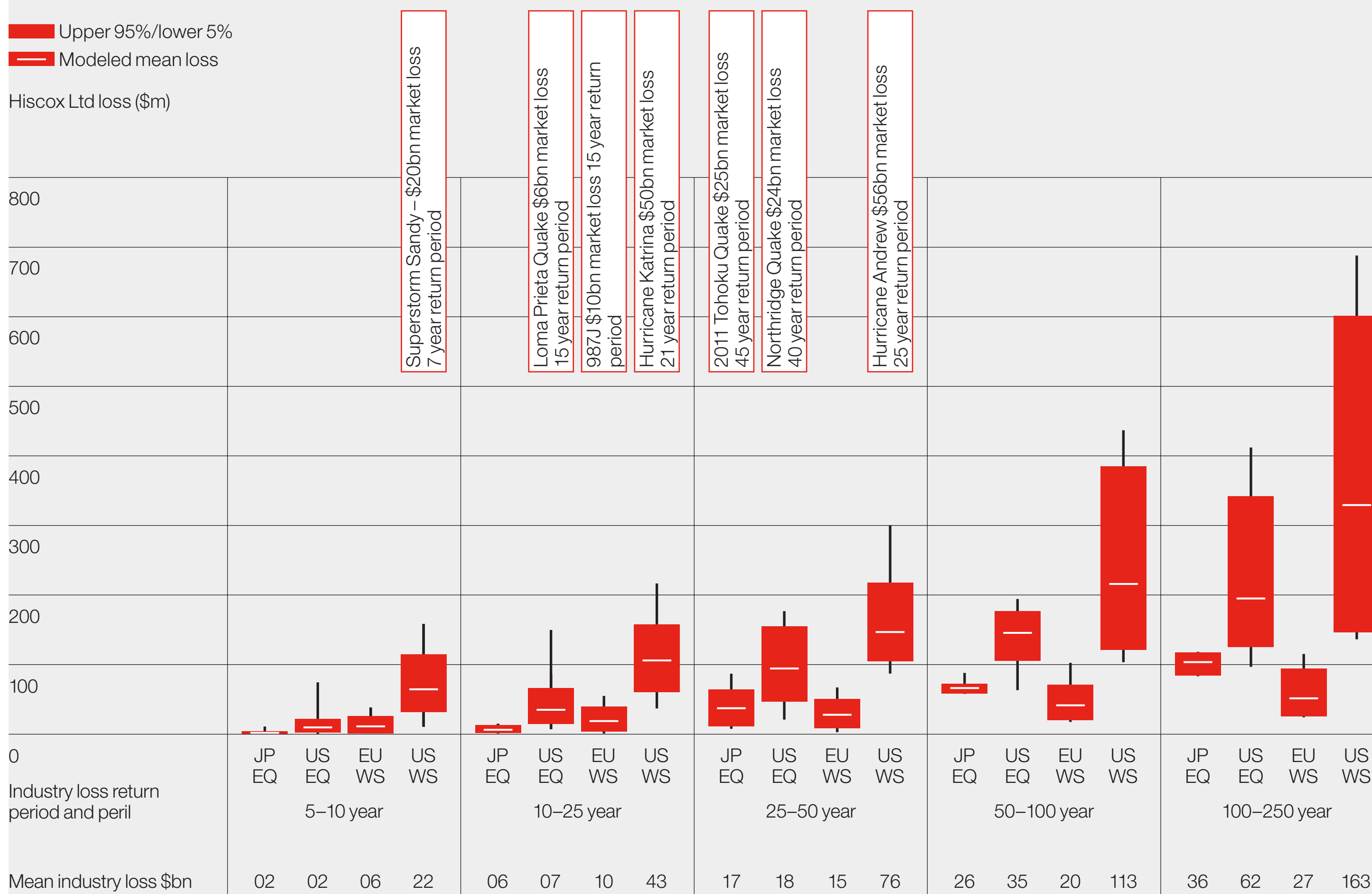


Actively managed business mix

Total Group controlled premium 2016: £2,673m
(Period-on-period in local currency)

	Small commercial	Reinsurance	Specialty	Art and private client	Property	Marine and energy	Global casualty
Growth	+22.5%↑	+11.8%↑	+10.5%↑	+1.1%↑	+6.6%↑	+4.8%↑	+38.9%↑
Premium	£762m	£533m	£530m	£308m	£285m	£129m	£126m
Lines	Professional liabilities Errors and omissions Private directors and officers' liability Cyber Commercial small package Small technology and media Healthcare related Media and entertainment	Non-marine Marine Aviation Casualty Specialty	Kidnap and ransom Contingency Terrorism Product recall Personal accident Political risks Aerospace Contractors' equipment FTC Extended warranty	Home and contents Fine art Classic car Luxury motor Asian motor	Commercial property Onshore energy USA homeowners Managing general agents International property	Cargo Marine hull Energy liability Offshore energy Marine liability	Public D&O, PI Healthcare General liability

Actively managed key underwriting exposures



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 2017 and industry data. Given the nature of the risks underwritten, the loss estimates may be materially different from those that arise depending on the size and nature of the event.

	Gross loss US$m	Net loss US$m	Gross loss as a % of total equity	Net loss as a % of total equity	Net loss as a % of insurance industry loss	Industry loss size US$bn	Return period years
Japan earthquake	779	112	34.5	4.9	0.2	50	240
Gulf of Mexico windstorm	1,456	178	64.6	7.9	0.2	107	80
Florida windstorm	1,032	178	45.8	7.9	0.1	125	100
European windstorm	487	73	21.6	3.2	0.2	30	200
San Francisco earthquake	1,134	160	50.3	7.1	0.3	50	110

Capital

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

Capital management

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. Considering the financial performance in 2016 and the momentum of the business, the Group has proposed to increase the final dividend by 19% to 19p, resulting in a full year ordinary dividend of 27.5p (2015: 24.0p), up 15%. The Group will continue to maintain a progressive core dividend policy. No special dividend will be paid this year to allow the balance of earnings to be retained within the business to support growth in areas expected to be profitable.

Capital requirements

The Group monitors its capital requirements based on both external risk measures, set by regulators and the rating 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 Group level is given below and they are presented in the chart on page 24.

Management compares the capital requirements of the Group against its available capital. Available capital is defined by the Group as the total of net tangible asset value and subordinated debt. The subordinated debt issued is hybrid in nature, which means it counts towards regulatory and rating agency capital requirements. At 31 December 2016 available capital was £1,970 million (2015: £1,678 million), comprising net tangible asset value of £1,695 million (2015: £1,403 million) and subordinated debt of £275 million (2015: £275 million).

The Group can source additional funding from revolving credit and Letter of Credit (LOC) facilities. Standby funding from these sources comprised $500 million at 31 December 2016 (2015: $500 million), of which $10 million was utilised at 31 December 2016 (2015: $71.9 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: A.M. Best, S&P and Fitch. These ratings are assigned based on a range of factors including: business model, risk management, framework and financial strength. They are assigned individually to the insurance carriers of the Group, but capital adequacy is also monitored by the rating agencies at the consolidated Group level.

A.M. Best, S&P and Fitch have shared their capital models with management. These models calculate capital adequacy by measuring available capital, after making various balance sheet adjustments, and comparing it with required capital, which incorporates charges for premium, reserve, investment and catastrophe risk. Management's

£1,970m

Available capital as at 31 December 2016.

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.

Rating agencies

interpretation of A.M. Best's 'Best's Capital Adequacy Ratio' (BCAR) model indicates the Group has a healthy surplus above the minimum capital required to maintain the carriers' A ratings. A.M. Best is currently consulting on a new BCAR model and rating methodology, which is expected to be introduced during 2017. Hiscox is monitoring these developments closely. On a similar basis the S&P modeled result indicates a surplus within the required A range. Finally, Hiscox's own assessment of capital requirements arising from Fitch's Prism Factor-Based Model places the Group's capital in the 'extremely strong' range, comfortably above that necessary to maintain the current Fitch A+ rating. The rating agency requirements shown in the chart on page 24 are consistent with Hiscox's own internal projections of rating agency capital requirements.

Group regulators

As a Bermudian-registered holding company, the Bermuda Monetary Authority (BMA) is 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 with the Group Solvency Self Assessment framework (GSSA) including an assessment of the Group's Bermuda Solvency Capital Requirement (BSCR).

The BSCR model applies factors to premium, reserves and assets/liabilities to determine the minimum capital required to remain solvent throughout the year.

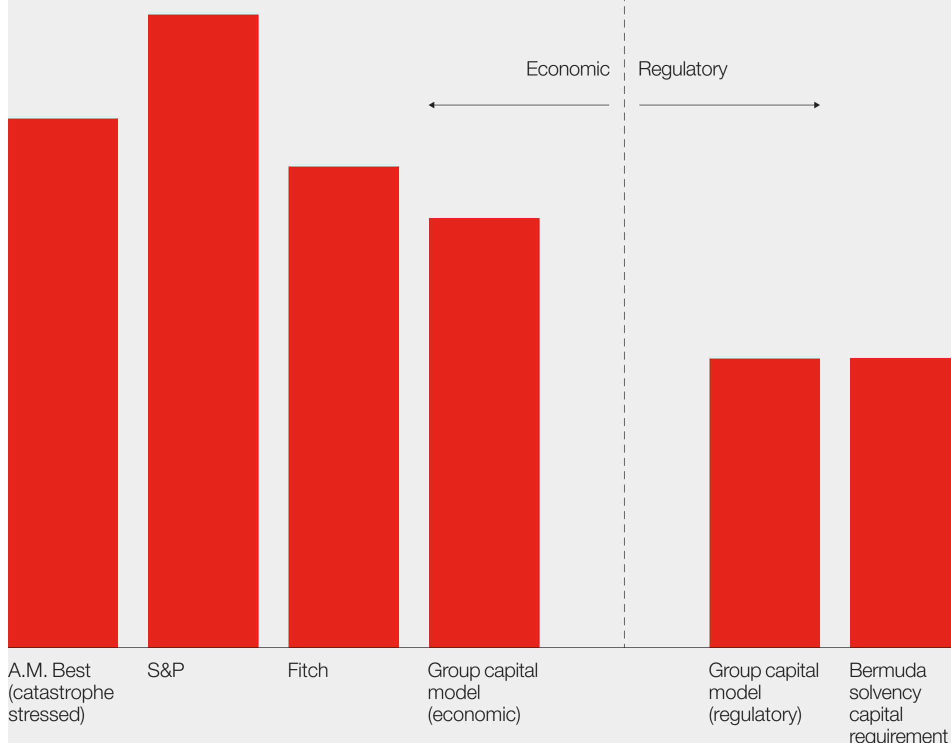
The GSSA is based on Hiscox's own internally assessed capital requirements and is informed by the Group Capital Model (GCM) which, together with the BSCR, forms part of the BMA's annual solvency assessment. The GCM provides a holistic view of the Group capital requirements and draws upon the Group's key underlying risk models.

From the 2016 year end onwards the Group is also required to publish a Financial Condition Report (FCR), which will set out details of the measures governing the business operations, corporate governance framework, solvency and financial performance of the Group. The FCR is also intended to provide additional information to the public in relation to the insurance group's business model, whereby they may make an informed assessment on whether the business is run in a prudent manner.

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 definition has not changed since last year. A market loss at this remote return period would be very big indeed and would be expected to bring about increases to the pricing of risk. Our capital strength and financial flexibility following this scenario means the Group would be well positioned to take advantage of any opportunities that may arise. After the payment of the final dividend on 20 June 2017, the available capital will reduce to approximately £1.92 billion, comfortably meeting the current regulatory, rating agency and internal capital requirements. Our estimate of the year end 2016 BSCR is $1.2 billion, with available statutory capital of $2.6 billion and a solvency ratio of 214%. The Group continues to operate with a strong solvency position. In addition each of the subsequent insurance carriers hold appropriate capital positions on a local regulatory basis.

Projected capital requirement



Rating agency assessments shown are internal Hiscox assessments of the agency capital requirements on the basis of 2016 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. The available capital figure comprises net tangible assets and subordinated debt.

Additional performance measures (APM)

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

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

Profit excluding foreign exchange gains/(losses)

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

GWP growth in local currency

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

Combined claims and expense ratios

The combined claims and expense ratios are a common measure enabling comparability across the insurance industry that measure the relevant underwriting profitability of the business by reference to its costs as a proportion of its net earned premium. The Group calculates the combined ratio as if we owned all of the business, including the 27.5% of Syndicate 33 that the Group does not own. The Group does this to enable comparability from period to period as the business mix may change in a segment between insurance carriers, and this enables us to measure all of our underwriting businesses on an equal measure. The calculation is discussed further in note 4, operating segments. The combined ratio excluding foreign exchange gains is calculated as the sum of the claims ratio and the expense ratio.

Return on equity (ROE)

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

Net asset value (NAV) pence per share

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

Reserve releases

Reserve releases are a measure of favourable development on claims reserves that existed at the prior balance sheet date. It enables the users of the financial statements to compare and contrast our performance relative to peer companies. The Group maintains a prudent approach to reserving, to help mitigate the uncertainty within the reserve estimates. The release is calculated as the movement in ultimate losses on prior accident years between the current and prior year balance sheet date, as shown in note 26, as the result of better than expected outcomes of the estimates booked at the prior period close.

Group financial performance

Underwriting discipline, favourable foreign exchange gains and a good investment return all contribute to this record result.

23.0%

Post-tax return on equity.

Profit has been boosted by significant foreign exchange gains from strengthening US Dollars and Euros.

Profit before tax for the year was £354.5 million (2015: £216.1 million). This has been boosted by significant foreign exchange gains from strengthening US Dollars and Euros following the UK's decision to leave the European Union, recording gains of £152 million (2015: £15 million). The investment return increased to 1.9% (2015: 1.0%), exceeding our expectations. The Group recorded a post-tax return on equity of 23.0% (2015: 16.0%) and earnings per share of 119.8p (2015: 72.8p).

Net asset value per share increased by 19.2% to 649.9p (2015: 545.0p), with net tangible asset value at 605.7p (2015: 500.0p).

The Board has declared a final dividend of 19.0p per share, to be paid on 20 June 2017 to shareholders on the register at 12 May 2017, taking the total ordinary dividend per share for the year to 27.5p, an increase of 14.6% (2015: 24.0p). The Group continues to maintain a progressive dividend policy.

Gross premiums written of £2.4 billion were up 23.6% year-on-year, on a constant exchange rate basis 14.1%. Strong growth has continued for most areas of the business, with Hiscox Retail comprising 49% of the total gross premiums written. The Group's combined ratio including foreign exchange fluctuations was 84.4% (2015: 85.0%).

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

Hiscox Retail

Hiscox Retail accounts for 49% of the Group's gross premiums written at £1,181.4 million (2015: £989.8 million). Within this segment, gross premiums written for the UK were up a healthy 12.5% at £498.6 million (2015: £443.3 million). Europe's gross premiums written were up 17.8% to £174.7 million (2015: £148.3 million), 9.0% in local currency. The US again had strong growth, up 42.5% to £400.0 million, 30.1% in local currency. Special Risks gross premiums written were down 4.2% at £95.2 million (2015: £99.3 million), down 11.6% in local currency in the face of tough competition. Having sold the Hong Kong entities during the year, DirectAsia contributed £13.0 million of gross premiums written.

The net claims ratio has remained steady at 38.4% (2015: 37.9%), following another year of largely benign activity. The expense ratio is down slightly to 53.5% (2015: 54.1%) despite continued IT development. The net combined ratio reduced to 88.1% (2015: 92.9%) with foreign exchange contributing 3.8% of this improvement. Profit levels rose to their highest level at £158.0 million (2015: £78.6 million).

Hiscox London Market

Gross premiums written increased by 27.1% to £726.0 million (2015: £571.0 million). This represents a 14.2% growth in local currency. The quota share arrangements with Syndicate 6104 remained in place.

The net claims ratio declined to 57.4% (2015: 49.0%). The combined ratio increased to 91.0% (2015: 86.6%) as a result, but also benefited from a foreign exchange impact of 8.7%. Profit before tax for the year was £44.0 million (2015: £54.6 million).

Hiscox Re and ILS

Gross premiums written increased by 29.1% to £495.2 million (2015: £383.4 million), 16.1% in local currency. The claims ratio increased to 39.1% (2015: 26.0%), and with a slightly increased expense ratio to 26.5% (2015: 25.4%), the combined ratio increased to 53.7% (2015: 46.6%). The higher level of expense ratio was as a result of the deconsolidation of the Kiskadee Funds in the second half of 2015. Foreign exchange gain impact of 11.9%, compared to a 2015 gain of 4.8% helped drive profits to £115.5 million (2015: £97.5 million).

Hiscox Corporate Centre

The central investment portfolio returned £18.6 million (2015: £6.5 million). This increase came from a mixture of equity and bond performance, and also from returns earned on the proceeds from the subordinated debt issue in 2015. Foreign exchange gains increased to £57.2 million compared to £8.3 million in 2015, as the Centre holds a significant portion of US Dollar assets supporting the underwriting activities of the managed Syndicates. Profit before tax was £37.0 million (2015: loss of £14.6 million).

Cash and liquidity

The Group's primary source of liquidity is from premium and investment income. These funds are used predominantly to pay

Group key performance indicators

	2016					2015				
	Hiscox Retail	Hiscox London Market	Hiscox Re and ILS	Corporate Centre	Total	Hiscox Retail	Hiscox London Market	Hiscox Re and ILS	Corporate Centre	Total
Gross premiums written (£m)	1,181.4	726.0	495.2	–	2,402.6	989.8	571.0	383.4	–	1,944.2
Net premiums written (£m)	1,092.0	469.1	226.8	–	1,787.9	936.5	410.3	225.0	–	1,571.8
Net premiums earned (£m)	1,020.5	443.1	211.4	–	1,675.0	888.0	366.3	180.7	–	1,435.0
Investment result (£m)	31.3	13.4	11.7	18.6	75.0	17.4	6.8	4.7	6.5	35.4
Profit/(loss) before tax (£m)	158.0	44.0	115.5	37.0	354.5	78.6	54.6	97.5	(14.6)	216.1
Claims ratio (%)	38.4	57.4	39.1	–	44.2	37.9	49.0	26.0	–	39.6
Expense ratio (%)	53.5	42.3	26.5	–	46.6	54.1	39.8	25.4	–	46.1
Foreign exchange impact (%)	(3.8)	(8.7)	(11.9)	–	(6.4)	0.9	(2.2)	(4.8)	–	(0.7)
Group combined ratio (%)	88.1	91.0	53.7	–	84.4	92.9	86.6	46.6	–	85.0

	2016	2015
Financial assets and cash* (£m)	4,409.7	3,609.3
Other assets (£m)	2,232.1	1,694.7
Total assets (£m)	6,641.8	5,304.0
Net assets (£m)	1,818.4	1,528.8
Net asset value per share (p)	649.9	545.0
Net tangible asset value per share (p)	605.7	500.0
Adjusted number of shares in issue (m)	279.8	280.5

*Excluding derivative assets and insurance-linked securities funds.

119.8p

Earnings per share.

claims, expenses, reinsurance costs, dividends and taxes, and to invest in more assets.

During 2016, the Group returned capital to its shareholders of £113 million for the second interim dividend for 2015 and the interim dividend for 2016. The Employee Benefit Trust additionally purchased net £39 million of shares during the year into the Trust.

Outflows for the year were £123.8 million (2015: inflow £71.0 million) as the Group invested the cash receipts for the bond issue in 2015. The Group paid £6.1 million of tax during the year compared to £27.8 million in 2015. The Group had net cash outflows from investing activities of £13.5 million (2015: outflow of £59.7 million), with the sale of DirectAsia Hong Kong offsetting the continued software development.

Marketing expenses remained a major component of our expense base at £42.1 million in the year (2015: £44.5 million).

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

Group investments

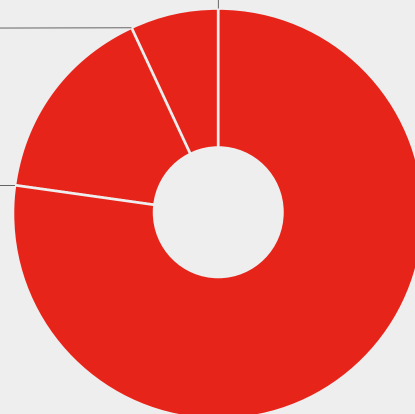
We are pleased with our investment return which represented a significant increase over last year.

The Group's invested assets at 31 December 2016 totalled £4.41 billion (2015: £3.61 billion). Cash flow remained positive but much of the growth in assets under management is due to the weakness of Sterling over the period. The investment result, excluding derivatives, amounted to £74.8 million (2015: £33.7 million) equating to a return of 1.9% (2015: 1.0%). It is hard to think of a financial or political forecast at the beginning of the year that has turned out to be accurate and both bond and equity investors have had to endure some challenging moments. We are therefore pleased with our investment return which represented a significant increase over last year and exceeded our original expectations.

Bond markets in particular had something of a rollercoaster year. Economic weakness was foremost in central bankers' minds for much of the early part of 2016 and yields generally declined. The second half was, of course, dominated by the unexpected outcomes of the UK referendum and the US presidential election but reactions in government bond markets diverged somewhat. In the UK, yields plumbed new lows following the referendum and, in the case of much of Europe, turned increasingly negative. However, in the USA, where stronger economic data prompted the Federal Reserve to make more hawkish statements, the impact did not persist and yields there soon started to rise again. This move was exacerbated following the election of Donald Trump. The potential for his pro-growth policies

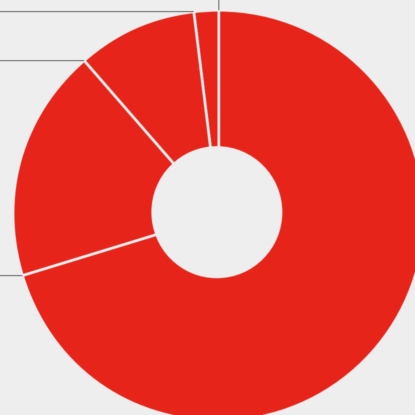
Asset allocation

6.9%	Risk assets
15.7%	Cash
77.4%	Bonds



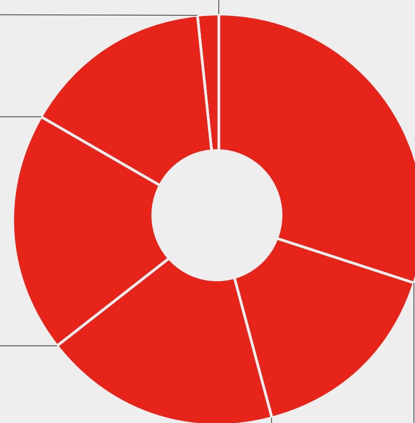
Bond currency split

1.7%	CAD and other
9.5%	EUR
18.3%	GBP
70.5%	USD



Bond credit quality

1.5%	BB and below
14.9%	BBB
18.9%	A
18.6%	AA
15.9%	AAA
30.2%	Government



Group investment performance

	31 December 2016			31 December 2015		
	Asset allocation %	Return %	Return £000	Asset allocation %	Return %	Return £000
Bonds (£)	14.1	2.7		12.3	1.1	
Bonds (US$)	54.6	1.7		51.2	0.9	
Bonds (Other)	8.7	1.1		8.9	0.6	
Bonds total	77.4	1.9	55,709	72.4	0.9	21,585
Equities	6.9	6.2	17,246	7.2	4.0	10,410
Deposits and cash equivalents	15.7	0.3	1,881	20.4	0.4	1,685
Actual return		1.9	74,836		1.0	33,680
Group invested assets			£4,410m			£3,609m

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

£75m

Investment result.

to fuel inflation made the final few weeks of the year particularly painful for US bond investors. Equity markets experienced similar levels of volatility around these events but quickly confounded the dire predictions of market experts and rallied strongly at the end of the year.

With 70.5% of fixed income assets invested in US Dollar bonds, our overall returns are heavily dependent on their performance. Given their bias to short duration, they escaped the worst of the post presidential election upheaval and their return for the year of 1.7% represents a healthy margin above the relevant benchmark. The majority of the excess return derived from the allocation to non-government bonds as demand for credit remained buoyant in a low return world. In contrast the Sterling and Euro bond markets were largely unmoved by events across the Atlantic.

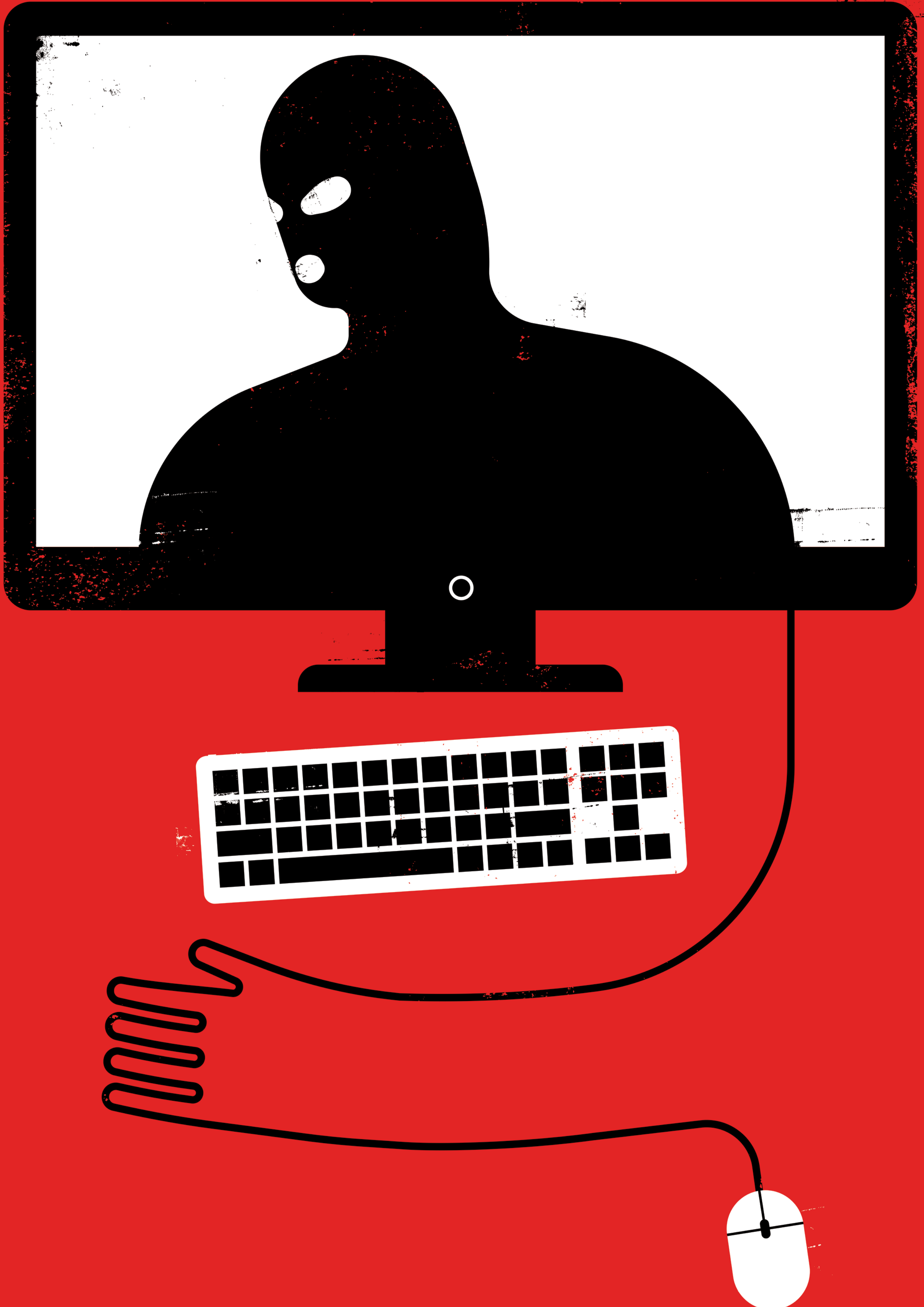
Whilst the trend in longer dated yields was upwards, shorter dated bonds, where we are mostly invested, were unaffected with the Bank of England and the European Central Bank continuing or enhancing their respective quantitative easing programmes. The 2.7% return from the Sterling bond portfolios is a marked improvement on that of recent years, boosted in part by an increased weighting to corporate bonds. The absolute numbers in Euros are smaller but a 0.8% return is certainly acceptable in a world where negative yields persist in the bond markets and banks generally charge for holding cash.

Very few foresaw the level of returns that the equity indices delivered in many of the developed markets in 2016 let alone the alarming rate at which various sectors went in and out of favour. It was a year where the index was hard to beat. Our allocation to a selection of actively managed funds therefore came up short relative to the benchmark but still made a useful overall contribution to the Group. Our largest weighting is to the UK market where the majority of our managers underperformed due to their low exposure to the commodity sector and a preference for stocks with more domestic earnings. Our global funds fared better, benefiting in particular from the strength of the Dollar. A selection of hedge funds has served us well in the past but had a disappointing year in line with much of the industry. Investing is a long-term business and requires patience and over the last five years our selection of funds has comfortably outperformed the benchmark returns.

Political events in 2016 added considerably to the problems faced by investors and the impact of their possible consequences remains hard to fathom. On the economic front, however, a degree of optimism prevails and there is a sense that the recent era of falling interest rates may have come to an end. If yields increase, returns from the bond portfolios will be harder to come by but higher interest rates would be welcome and, given our short duration, we will be amongst the first to benefit. Equity markets have momentum but seem to be pricing in a lot of good news so we believe some caution is warranted. We are happy to hold our level of risk assets at around 7%. Not losing money or putting at risk the Group's capacity to underwrite remain foremost amongst our objectives. Given the heightened levels of political uncertainty and the ongoing distortions in the capital markets caused by abnormal monetary policies, we still believe that it is sensible to have a portfolio with a reasonable chance of making a modest return rather than one with a smaller chance of a higher return given the risk reward ratios on offer.

ANTI-SOCIAL NETWORKS

The ever-increasing connectivity of the fourth industrial revolution brings with it extraordinary benefits but also new and unpredictable risks, meaning that cyber insurance is likely to remain an area of significant growth for years to come.



Anti-social networks continued

US$400bn

In 2015, Lloyd's estimated that companies were losing US$400 billion a year to cyber-attacks.

"I like to make the comparison with fire as a peril," says Matthew Webb. "It's like man has found fire in binary format. But unlike fire, the threat is constantly changing and shifting."

Matthew is Group Head of Cyber at Hiscox, and the peril of which he speaks is one that has over the past few years exploded into the consciousness of politicians, journalists, TV drama writers and CEOs, and caused alarm to anyone whose financial and personal data is stored in digital form on the servers of a corporation or institution – which, in the developed world at least, is just about everyone. And it's a peril that until the late 1980s simply didn't exist.

Cyber threats can take many forms: the theft of data, the installation of ransomware (software that encrypts a system until a payment is made), the propagation of malware in its many and ever-changing incarnations. These threats also have many sources – from the deeply sinister to the embarrassingly mundane. At the leading edge of cyber-crime, businesses are falling foul of highly sophisticated, technically adept hackers with links to organised crime or government agencies. But at the other end of the scale, a data breach from the careless handling of a hard drive or the innocent misdirection of an email can be disproportionately damaging.

As with the fire of Matthew's analogy, there's a remarkable ubiquity to this modern threat. The vast majority of businesses, from sole traders to global giants, depend upon networked devices in one form or another, and where there are networks there are risks. "We're in the midst of the fourth industrial revolution, a world of hyper-connectivity, an explosion in the 'Internet of Things', an era of continual innovation and development," explains Matthew. "That all talks towards increased risk." In 2015, Lloyd's estimated that companies were losing US$400 billion a year to cyber-attacks, taking into account both the immediate damage and subsequent disruption – and that number, as the recent slew of hack-based headlines will vividly attest, is unlikely to shrink any time soon.

The market for cyber insurance remains immature, complicated by the fast-moving nature of the peril and hampered by a relative lack of reliable actuarial data. At the same time though, it is also a rapidly growing line of business. According to a recent report from PwC, the worldwide market for cyber insurance is currently estimated to be around US$2.5 billion, and is expected to grow to US$5 billion by the end of 2018 and US$7.5 billion by the end of 2020. This steep trajectory is set to continue as the world becomes ever more connected.

Inevitably, given the rich potential offered by this expanding marketplace, there are currently numerous carriers offering cyber insurance products, each with its own limitations. Hiscox was one of the first of these providers to enter the arena, having developed its first cyber offering as far back as 1999, when the landscape looked very different. The company now

We're in the midst of the fourth industrial revolution, a world of hyper-connectivity, an explosion in the 'Internet of Things', an era of continual innovation and development. That all talks towards increased risk.

46%

Our report found that nearly half (46%) of businesses that experienced a cyber-attack took two days or more to get back to business as usual.

The cyber threat: how ready is your business?
How well prepared are businesses when it comes to understanding and dealing with the cyber threat? To find out we surveyed more than 3,000 businesses – from the smallest companies, right up to the largest organisations – in the US, UK and Germany in November 2016 and found that more than half (57%) had experienced at least one cyber-attack in the past year.

The Hiscox Cyber Readiness Report 2017 showed that average losses for the largest incident experienced ranged from £29,000 for small UK companies to £81,000 (US$102,000) for large US companies. Our report also found that nearly half (46%) of businesses that experienced a cyber-attack took two days or more to get back to business as usual.

We also created a cyber readiness maturity model, which graded firms as either 'cyber experts', 'cyber opportunists' or 'cyber novices'. 'Cyber experts' accounted for just 30% of our survey group while 'novices' made up more than half (53%), suggesting the majority of companies have some way to go before they can truly claim to be cyber ready.

US$7.5bn

According to a recent report from PwC, the worldwide market for cyber insurance is expected to grow to US$7.5 billion by the end of 2020.

writes specific cyber insurance across five of its six business units: the US, Europe, the UK, London Market and reinsurance. Even in the sixth area, special risks, Hiscox includes cyber extortion cover within its kidnap and ransom policy.

In fact, a degree of cyber risk will impact on policies that extend far beyond the specific cyber products. "Take a household policy, for instance: it will insure against perils like fire, but that doesn't differentiate between fire caused by a box of matches and fire caused by a connected oven being hacked," says Matthew. Event cancellation, the loss of perishable contents, business disruption, industrial accidents, environmental liability: all of these and many more can quite conceivably result from the kind of havoc wreaked by a virus or hack.

Currently, the US is by far the most developed marketplace for specific cyber insurance products. "Depending on which reports you read, you've got 30-40% of companies buying cyber insurance in the US," says Dan Burke, US Head of Cyber. "Worldwide it's something like a US$2.5 billion industry, but with US$2 billion of that emanating from the US, so there's a massive disparity."

This maturity is partly a result of the speed with which, in the early 2000s, US legislators responded to the nascent threat of data breaches. "Mandatory notification laws were passed in 2002 in California, enacted in 2003, and then gradually spread across the states," says Burke. "If there is a breach, you have to inform the data commissioner, and in some cases the data subjects as well. Where there is more liability on a company, there needs to be insurance to help you take that risk on."

Threatened with large fines, and spooked by the financial losses and horrific headlines generated by major data breaches – TJ Maxx in 2007, Heartland Payment Systems in 2008, as well as the more widely reported Target, Home Depot and Anthem hacks in the past few years – large US corporations are now routinely buying cyber insurance. Smaller companies are slowly following suit as SMEs become increasingly conscious that cyber risk is not limited to the kind of newsworthy events experienced by multinationals. Databases relating to customers, suppliers and employees are vulnerable whatever the size of a business, and are even more likely to be inadequately protected at the smaller end of the scale. Add in the obvious threat posed by the viruses and phishing scams floating around on websites and through the floods of malicious emails that bombard our mail servers and it is clear that no business is free from the cyber risk.

While uptake of cyber insurance is significantly lower in Europe, even among the largest companies, that transatlantic gap is likely to shrink in the coming years, driven by a similar legislative catalyst. In May 2018, the General Data Protection Regulation (GDPR) will come into force throughout the European Union, strengthening and unifying data protection laws across the 28 member states. "There's a lot of prescriptive-ness within the GDPR: if you're a company over a certain size, you will have to employ a designated Data Protection Officer; you will have to notify the regulator within 72 hours of discovering a breach; exactly what constitutes personal data will be more clearly defined," explains Matthew.

"The other major element of the legislation is around the fines that can be levied for breaches. These will go up to €20 million, or 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher." Given that in the UK, for example, informing the Information Commissioner's Office of a breach is currently a matter of best practice rather than legal obligation for the majority of companies, with loss of data attracting a maximum fine of £500,000, this legislative shift is likely to have a seismic impact upon European businesses and, by extension, their insurance requirements.

Anti-social networks continued

> There will always be growth in cyber, but getting sustainable profitable growth over the long haul: that's what we're all about.

Already, says Matthew, the experience of selling in the European markets is moving closer to that of the US. "In the UK and Europe, the quote maturity period is shrinking, cyber protection is going into more and more budgets, and the specialist knowledge of brokers is growing. It's still way behind the US market, but things are definitely changing."

To make the most of increasing demand, Hiscox has spent the past few years carefully refining its value proposition. Hiscox cyber insurance is now designed both to compensate for losses and, where possible, limit those losses in the first place. "Part of the purchase for customers is the financial limit of indemnity that they're buying, but we'll dovetail that with a panel of experts for the breach response," explains Matthew. "We've gone out and partnered with law firms, IT forensics companies, credit monitoring companies and PR companies, so that when you discover you've been breached – in about 70% of cases you'll be told by your customer or supplier, your bank or your regulator, rather than you discovering it yourself – you've got a response panel set up and ready to go."

This response panel can offer a high level of very specific expertise, as well as the kind of independent perspective valued by regulators. "They can parachute in, find out what's gone on, prevent any further data leak, produce the necessary reports, find out what data's been affected, then offer legal advice about who you need to notify. They will start building a legal case if needed and guide the forensics people in accordance with the law – what are the obligations? What needs to be done? – alongside the more operational aspects of the business: getting it back up and running. You've got the PR guys there to assist if you need to go public with the breach, either with the media or communicating your message out to the customers."

Hiscox cyber cover is notable for the clarity of its wording – unusual in a marketplace beset with impenetrable technical jargon. "From a value proposition perspective, we've had a lot of focus on trying to simplify the policy wording," says Matthew. "With the London Market and US wording there's a single insuring agreement, so it's easier for brokers and customers to understand. The UK wording, I reduced down from something like 22 pages to seven pages – in the same font."

Hiscox cyber insurance is "driven by the 'loss', not by the 'how'". Rather than attempting to cover against specific sources of cyber-attack or data breach – something of a Sisyphean task given the rapidly evolving nature of the sector – it instead looks to the consequences of those perils, and describes them in terms that can be understood by customers who lack an intimate understanding of technology.

While data breaches are currently by far the most commonplace consequences of a cyber-attack, property damage as a result of cyber-related incidents is a growing risk. In 2014, a blast furnace at German steel mill suffered massive damage after hackers took over its control system, while in 2016 an attack on the Ukrainian power grid caused substantial blackouts across the entire country. The explosive growth of the 'Internet of Things' – the networking of everything from energy management systems to televisions – is expected to result in around 40 billion devices being connected to the internet by 2020, each of which is a potential source of weakness. "Security hasn't been built in to a lot of these things at the design phase," warns Matthew. "It's more: 'We've got a kettle, let's put a receiver in it or a wireless chip, now it's a smart kettle and it can boil itself.'"

Even the seemingly simple concept of 'business interruption' – one of the main motivators for the purchase of cyber insurance – is evolving at pace. "Historically, 'business interruption' under a cyber policy has meant either you've been hacked and you can't use your systems, you've suffered a ransom attack and all your systems are encrypted, or you've been the victim of a denial of service attack, so your IP address has been flooded and none of the valid traffic can get through. But now we live in this 'Industry 4.0', where if I'm a business, the infrastructure I use isn't just my own. I'll outsource a service over here, use a cloud provider over there, I'll rely on them to give me the services I need to conduct my business, but I don't have a lot of control over what they do. If they get hacked and I can't do my business, that's called contingent business interruption, and it's an increasing problem."

All of this means, says Matthew, that cyber insurance is a market blessed with great potential but still tempered with significant uncertainty: "Understanding systemic cyber risk is very underdeveloped, so we've got this big upside as an industry on the one hand, but a large exposure and aggregation and accumulation risk on the other. Getting the balance right between the two – and underwriting responsibly – is key to sustainable growth. There will always be growth in cyber, but getting sustainable profitable growth over the long haul: that's what we're all about."

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Governance

Risk management

Our core business is to take risk, which is guided by a strategy to maximise return on equity within a defined risk appetite.

The Group's success depends on how well it understands and manages its significant exposures across key risk types, which consist of strategic risk, insurance risk (underwriting and reserve risk), market risk, credit risk, operational risk and Group risk. Our collective risk knowledge informs every important decision we make.

Risk strategy

A robust risk strategy better positions us to capture the upside of risks we pursue as well as effectively manage the downside of risks we are exposed to. Key aspects of our risk strategy are:

- maintaining underwriting discipline when writing high-margin, volatile and complex risks;
- seeking balance and diversity to generate opportunities throughout the underwriting cycle;
- taking a transparent approach to risk to improve awareness of exposures and enhance response and action.

Risk management framework

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

The risk management framework provides a controlled and consistent system for how risk within the Group is identified, measured, mitigated, monitored and reported. It supports innovative and disciplined underwriting across many different classes of insurance by guiding our appetite and tolerance for risk.

The risk management framework is reviewed and enhanced regularly in light of changes to the Group's risk profile, the external environment and evolving best practice on risk management and governance.

Risk appetite

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

Our risk appetite is set out:

- in qualitative terms through risk appetite statements which outline the level of risk we are willing to assume;
- in quantitative terms through risk limits and tolerance which act as boundaries where actual risk exposure is actively monitored.

Our risk limits indicate the capital we are willing to risk and act as markers for monitoring actual exposure. If these limits are exceeded we will take corrective action. Our risk tolerance is the maximum threshold we do not want to exceed. Nearing it would be a red alert for the Group senior management and the Board.

We set out our risk appetite for each of our insurance carriers, and for the Group as a whole, and review it every year. It can be flexed to respond to a number of internal and external factors such as growing or shrinking an area of the business, or changes in the underwriting cycle impacting capacity and rates.

Risk management framework

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

Three lines of defence model

1

First line of defence
Own the risk

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

2

Second line of defence
Assess, challenge and advise on risk objectively

The second line of defence provides oversight, challenge and support to the first line of defence. Functions in the second line of defence include the risk team and the compliance team.

3

Third line of defence
Provide independent assurance of risk control

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

Risk management across the business

The Group coordinates risk management roles and responsibilities across three lines of defence.

Risk is also overseen and managed by (formal and informal) committees and working groups across the first and second lines of defence. These focus on specific risks, such as catastrophe, reserve, investment, credit and emerging risk. The Group risk and capital committee and the Group underwriting review committee make wider decisions on risk.

The role of the Board in risk management

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

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

During 2016, the Board looked at a number of risk-related matters.

- The Group's **risk profile** compared to its Board-approved risk appetite.
- Independent second line of defence **model validation** findings on the Group's risk and capital models.
- **Risk reporting** focused on topical live issues with actions and mitigation plans.
- **Stress and scenario testing** performed to identify and measure the likelihood and impact of potential events. The Board considered and challenged findings and action plans to respond to scenarios. Scenarios are reviewed annually to test the resilience of the business plan in the face of minor and major shocks. A more extensive stress exercise was also conducted as part of an industry 'dry run', involving different business functions and members of the Executive.
- **Specific risk reviews** providing a deeper understanding of key risks and potential exposures to the business.

> The Group risk team is responsible for implementing the risk management framework, and continually improving it.
>
> Role of the risk team

- Updates to the **risk and control register,** which sets out the biggest risks facing the Group and the key controls in place to mitigate them, as agreed with Group and business unit senior management.
- Updates to **Group risk policies** addressing the Group's main risks.
- The **Own Risk and Solvency Assessment (ORSA),** comprising many of the components described above, performed to evaluate what risk practices and capital resources are necessary to achieve the Group's strategic and business objectives. The ORSA stresses the risk profile on a current and forward-looking basis.

Role of the risk team

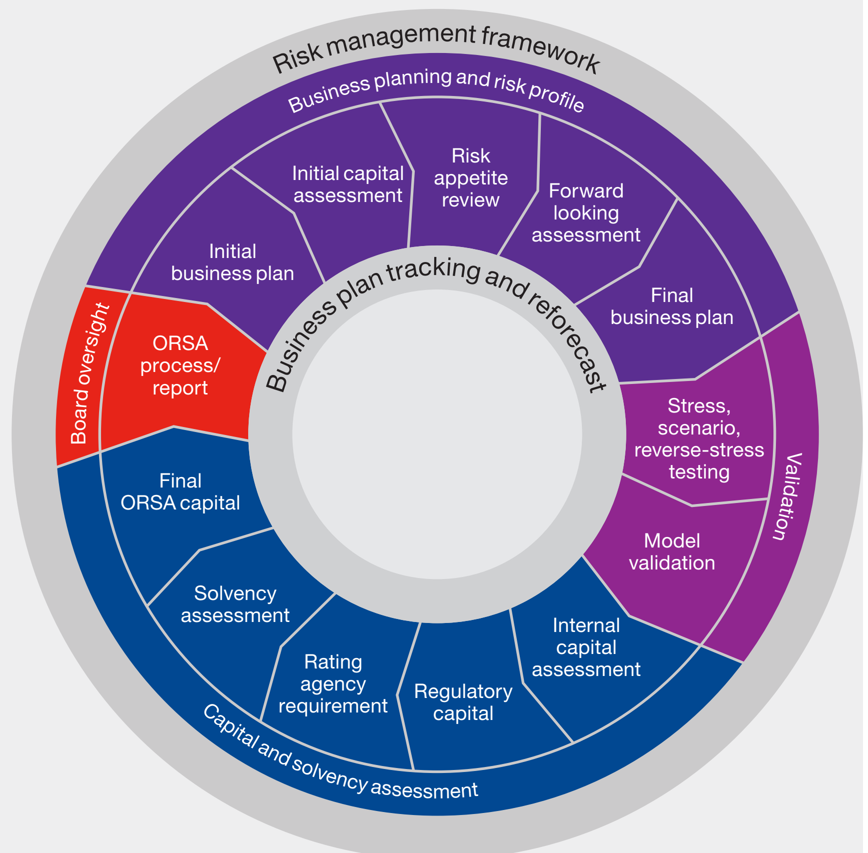
The Group risk team is responsible for implementing the risk management framework, and continually improving it. The team works with the business units to understand how they maintain the first line of defence and whether they need to make changes in their approach. The team is also responsible for meeting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

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

Principal risks

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

Hiscox Own Risk and Solvency Assessment (ORSA) process



Strategic risk

The risk associated with implementation of strategic decisions and objectives, including uncertainties and opportunities in the internal and external environments.

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

Insurance risk – underwriting

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

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

Insurance risk – underwriting

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

What is the risk?	Why do we have it?	How is it managed?
Catastrophic and systemic insurance losses 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 (i.e. terrorism), which can cause heavy underwriting losses with material impacts on the Group's earnings and financial condition.	Underwriting large, volatile and complex risks can be potentially costly, but can also earn good margins over the medium to long term.	We underwrite catastrophe risk in a carefully managed, controlled manner. Hiscox's strategy of creating and maintaining a well-diversified portfolio, both by product and geography, helps limit its catastrophe exposure. We have a clearly-defined appetite for underwriting risk, which dictates the Group's business plan, and we closely monitor the Group's risk exposure to maximise the expected risk return profile on our whole portfolio and offset the potential losses on more volatile accounts. Underwriters are incentivised to make sound decisions that are aligned with the Group's overall strategic objectives and risk appetite. Clear limits are placed on their underwriting authority. Policy wordings are regularly reviewed in light of legal developments to ensure exposure is maintained, as much as possible, to those risks identified in the policy at the time of issue. We tailor modeling resources to support insurance and reinsurance plans and ensure exposure matches expectations. Risk aggregation and modeling resources are shared across the Group. Stress and scenario testing is performed by the Group and individual insurance carriers to assess our potential exposure to certain catastrophes. We buy reinsurance to mitigate the effect of catastrophes and reduce our risk.
Inadequate reinsurance If our reinsurance protection is proven to be inadequate or inappropriate, it could significantly affect the Group's financial condition. The Group might not be able to purchase the right level or type of reinsurance due to market conditions. This could result in reduced protection against losses, which could affect our financial condition and cash flows.	We buy reinsurance protection to manage catastrophe risk and reduce the volatility that major losses could have on our financial position. 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.	We have a clear outwards reinsurance strategy and a centralised reinsurance programme to minimise gaps in coverage across the business and to get the right deal by leveraging our size. Decisions about the type and amount of reinsurance we buy are supervised by a dedicated reinsurance purchasing team using modeling techniques.

Insurance risk – underwriting

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

What is the risk?	Why do we have it?	How is it managed?
Binding authorities Hiscox generates considerable premium income through third parties authorised to underwrite insurance policies on our behalf. Third parties may accept risk outside of agreed parameters or normal guidelines, exposing us to financial and operational risks.	Binding or delegated authorities give the Group access to a greater volume of business. They can contribute significantly to the Group's profitability and increase market share.	Authorities we grant are closely controlled through strict underwriting guidelines, contractual restrictions and obligations. We have a Group-wide delegated authority policy which sets out the standards and principles in managing external third parties to whom authority is delegated. Contractual arrangements usually grant limited rights to bind us to risks, new or renewal. We vet all third parties prior to appointment and monitor and audit them regularly to ensure they meet our standards.

Insurance risk – reserve

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

What is the risk?	Why do we have it?	How is it managed?
Reserve risk 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 put enough money aside for our exposures, which could affect the Group's earnings, capital and future.	When underwriting risks, we estimate the likelihood of them occurring and their cost. Our actual claims experience could exceed our loss reserves, or we may need to increase levels of loss reserves.	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 potential change in historic rates arising from market or economic conditions. Provisions are set above the actuarial mid-point to reduce the risk that actual claims may exceed the amount we have set aside. Our provision estimates are subject to rigorous review by senior management from all areas of the business, as well as from independent actuaries. The relevant boards will approve the amount of the final provision, on the recommendation of dedicated reserving committees. Details of the actuarial and statistical methods and assumptions used to calculate reserves are set out in note 26 to the consolidated financial statements.

Market risk – investment

The risk of financial loss resulting from adverse movements in market prices, exposure from trading and global operations.

What is the risk?	Why do we have it?	How is it managed?
Asset value We invest the cash we receive from our clients in premiums and the capital on our balance sheet until it might be needed to pay claims. These funds are inevitably exposed to market investment risk. Investment risk also encompasses the risk of default of counterparties, which is primarily with issuers of bonds in which we invest, and investment managers.	Our investment portfolio is exposed to a number of risks related to changes in interest rates, credit spreads, and equity prices, among others.	Our objective is to maximise our investment result in the prevailing financial, economic and market conditions without undue risk which could affect the Group's capacity to underwrite. Funds held for reserves are invested primarily in high-quality bonds and cash and as far as possible, are maintained in the currency of the original premiums for which they are set aside, to reduce foreign exchange risk. 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. Our fixed-income fund managers operate within guidelines as to the type and nature of bonds in which to invest, which reflect the rate at which we expect to pay claims, while providing them some flexibility to enhance returns. A proportion of funds is allocated to riskier assets, principally equities. We take a long-term view on these assets so we can achieve the best risk-adjusted returns. 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.
Liquidity The risk we are unable to meet cash requirements from available resources to pay liabilities to customers or other creditors when they fall due. Also, the risk we incur excessive costs by selling assets or raising money quickly to meet our obligations. The failure of our liquidity strategy could have a material adverse effect on the Group's financial condition and cash flows.	If a catastrophe occurs, we may be faced with large, unplanned cash demands, which could be exacerbated if we have to fund a large portion of claims pending recovery from our reinsurers. Although our investment policies stress conserving principal and liquidity, our investments are subject to market-wide risks and fluctuations.	Our investment policy recognises the demands created by our underwriting strategy, so that some investments may need to be sold before maturity or at short notice. A high proportion of our investments are in liquid assets, which reduces the risk that they may make losses if they have to be sold quickly. Funds held for reserves are invested primarily in high-quality, short duration bonds and cash so the Group can meet its aim of paying valid claims quickly. Our cash requirements can normally be met through regular income streams: premiums, investment income, existing cash balances or by realising investments that have reached maturity. Our primary source of inflows is insurance premiums while our outflows are largely expenses and payments to policyholders through claims. We forecast our cash flow for the week, month, quarter, or up to two years ahead, depending on the source. We run tests to estimate the impact of a major catastrophe on our cash position 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. 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 institutions being unable to honour commitments to us.

Credit risk

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

What is the risk?	Why do we have it?	How is it managed?
Credit risk – reinsurance We buy reinsurance to protect us, but if our reinsurers are unable to meet their obligations to us it would put a strain on our earnings and capital, and could harm our financial condition and cash flows.	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.	We buy reinsurance only from companies that we believe to be strong. A dedicated Group credit committee must approve every reinsurer we use, based on an assessment of their financial strength, trading record, payment history, outlook, organisational structure and external credit ratings. Our credit exposures to these companies are closely monitored, as are the companies themselves, so we can quickly identify any potential problems. We consider public information, our experience of the companies, their behaviour in the marketplace and consultants' and rating agencies' analysis.
Credit risk – brokers We may lose money if the broker fails to pass the premium to us, or if the broker fails to pass the claims payment to the policyholder.	The vast majority of our business is written through brokers. We face credit risk where we transfer money to, and receive money from, brokers for premiums or claims.	We follow the same careful process for selecting and monitoring the brokers we work with as for our reinsurers. We also minimise the risk further by dealing with only the most credit-worthy brokers, taking into account market data and our experience. In some instances for large losses, we pay policyholders directly to reduce broker credit risk on material transactions.

Operational risk

The risk from derivative exposures involving people, processes, systems and external events resulting from running a uniquely diversified insurance business.

What is the risk?	Why do we have it?	How is it managed?
Regulatory change The insurance industry is exposed to continuous regulatory change, which may impact the capital we are required to hold. We are also exposed to new and emerging risks, including through legal or political decisions or legislative changes.	Insurance is a regulated industry. There may be times where the regulatory landscape undergoes a significant shift which directly impacts our business.	The Group supports sound prudential regulation as a key element in the stability and sustainability of the insurance and wider financial markets in which we operate. We continuously monitor new regulation and review our internal processes to facilitate compliance. Our approach is to combine local expertise with a globally consistent framework to manage regulatory change and provide effective compliance with the varied and evolving requirements.

Operational risk

The risk from derivative exposures involving people, processes, systems and external events resulting from running a uniquely diversified insurance business.

What is the risk?	Why do we have it?	How is it managed?
Information security (including cyber security) Information security risk relates to not protecting information which could compromise the confidentiality, availability or integrity of our data. Cyber security risk is the threat from globally connected networks such as the internet. It differs from the exposure posed by underwriting cyber risks, which is considered an insurance risk. Information security risk can result in loss of profit, and legal, regulatory and reputational consequences.	We operate in a world where the volume of sensitive data and the number of connected devices and applications have increased exponentially. Also, cyber-attacks are increasingly frequent and sophisticated. Our business depends on the integrity and timeliness of the information and data we maintain, own and use.	Information security risk is managed as a business risk, not an IT responsibility. We employ an information security policy and cyber security risk strategy. We have dedicated IT security resources which provide advice on information security design and standards. We also have an information security group, including experts from around our business to assess and manage these threats. Our cyber strategy combines industry standard perimeter security with data-centric protection for specific highly confidential information. We constantly deploy and evolve systems, policies and procedures to mitigate internal and external threats to the IT infrastructure. In 2016 we rolled out Group-wide mandatory training on information and cyber security which is also mandatory for all third parties and contractors. Our stress testing and scenario analysis considers the impact and likelihood of information security exposures to assess their effect on our business, as well as management actions, including response plans.
Information technology and systems failure The risk from major IT, systems or service failure which can significantly impact our business.	Our information technology and systems are critical to conducting business and providing continuity of service to our clients, including supporting underwriting and claims processes.	We have dedicated IT resources which support the Group's technology needs and oversee our critical systems and applications. Our stress testing and scenario analysis considers the impact and likelihood of an IT or systems failure, to assess the effect on the business and discuss what management actions could be taken to mitigate the risk. A formal disaster recovery plan is in place to deal with workspace recovery and the retrieval of communications, IT systems and data should a major incident occur. These procedures would enable us to move the affected operations to alternative facilities quickly. The plan is tested regularly and includes simulation tests.

Corporate responsibility
Our values underpin a reputation we have earned for integrity and decent behaviour in everything we do.

20%↓

Our business target of a real-term reduction in carbon emissions of 20% Scope 1 and 2 per FTE by 2020.

At Hiscox our core values include challenging 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 practice is reflected in the following.

The environment
Hiscox is a founding member of ClimateWise, a global network of over 30 leading insurance companies united by their concern for climate change and the risks it presents to both society and the insurance industry. We have taken part in each of their annual audits of business performance on climate change issues and published the latest version of our annual climate reports, endorsed by senior management. In the 2016 assessment we maintained the same score of 71% as the previous year and were fifth overall. The Hiscox ClimateWise Report 2016 is available at www.hiscoxgroup.com/responsibililty. More information on ClimateWise is available at www.climatewise.org.uk.

Hiscox remains a constituent of the FTSE4Good Index. The FTSE4Good Series is designed to help investors integrate environmental, social and governance (ESG) factors into their investment decisions. The indexes identify companies that better manage ESG risks and are used as a basis for tracker funds, structured products and as a performance benchmark. The ESG ratings are used by investors who wish to incorporate ESG factors into their investment decision-making processes, or as a framework for corporate engagement and stewardship.

Hiscox has made a full public response to the Carbon Disclosure Project (now CDP) since 2012. This international, investor-backed initiative enables companies to disclose their impacts on the environment and natural resources as well as the actions they are taking to reduce these impacts. Based on the responses each year, CDP publishes a number of reports, including a FTSE 250 report, in which it presents its overall findings and participants' scores. In 2016 we scored a B, up from C+ in the previous year. More information on CDP is available at www.cdp.net.

We believe in identifying, then minimising, the environmental impact 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. This includes 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. The Hiscox London office received a Gold Award at the 2016 Clean City Awards for their work in this area.

Global emissions

	Year 2014	*Year 2015	Year 2016
Scope 1 – company car use, onsite gas, combustion and refrigerant loss	446	591	**612**
Scope 2 – purchased electricity	1,916	2,113	**2,192**
Total (Scope 1 and 2)	2,362	2,703	**2,804**
Total tonnes CO_2e per FTE (Scope 1 and 2)	1.20	1.20	**1.15**
Scope 3 – air, rail, and personal car business travel	4,906	4,538	**4,596**
Total (all Scopes 1, 2 and 3)	7,269	7,241	**7,400**
Tonnes CO_2e per FTE (all Scopes 1, 2 and 3)	3.68	3.18	**3.03**

*The 2015 baseline has been re-stated. This is as a result of more accurate actual data available where estimates were previously used.

Hiscox is a founding member of ClimateWise, a global network of over 30 leading insurance companies.

The environment

In 2016, Hiscox continued to work towards a real-term reduction in carbon emissions of 20% Scope 1 and 2 per FTE by 2020, relative to 2014. This year we achieved a 4% reduction in Scope 1 and 2 emissions per FTE against the 2014 baseline, and we remain on track to meet our 2020 target. The table above depicts our global carbon emissions year-on-year since 2014.

In 2016, Hiscox continued with our commitment to be a carbon neutral business. Our global emissions continue to be offset through an innovative collaboration with the LifeStraw Carbon for Water project, managed by ClimateCare with the Ministry of Public Health and Sanitation in Kenya. For more information, see the case study in the Hiscox ClimateWise Report 2016 at www.hiscoxgroup.com/responsibility.

The marketplace

In 2016, Hiscox London Market was awarded Insurance Team of the Year at the Reactions London Market Awards, as well as Most Innovative Managing Agent and Best Product Innovation for its FloodPlus product at The Lloyd's Market Innovation Awards. Hiscox UK and Ireland was named Cyber/Technology Risks, Professional Indemnity and Directors' & Officers' Team of the Year as well as Underwriting Team of the Year at the Insurance Post Underwriting Service Awards 2016. Direct Asia Insurance (Singapore) Pte Ltd won Best Online Buying Experience at the TripZilla Excellence Awards 2016 and Hiscox USA was recognised in the Top 100 Small Business Influencer Awards. Hiscox Re and ILS picked up Underwriting Team of the Year at the Insurance Day Awards, where it was recognised for its product development in areas such as cyber insurance and risk aggregation.

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 and Ireland has instigated a 'superb service' ethos, developing a greater understanding of individual brokers' needs. Hiscox UK and Ireland 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 a trusted insurer. 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. This approach was recognised at the Consumer Intelligence 2016 Best Claims Award where the Hiscox UK and Ireland direct business was named one of the top ten insurer claims teams following an annual survey of over 24,000 consumers who rated their insurance/claims service. It was also recognised by Hiscox's Kieran Giddons picking up Insurance Insider Honours Award, Young Claims Professional of the Year.

There is increasing regulatory focus on the conduct risk in firms' strategies and business models. We feel very familiar with the concept of conduct, as Hiscox has a long history of putting the customer at the heart of what we do. In 2016 we designed and have begun implementing a conduct risk strategy for Hiscox UK and Europe and Hiscox London Market.

The Hiscox Women in Leadership programme is designed to help more women become Hiscox leaders.

Inclusion

The aim of this is to ensure Hiscox is identifying and controlling conduct risk across the lifecycle of our products and that all employees have fair conduct and treatment of customers embedded in what they do.

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 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 and whistleblowing procedures that enable that person to confidentially raise their concern with senior management. Employees also have the option to raise their concern with the Chair of the Hiscox Ltd Audit Committee. All Hiscox staff worldwide can access free, confidential advice from Public Concern at Work in relation to any concerns about possible malpractice or wrongdoing 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 gives them the option of flexible and home working wherever possible.

Inclusion

Senior management believe that being successful at Hiscox should be purely down to talent, personal values and effort. 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. In 2016, we focused on gender with the launch of a new Women in Leadership programme in order to help more women become Hiscox leaders. We see activity in 2016 as a precursor to a broader inclusion agenda in 2017, with Women In Leadership becoming one of our main Group-wide priorities for 2017.

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. We listen to the views of our people and involve them in new ideas to take forward the business.

The community

In 2016, Hiscox Bermuda provided funding for students aged 11-15 to pursue summer programmes including a Plastic Tides Conservation camp; studying the effects of plastic pollution; National Student Leadership Conference on Medicine and Healthcare at Harvard University; a cricket tour to the UK; an elite tennis camp; a Broadway dance intensive; an advanced

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

strings chamber camp and an advanced repertoire programme for violin at Ithaca College, New York. Donations were made to assist Bermuda's youth organisations, including the Bermuda Sloop Foundation, The Family Centre, Outward Bound and Big Brothers Big Sisters, to name a few. Hiscox supports the community with donations to Open Airways, the Bermuda Stroke and Family Support Association, the Matilda Smith Williams Seniors residence and Windreach, as well as the island's sporting groups through donations to the Bermuda Equestrian Federation and the Bermuda Lawn Tennis Association. Our support of Boccia Bermuda enabled two Bermudian players to participate in the Boccia World Individual Championships in Beijing and the Paralympics in Rio de Janeiro.

Hiscox Bermuda also continues its active involvement in the YouthNet reading programme at Northlands Primary School and the Eliza Dolittle Society.

Hiscox USA is dedicated to serving those charities local to its offices that aid and improve education, medical science, advancement of the arts and culture, and provide services to disadvantaged and vulnerable members of society. The Hiscox Foundation USA matched donations and pledged money for hours volunteered by Hiscox employees with partner charities throughout the US – St Baldrick's, the volunteer-powered charity committed to researching cures for childhood cancers in Miami; Wounded Warriors, the military and veterans charity empowering injured veterans and their families; and Girls Inc, which provides more than 140,000 girls across the US and Canada with life-changing experiences and solutions to the unique challenges that girls face. The Hiscox Foundation USA also continues to support the Parris Foundation, an organisation dedicated to helping disenfranchised communities by teaching children about science, technology, engineering and mathematics.

£30,900

Colchester employees raised a record £30,900 for St Helena Hospice, enabling the respite group to support post-diagnosis patients and their carers for over a year.

In 2016, Hiscox Germany supported two refugee projects in Bavaria and Syria, through the United Nations High Commissioner for Refugees (UNHCR).

In the UK, Colchester employees raised a record £30,900 for St Helena Hospice. This amount enabled the respite group to support post-diagnosis patients and their carers for over a year. The team also established a reading partnership programme with local schools, encouraging staff to take time in their day to assist children with their reading.

Hiscox York raised nearly £5,000 for Martin House Children's Hospice, which cares for children and young people aged 0-19 with life-limiting conditions. In London, Hiscox launched a drive to find six candidates to fill level 3 insurance practitioner roles in partnership with the National Apprenticeship Service. Apprentices taken on by the business will be Cert CII qualified within 12-18 months. Staff in London also continue to support the reading partners scheme, spending half an hour each week listening to children from local schools read, helping with difficult words, playing word games and building their confidence.

Supporting the arts, science and technology

Hiscox continues to support the arts, science and technology. It does this through its work with the Royal Academy Schools, providing a bursary for two second-year students, and with 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 the Bridge Academy, Hackney and other local schools to bring the sculptures to life. Hiscox is also insurance partner of the Whitechapel Gallery, a free to access gallery for the local community which champions contemporary art.

Hiscox remains title sponsor of the Sunday Times Hiscox Tech Track 100, charting the fastest growing private technology, telecoms and digital media companies. The Aesthetica Art Prize globally celebrates emerging artists and Hiscox supports the prize fund which allows the overall winner to receive £5,000 and the student prize winner £1,000. Hiscox Germany continues to support promising young artists, along with Hamburg's renowned Academy of Fine Art, presenting a €7,500 prize to the best young artist selected by a jury of well-known art experts. Hiscox France works with FIAC, France's premier Art Fair.

The Hiscox Foundation

The Hiscox Foundation is a charity, funded by an annual contribution from the Group, which gives priority to any charity in which an employee is involved. In the UK the Foundation contributed over £35,000 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. Richard House Children's Hospice provides care and support to children and young people who have a life-limiting or life-threatening health condition. In aggregate, the Hiscox Foundation in the UK and USA donated £215,000 during the year.

Insurance carriers
We operate through different business entities according to local regulation.

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.

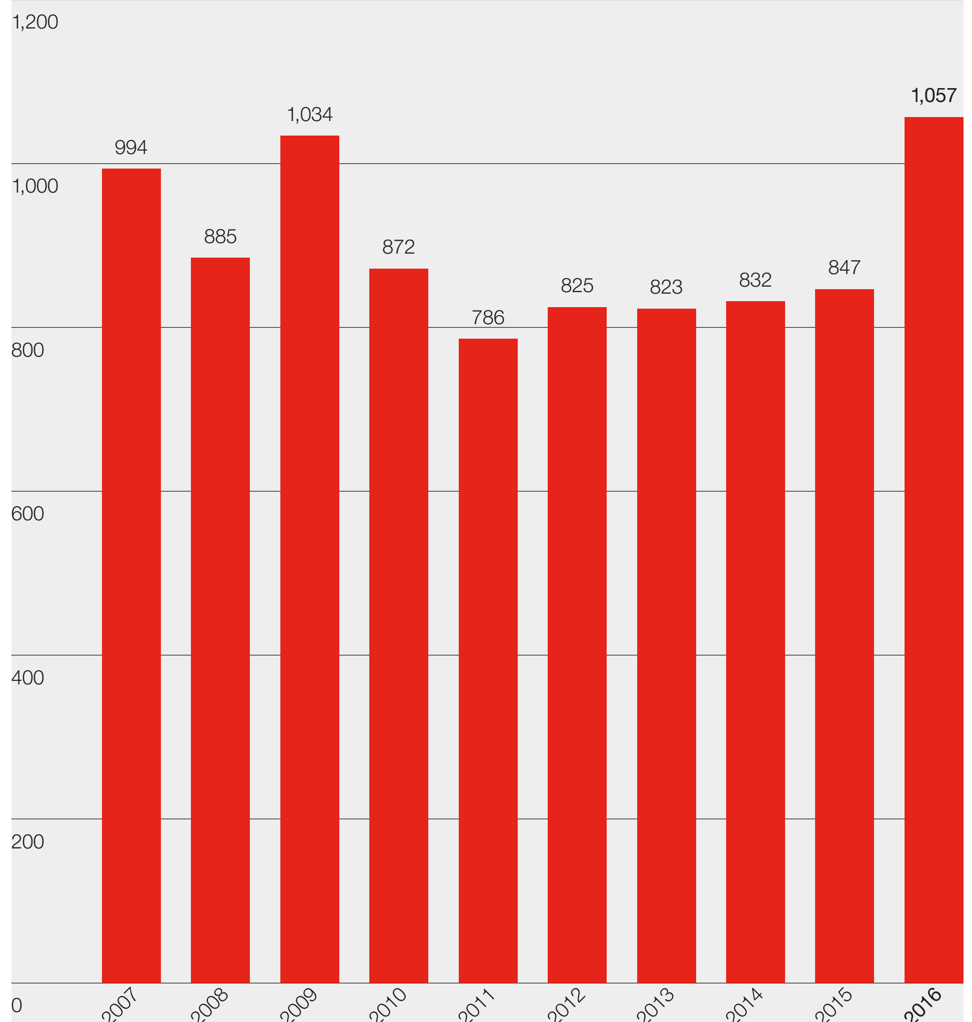
Syndicate 33 trades through the Lloyd's worldwide licences and ratings. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, an A+ (Strong) from S&P, and an AA- (Very strong) rating from Fitch.

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.

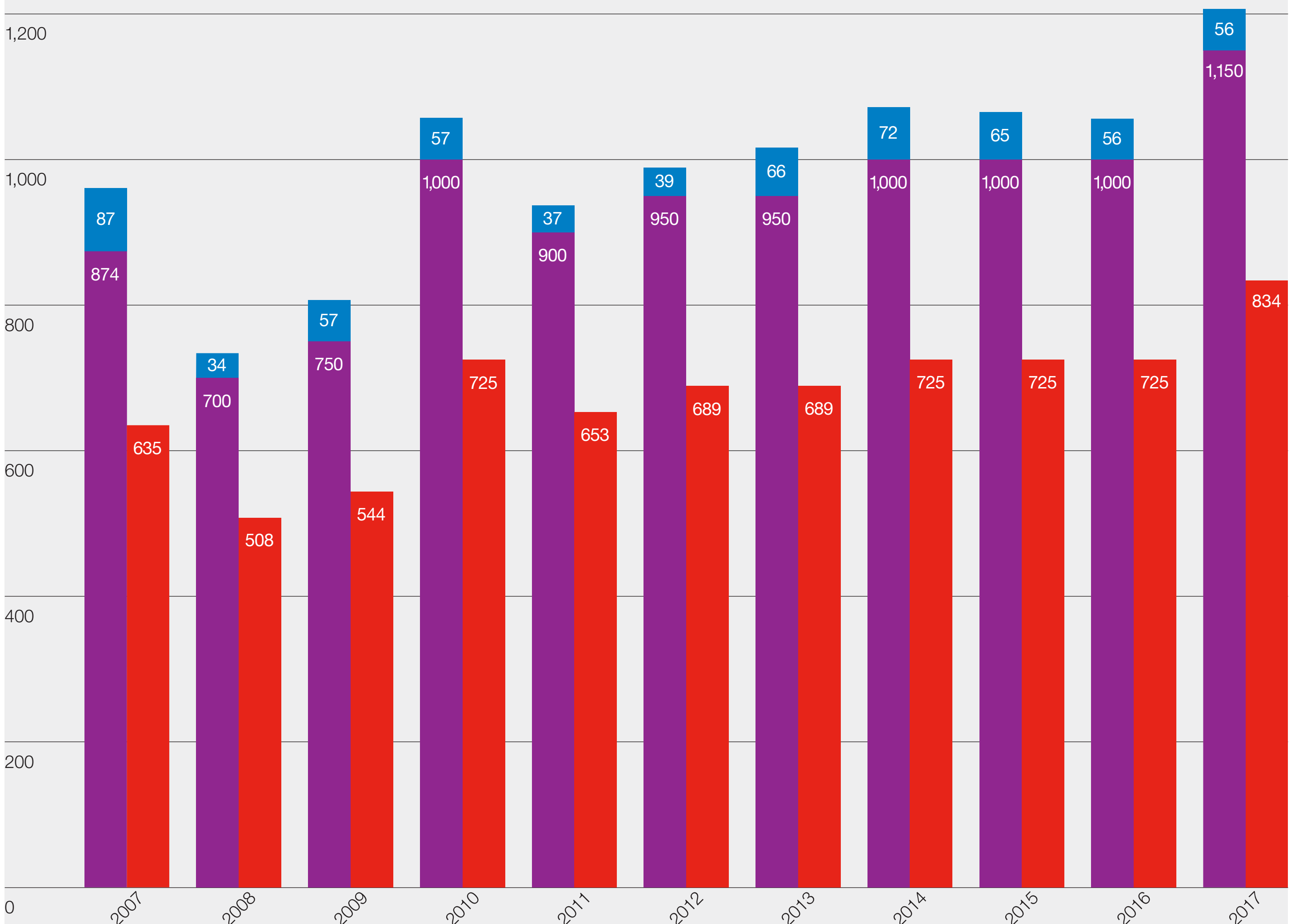
At present, Hiscox owns approximately 72.5% of the Syndicate, with the remainder owned by third-party Lloyd's Names. Hiscox receives a fee and a profit commission of approximately 20% of profit on the element it does not own. For the 2017 year of account, Syndicate 33's capacity has increased to £1,150 million.

The chart right shows the gross premiums written of Syndicate 33 for the last ten years.

Syndicate 33
Gross premiums written (£m)



Hiscox Syndicate 33 is one of the largest composite syndicates at Lloyd's.



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 the growing small-ticket E&O account of Hiscox USA written through our US service company Hiscox Inc.. The Syndicate also underwrites FTC (fire, theft and collision), auto extended warranty, property, technology and media, healthcare and aviation, some of which is sourced through other service companies in the Group.

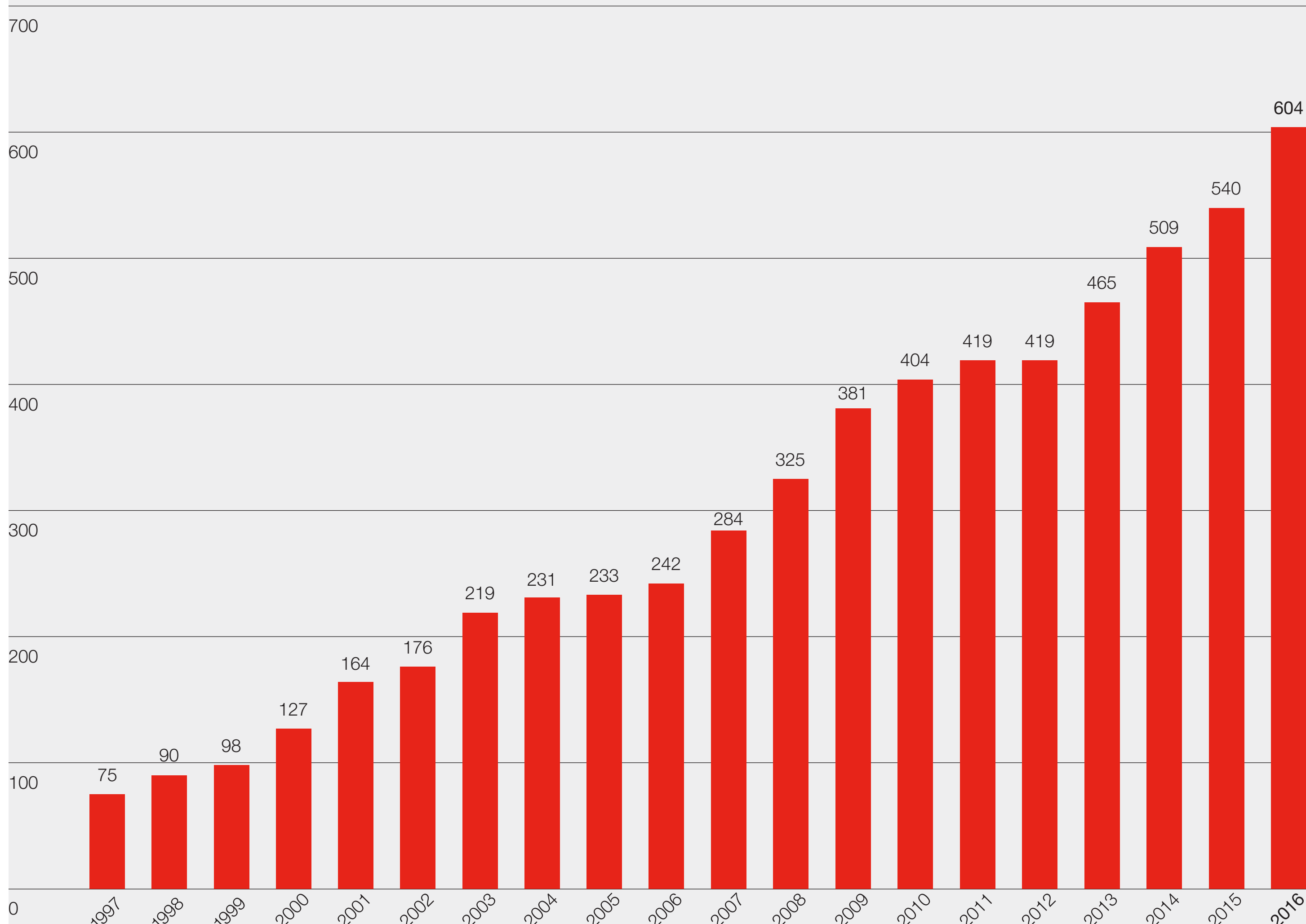
The diversification of the Syndicate from both an exposure and a geographical perspective means the Syndicate is well balanced to grow in a controlled way. Total underwriting capacity of Syndicate 3624 has increased to £460 million for the 2017 year of account driven by the strength of the US Dollar.

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 2017 year of account and Syndicate 6104's capacity was maintained at £56 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. Hiscox Insurance Company Limited has licences throughout Europe and its operations form the vast majority of the



UK and Ireland and European division of Hiscox Ltd. Its principal activity is the transaction of general insurance business, in particular personal and commercial insurance. Personal insurance includes high-value household, fine art and collectibles, as well as luxury motor vehicles. Commercial insurance is focused on small- and medium-sized businesses, particularly for professional indemnity and other liabilities such as employment liability and property risk. The success of the portfolio can be seen in the chart opposite. Hiscox Insurance Company Limited has achieved average compound growth in gross premiums written of 11.6% from 1997 to 2016. It has significantly improved its combined ratio during this time.

Hiscox Insurance Company Limited has an A.M. Best rating of A (Excellent), a S&P rating of A (Strong) and an A+ (Strong) rating from Fitch. At the end of 2016, net assets were £275 million (2015: £269 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 2016, net assets were $15 million (2015: $15 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 2016, net assets exceeded $834 million (2015: $848 million).

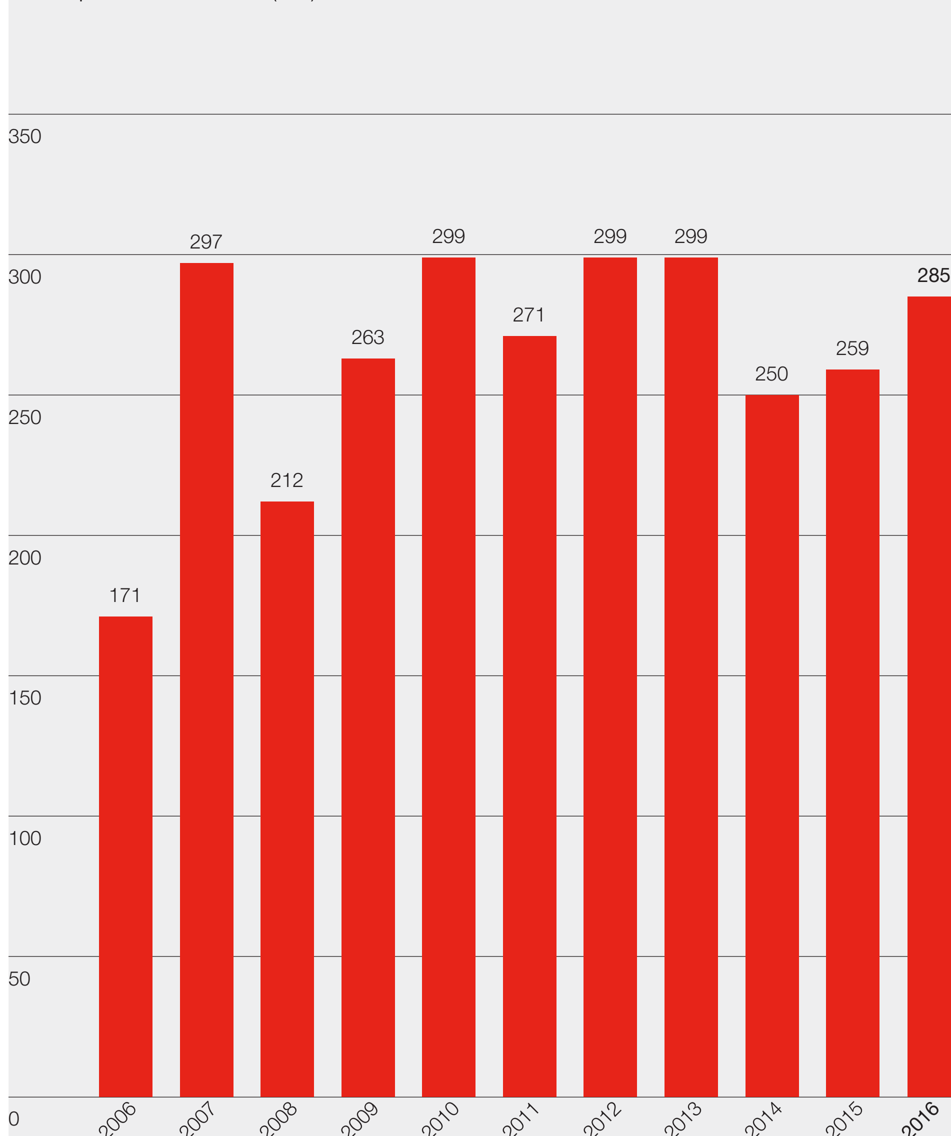
Hiscox Insurance Company Inc.

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 commercial property and liability cover sold through insurance brokers and on a direct basis. Hiscox Insurance Company Inc. is rated A (Excellent) by A.M. Best. At the end of 2016, net assets exceeded $72 million (2015: $66 million).

DirectAsia

In March 2014, the Group acquired Direct Asia Insurance (Holdings) Pte Ltd ('DirectAsia'). Having disposed of its insurance business in Hong Kong, DirectAsia underwrites through a subsidiary in Singapore and an agency in Thailand. Its primary business is motor insurance, with ancillary lines in travel, personal accident and healthcare. At the end of 2016, the insurance company subsidiary has net assets exceeding SGD$15 million (2015: SGD$15 million).

> Hiscox Insurance Company Limited has achieved average compound growth in gross premiums written of 11.6% from 1997 to 2016.
>
> Hiscox Insurance Company



Board of Directors

Chairman

Robert Simon Childs
Non Executive Chairman (Aged 65)
*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

Hamayou Akbar Hussain
Group Chief Financial Officer
(Aged 44)
12 September 2016

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

Bronislaw Edmund Masojada
Chief Executive Officer
(Aged 55)
*12 December 2006**

Bronek Masojada joined Hiscox in 1993. From 1989 to 1993 he was employed by McKinsey and Co. Bronek served as a Deputy Chairman of Lloyd's from 2001 to 2007 and was Chairman of the Lloyd's Tercentenary Research Foundation from 2008 to 2014. He is a past President of The Insurance Institute of London and a Past Master of The Worshipful Company of Insurers. He is currently a member of the Board of the Association of British Insurers and a Director of Pool Reinsurance Company Limited.

Richard Colin Watson
Chief Underwriting Officer
(Aged 53)
*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

Lynn Carter
Independent Non Executive Director
(Aged 60)
*20 May 2015**

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

Caroline Foulger
Independent Non Executive Director and Chairman of the Audit Committee
(Aged 56)
*1 January 2013**

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

Ernst Robert Jansen
Independent Non Executive Director and Chairman of the Conflicts Committee
(Aged 68)
*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 Eureko B.V. (now Achmea BV) between 1992 and 2007 and following retirement he became an advisor to the Executive Board and is Director of two investment vehicles of Achmea.

Colin Keogh
Senior Independent Director and Chairman of the Remuneration Committee
(Aged 63)
*19 November 2015**

△○■⬡

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

Anne MacDonald
Independent Non Executive Director
(Aged 61)
*20 May 2015**

△○□⬡

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

Robert McMillan
Independent Non Executive Director
(Aged 64)
*1 December 2010**

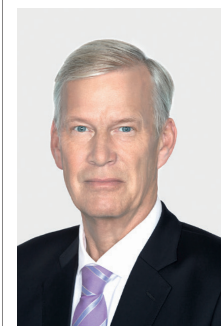
△○□⬡

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.

Gunnar Stokholm
Independent Non Executive Director
(Aged 68)
*20 November 2008**

△○□⬡

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 Ltd

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Jeremy Pinchin

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Bermuda

Registered number
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7 Church Street West
Hamilton HM 11
Bermuda

Solicitors
Appleby
Canon's Court
22 Victoria Street
PO Box HM 1179
Hamilton
HMEX Bermuda

Bankers
HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

Stockbrokers
UBS Limited
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

Registrars
Capita Registrars (Jersey) Limited
PO Box 532
St Helier
Jersey JE4 5UW

*Effective date of Hiscox Ltd contract.

△ 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

Executive Committee

The Executive Committee was established as a Committee of the Board in February 2015. It makes recommendations to the Board and approves various matters (some of which may also require Board approval).

See Corporate governance

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Amanda Brown
Group Human Resources Director

Amanda joined Hiscox in 2006 as Group Human Resources Director. Prior to joining the Group, Amanda worked for Mars, PepsiCo and Whitbread in senior human resources roles in Europe and internationally. Previous roles include: Compensation and Benefits Director for PepsiCo's restaurants division in Europe and Africa; Group Compensation and Benefits Director for hotel and restaurant company, Whitbread; and Human Resources Director for Marriott Hotels in the UK. In 2016, Amanda also became a Non Executive Director of Micro Focus, a FTSE 100 global software company.

Aki Hussain
Group Chief Financial Officer

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

Steve Langan
Chief Executive Officer, Hiscox Insurance Company
Chief Marketing Officer

Steve joined Hiscox in 2005 after a highly successful marketing and management career with Diageo, Coca-Cola, Nestlé, Bass Brewers and Scottish & Newcastle across the UK, Europe and South America. He has been at the forefront of developing the Hiscox brand globally, including the development of its first television advertising campaign in 2006 and the successful launch of the brand in the USA, Europe and (under the DirectAsia brand) in Singapore, Hong Kong and Thailand. Since 2013, Steve has led the UK and Ireland and Europe businesses as a combined entity and in 2014 he also became CEO of the DirectAsia Group post-acquisition. Steve became a Fellow of the Marketing Society in 2012, is a Freeman of the City of London, and a member of The Worshipful Company of Distillers.

Paul Lawrence
Chief Underwriting Officer, Hiscox London Market

Since joining Hiscox in 1992, Paul has underwritten a broad range of business lines including fine art, high-value household, personal accident, contingency and all types of property. Paul was appointed Divisional Head of Property within Hiscox London Market in 2007 and, in April 2013, promoted to Chief Underwriting Officer, Hiscox London Market, and Joint Active Underwriter of Syndicate 33. Before joining Hiscox, Paul worked as an underwriting assistant for C P Attenborough Syndicate 144 at Lloyd's and for broker E W Payne.

Bronek Masojada
Group Chief Executive Officer

Bronek joined Hiscox in 1993. From 1989 to 1993 he was employed by McKinsey and Co. Bronek served as a Deputy Chairman of Lloyd's from 2001 to 2007 and was Chairman of the Lloyd's Tercentenary Research Foundation from 2008 to 2014. He is a past President of The Insurance Institute of London and a Past Master of The Worshipful Company of Insurers. He is currently a member of the Board of the Association of British Insurers and a Director of Pool Reinsurance Company Limited.

Jeremy Pinchin
Chief Executive Officer, Hiscox Re and ILS
Chief Executive Officer, Hiscox Bermuda
Group Company Secretary
Group Claims Director

Jeremy joined in 2005 as Hiscox's first Claims Director, responsible for co-ordinating and developing claims services across the Group. Jeremy came from Lloyd's of London where he was the first Head of Claims following the creation of the Franchise Team, and was responsible for the market's first co-ordinated claims strategy and claims management principles. He joined Lloyd's as a consultant in early 2002 to head up a team co-ordinating the market's management of its exposure to the losses arising from 9/11. Jeremy trained as a solicitor, served as General Counsel, and later, Board member of Sedgwick Group, the international insurance broker now part of Marsh. In 2012 Jeremy moved to Bermuda to run Hiscox Insurance Business, becoming Chief Executive Officer of Hiscox Re, Chief Executive Officer of Hiscox Bermuda and Group Company Secretary. In 2016, Jeremy became Chief Executive Officer of the newly created Hiscox Re and ILS business unit.

Ben Walter
Chief Executive Officer, Hiscox USA

Ben is Chief Executive Officer for Hiscox USA. Ben joined Hiscox in early 2011 as US Chief Operating Officer and served in that post until April 2012 when he assumed his current role. He previously held the position of Managing Director at asset manager BlackRock, which he joined via its acquisition of Barclays Global Investors. Prior to that, he was a Director with Gap Inc. and a consultant for the Boston Consulting Group.

Richard Watson
Group Chief Underwriting Officer

Richard 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 to become Chief Underwriting Officer for the Hiscox Group. He is a Non Executive Director of White Oak Underwriting Agency Limited.

Hiscox Partners

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

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.

5%

Up to 5% of the total workforce are Hiscox Partners.

David Astor
Chief Investment Officer,
Hiscox Group

David Bailey
SVP, Southwest Regional Executive,
Hiscox USA

Rory Barker
Group Head of Outwards Reinsurance

Helen Bennett
HR Director,
Hiscox UK and Europe

Neil Bolton
Head of Casualty,
Hiscox London Market

Justin Bowen
Deputy Chief Underwriting Officer,
Hiscox UK and Ireland

Amanda Brown
Group Human Resources Director

Steve Camm
Chief Underwriting Officer,
Hiscox Special Risks

Rob Caton
Head of Underwriting Risk and Reinsurance
Hiscox Re and ILS

Robert Childs
Non Executive Chairman

Robert Davies
Chief Executive Officer,
Hiscox Special Risks

Robert Dietrich
Managing Director,
Hiscox Germany

Ross Dingwall
Managing Director,
Hiscox UK and Ireland – Broker

Adam Edelstein
Chief Operating Officer,
Hiscox USA

Guy Ellis
Head of Marine and Aviation Reinsurance,
Hiscox Re and ILS

Stéphane Flaquet
Managing Director,
Hiscox Europe

Sam Franks
Regional Manager Birmingham,
Hiscox UK and Ireland

Robert Gadaleta
SVP, Southeast Regional Executive,
Hiscox USA

Nicole Goodwin
Chief Underwriting Officer,
Hiscox USA

Justin Gott
Head of Art and Private Client,
Hiscox UK and Ireland

Charlie Gower
Head of Insight and Research,
Hiscox Group

Peter Gower
Marine Liability Line Underwriter,
Hiscox London Market

Gary Head
Managing Director of Alternative Distribution,
Hiscox UK and Ireland

David Heras
Country Manager,
Hiscox Spain

Robert Hiscox
Retired Honorary President

Aki Hussain
Group Chief Financial Officer

Michael Jedraszak
Chief Investment Officer,
Hiscox Re and ILS

Suzanne Kemble
Head of Specialty,
Hiscox UK and Ireland

Kevin Kerridge
EVP,
Small Business Direct and Partnerships,
Hiscox USA

Markus Klopfer
Munich Branch Office Manager,
Hiscox Europe

Craig Knightley
Head of Underwriting Insight,
Hiscox Group

Lorraine Kolega
Head of HR,
Hiscox USA

Michael Krefta
Chief Underwriting Officer, Hiscox Re and ILS and Joint Active Underwriter,
Syndicate 33

Steve Langan
CEO Hiscox Insurance Company,
Chief Marketing Officer

Paul Lawrence
Chief Underwriting Officer, Hiscox London Market
Joint Active Underwriter Syndicate 33

Ben Love
Head of Business Development,
Hiscox Re and ILS

Richard Lowther
Chief Operating Officer,
Hiscox Re and ILS

Kate Markham
Managing Director,
Hiscox UK Direct

Ian Martin
Finance Director,
Hiscox London Market

Bronek Masojada
Group Chief Executive Officer

Steve McGerr
Head of Direct Commercial,
Hiscox UK and Ireland

Eric Micheals
Senior Vice President,
Hiscox Underwriting Center,
Hiscox USA

Simon Morgan
Divisional Head of Property,
Hiscox London Market

Ben Murphy
Line Underwriter,
Commercial Property,
Hiscox London Market

Joanne Musselle
Chief Underwriting Officer,
Hiscox UK and Ireland

Kylie O'Connor
Group Head of Communications

James Pilgrim-Morris
Head of Professional Indemnity Claims,
Hiscox UK and Ireland and Hiscox London Market

Jeremy Pinchin
Chief Executive Officer,
Hiscox Re and ILS,
Group Company Secretary,
Group Claims Director,
Chief Executive Officer,
Hiscox Bermuda

Derrick Potton
Head of Professions and Specialty Commercial,
Hiscox UK and Ireland

Liz Prior
Finance Director,
Hiscox Special Risks

Tony Rai
Head of London Market Claims

Charles Rawlins
Energy Line Underwriter,
Hiscox London Market

Robert Read
Global Head,
Art and Private Clients

Louise Reid
Head of HR,
Hiscox Re and ILS

Joanne Richardson
Practice Leader, Media and Entertainment,
Hiscox USA

Georgina Roberts
Head of HR,
Hiscox London Market

Adam Rushin
Director of Operations,
Hiscox London Market

Brett Sadoff
Head of Field,
Hiscox USA

Stephen Scialdone
SVP, Practice Leader – Property,
Hiscox USA

Mark Shaw
Head of Broker Relations,
Hiscox London Market

David Slevin
Divisional Head of Aerospace and Specialty,
Hiscox London Market

Damien Smith
Director of Underwriting,
Hiscox Bermuda,
Hiscox Re and ILS

Bevis Tetlow
Head of North American Underwriting Bermuda,
Hiscox Re and ILS

Bob Thaker
Managing Director,
DirectAsia

Ian Thompson
Head of Casualty,
Hiscox Re and ILS

Nicholas Thomson
Retired Chief Underwriting Officer

Phil Thorn
Head of Direct Home Insurance,
Hiscox UK and Ireland

Lee Turner
National Schemes Sales Manager,
Hiscox UK and Ireland

Annabel Venner
Global Brand Director,
Hiscox Group

Wolf von Buckwaldt
Branch Office Manager,
Hiscox Hamburg

Ben Walter
Chief Executive Officer,
Hiscox USA

Chris Warrior
Head of Management Liability,
Hiscox London Market

Gavin Watson
Chief Financial Officer,
Hiscox USA

Richard Watson
Group Chief Underwriting Officer,
Hiscox Group

Tobias Wenhart
Manager Product and Underwriting,
Hiscox Germany

Gareth Wharton
Chief Technology Officer,
Hiscox Group

Simon Williams
Head of Marine and Energy,
Hiscox London Market

Chairman's letter to shareholders

Key developments on corporate governance throughout the year.

Dear Shareholder
As the size and shape of the Hiscox Group continues to grow and develop it is vital that we have in place a robust governance framework to underpin our business model. This goes beyond mere compliance with Codes. It is about having the right culture, a balanced Board with independent Non-Executives and a well-defined network of committees.

The arrangements we have in place are described in detail within this Corporate Governance Statement but it is worth highlighting a few notable events from this year.

- PwC were appointed as the Group's new auditors at the 2016 AGM following a tender process which we began in 2014.
- The Nominations Committee led the search for a new Chief Financial Officer using an independent search firm and this culminated in the appointment of Aki Hussain in September – a strong addition to the Board.
- The Nominations Committee also undertook the search for two new Non Executive Directors to replace Ernst Jansen and Gunnar Stokholm who will be retiring from the Board during 2017.
- The Remuneration Committee engaged with shareholders, representing 75% of the register, on the renewal of the Remuneration Policy and this will be put to shareholders at the AGM.
- The Terms of Reference of our Conflicts Committee were widened to allow the Committee to act as arbiter on potential conflicts arising from having external investors in the insurance-linked securities funds which we manage.

In 2016 we carried out an internal Board evaluation using an independent facilitator, Lintstock. The balance of skills, experience, independence, knowledge and diversity was rated very highly. However, there are always ways we can improve, and in 2017 we will look at suggestions made in the report.

Robert Childs
Chairman

Corporate governance

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

Overview and basis of reporting

Hiscox Ltd ('the Company') is the Bermuda incorporated holding company for the Group. The Company has a premium listing on the London Stock Exchange. The corporate governance framework for the Company is derived from its constitution together with Bermuda Companies Act legislation. The Listing Rules require the Company to report against the UK Corporate Governance Code published in September 2014 (the Code). During 2016, and up to the date of this Report and Accounts, the Group has complied with the provisions of the Code in all material respects.

The Board of Directors

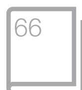
As at the date of this Report, the Board comprises the Non Executive Chairman, three Executive Directors, and seven independent Non Executive Directors, including a Senior Independent Director. Biographical details for each member of the Board are provided on pages 54 to 55. The Nominations Committee monitors the composition of the Board and considers its diversity, balance of skills, experience, independence and knowledge to ensure that it remains appropriate. The composition of the Board was also reviewed as part of the Board evaluation described on pages 62 and 64.

The needs of a new Director joining the Board are assessed and appropriate training arranged. Directors' training requirements were assessed using an online questionnaire circulated during the year. Existing Directors are provided with the opportunity to attend training sessions. During the year Directors received briefings on the new Market Abuse Regulation and the implications for the Group of the result of the UK referendum on membership of the European Union ('Brexit'). The roles and activities of the Chairman and Chief Executive are distinct and separate. The Chairman is responsible for running an effective Board including oversight of corporate governance and strategy. The Chief Executive has responsibility for running the Group's business. As previously announced, Hamayou Akbar (Aki) Hussain was appointed as Group Chief Financial Officer and a Director of the Company with effect from 12 September 2016. In accordance with the Company's Bye-Laws, he will seek re-appointment at the 2017 Annual General Meeting. In accordance with the Code the remaining Directors will also submit themselves for re-appointment. The external commitments of the Chairman and the Executive Directors are disclosed in their profiles on page 54. 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. During the year the Board agreed to set voluntary restrictions on the number of other Directorships a Non Executive Director is permitted to hold. The remuneration of the Non Executive Directors does not include performance-related elements and is reviewed annually. 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. 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. As part of the internal Board evaluation conducted during the year Directors were asked to assess the

Further information on the activities of the Committee is included in the Audit Committee report on page 66.

The Audit Committee



quality of the support they receive from the Company Secretary and the responses were all positive. The Board meets at least four times a year and operates within established Terms of Reference. It is supplied with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities. As part of the Board evaluation Directors were asked to rate the length, structure and timeliness of information provided to the Board and use of summaries. Whilst there were some suggestions for improvement, overall the Directors rated the information 4 out of 5 for appropriateness. The Board of Hiscox Ltd held four scheduled meetings during 2016. The Code does not require the independence or otherwise of a Non Executive Chairman to be considered subsequent to their appointment. Caroline Foulger is a former partner of PwC, the Company's auditors, but retired from the firm on 31 December 2012 and is considered to be independent. The Board considers all other Non Executive Directors to be independent within the meaning of the Code as there are no relationships or circumstances which would interfere with the exercise of their independent judgement.

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 held during the year. The Board retains ultimate authority for high-level strategic and management decisions including: setting Group strategy, approving significant mergers or acquisitions, approving the financial statements, declaration of interim dividends and recommendation of the final dividend, approving Group business plans and budgets, approving major new areas of business, approving capital raising, approving any bonus issues or rights issues of share capital, setting Group investment guidelines, approving the Directors' remuneration, approving significant expenditure or projects, and approving the issue of share awards. The Board has appointed an Executive Committee (described on page 64) and authorised the boards of the trading entities and business divisions to manage their respective operational affairs, to the extent that Board or Executive Committee approval is not required.

The Board's committees

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

The Audit Committee

The Audit Committee of Hiscox Ltd comprises Lynn Carter, Caroline Foulger, Ernst Jansen, Colin Keogh, Anne MacDonald, Bob McMillan and Gunnar Stokholm. Caroline Foulger is considered by the Board to have recent and relevant financial experience and is Chair of the Committee. The Committee as a whole is considered to have competence relevant to the sector in which the Company operates. Further information on the background and experience of the Committee members is included in their profiles on pages 54 and 55. The Committee operates according to Terms of Reference published on the Group's website and met four times during the year to assist the Board on matters of financial reporting, risk management and internal control and to determine the external auditor's fees. The Committee monitors the scope, results and cost effectiveness of the internal and external audit functions, the independence and objectivity of the external auditors, and the nature and extent of non-audit work undertaken by the external auditors together with the level of related fees. The Audit Committee receives reports from the auditors who also attend meetings of the Committee to report on the status of their audit and any findings. This allows the Committee to monitor the effectiveness of the auditors during the year.

It was decided to put the audit of the Group out to tender, for the first time, at the end of 2014. The then incumbent auditors were not invited to participate in view of the longevity of their appointment and upon conclusion of the process PwC were recommended by the Audit Committee as the Company's next auditors and were duly appointed at the 2016 Annual General Meeting. As a tender process has been conducted so recently there are currently no plans to re-tender the audit. The internal and external auditors have unrestricted access to the Committee. All non-audit work undertaken by the Group's external auditors with fees greater than £50,000 must be pre-approved by the Committee. PwC have confirmed to the Committee that in its opinion it remains independent. The Committee is satisfied that this is the

The Committee also has a role in considering the succession planning for Executive Directors and senior managers, and a remit to make recommendations on the succession planning for the Chairman and the Chief Executive and other members of the senior management group.

The Nominations Committee

case. In respect of the 2016 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 position and performance, business model and strategy. The arrangements by which staff may, in confidence, raise concerns about possible improprieties are described in the corporate responsibility statement on page 48. The arrangements were reviewed and updated and reissued to all employees across the Group in September 2016. Further information on the activities of the Committee is included in the Audit Committee report on page 66.

The Remuneration Committee

The Remuneration Committee comprises Lynn Carter, Caroline Foulger, Ernst Jansen, Colin Keogh, Anne MacDonald, Bob McMillan and Gunnar Stokholm. It is chaired by Colin Keogh. The Committee operates according to Terms of Reference published on the Group's website and generally meets three times a year. The Remuneration Committee takes care to recognise and manage conflicts of interest when receiving views from Executive Directors or senior management or consulting the Chief Executive about its proposals. No Executive is permitted to be present when the Committee discusses his or her remuneration. The Committee's role in remuneration is described in the remuneration policy report on page 76. The remuneration policy applicable to the Executive Directors is described on pages 76 to 84 and will be put to shareholders at the Annual General Meeting. The overall aim is to attract and retain high-calibre individuals and incentivise them to deliver long-term success for the Company. Executive Directors are subject to malus and clawback provisions in relation to their remuneration and the circumstances in which these would apply are described on page 82. The renewal of the Company's Performance Share Plan was approved by shareholders at the 2016 Annual General Meeting.

The Nominations Committee

The Nominations Committee comprises Lynn Carter, Robert Childs, Caroline Foulger, Ernst Jansen, Colin Keogh, Anne MacDonald, Bob McMillan and Gunnar Stokholm. 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. Two of the Non Executive Directors will reach nine years' service in November 2017. With this in mind during 2016 the external search consultancy firm, JCA Group, was commissioned to identify suitable candidates for the role of Independent Non Executive Director. Other than undertaking search assignments, JCA has no connection to the Group. The search brief was aimed at balancing the existing skills, experience, independence and knowledge on the Board. Candidates are being interviewed initially by the Chairman and the Group Human Resources Director.

The Committee also has a role in considering the succession planning for Executive Directors and senior managers, and a remit to make recommendations on the succession planning for the Chairman and the Chief Executive and other members of the senior management group. In 2015 the previous Chief Financial Officer resigned in order to take up an alternative role outside the Group. The Committee approved a role specification and oversaw the process of finding a successor, which included the appointment of JCA Group, to carry out a search including internal and external candidates. This culminated in the appointment of Mr Hamayou Akbar (Aki) Hussain in September 2016.

The Investment Committee

The Investment Committee has oversight of the Group's investments and comprises Lynn Carter, Robert Childs, Caroline Foulger, Ernst Jansen, Colin Keogh, Anne MacDonald, Bob McMillan, Gunnar Stokholm, the Chief Executive and the Chief Financial Officer and is chaired by Robert Childs.

The Conflicts Committee

The Group has a Conflicts Committee which comprises Lynn Carter, Caroline Foulger, Ernst Jansen, Colin Keogh, Anne MacDonald, Bob McMillan and

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

Shareholder communications

Gunnar Stokholm and is chaired by Ernst Jansen. 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 and the Committee serves to protect the interests of the external investors in the ILS funds.

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 four times per year. The Committee comprises Lynn Carter, Robert Childs, Caroline Foulger, Ernst Jansen, Colin Keogh, Anne MacDonald, Bob McMillan and Gunnar Stokholm. It is chaired by Lynn Carter. The risk management framework is described in the risk management section on pages 36 to 45.

The Executive Committee

The Executive Committee comprises Senior Executives, as listed on pages 56 to 57, and will normally meet every six weeks. It makes recommendations to the Board and approves various matters (some of which may also require Board approval). The Committee approves senior appointments and remuneration outside the scope of the Remuneration Committee or Nominations Committee, approves operational policy, takes decisions on annual budgets and business plans and mergers and acquisitions, considers significant issues raised by management and approves exceptional spend within the limits established by the Board. Below this there are local management teams that drive the local businesses.

Performance evaluation

The Code requires an externally facilitated Board evaluation to be undertaken every three years and this last took place in 2014. In 2016 an internal evaluation was conducted. The evaluation included a review of Board composition and whether there was an appropriate balance of skills, experience, independence and knowledge and whether the Board worked together as a unit. It also asked Directors to rate the level of diversity on the Board. Other areas covered were succession planning, Board meeting content and focus, the support to the Board, the quality and provision of information, the Non Executive Directors' input into the strategy and shareholder engagement. As part of the Board evaluation Directors were asked to rate the Board materials and make recommendations for improving them. Whilst a number of suggestions were made for improvement, the overall rating was positive. The findings of the evaluation were discussed by the Board as a whole.

Having consulted the Executive Directors, the Senior Independent Director, Colin Keogh, met with the other Non Executive Directors without the Chairman present to appraise the performance of the Chairman. During the year, the Non 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 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 engagement

During the year the Company has engaged with its largest shareholders on the renewal of the Company's Share Plans. The views expressed by shareholders have been reported back to the Board through its committees. 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. All Directors attended the Annual General Meeting in 2016.

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 and analysts.

In addition, any specific items covered in letters received from major shareholders are reported to the Board. Major shareholders have been consulted on the renewal of the Company's Remuneration Policy, approval of which will be considered at the next Annual General Meeting. Major shareholders are invited to request meetings with the Senior Independent Director and/or the other Non Executive Directors. An alert service is available on www.hiscoxgroup.com to notify any stakeholder of new stock exchange announcements.

Accountability and internal control

Risk is at the heart of any insurance organisation and the management of risk is fundamental to the success of its business model. The principal risks facing this organisation are described on pages 40 to 45 together with an explanation of how they are managed or mitigated. Changes to last year's principal risks include the addition of 'strategy evolution and execution' risk, 'inadequate reinsurance' risk and 'information technology and systems failure' risk, and the removal of 'credit rating' risk and 'emerging risks'. Emerging risks often influence our strategic approach, and are considered holistically as part of the wider risk landscape. These principal risks comprise the Group's 'critical risks', or exposures which materially threaten financial strength, severely impact business operations or significantly affect strategy. Critical risks often develop over a short time, or offer limited time to react, respond or recover, thereby requiring continuous focus. The Group is subject to regulatory requirements aimed at ensuring its continuing solvency and has established arrangements to assess and manage its principal risks continually. Risk and solvency assessments are conducted and the Group is required to assess the capital resources necessary to achieve its strategic business objectives over the coming year whilst remaining solvent given its risk profile. This includes a forward looking assessment which considers the business plan over a three-year time horizon.

The Group has a dedicated risk team led by the Chief Risk Officer which reports to both the Risk Committee of the main Board and to those of the relevant subsidiary boards. At each of its meetings during the year the Risk Committee reviews and discusses a risk dashboard and critical risk tracker which monitors the most significant exposures, including emerging risks to the business, such as Brexit.

The Risk Committee also engages in focused reviews, a recent topic being information (cyber) security. Stress tests and reverse stress tests (scenarios which could potentially give rise to business failure as a result of a lack of viability or capital depletion) are also performed and reported on to the Risk Committee. In light of these arrangements the Directors are satisfied that a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, has been carried out during the year.

Notwithstanding the uncertainties arising from the risks summarised on pages 40 to 45 there is a statement at page 93 which confirms that for the 2016 financial year the Directors considered it appropriate to adopt the going concern basis of accounting. For the reasons explained above the prospects of the Company are assessed over a longer period than the 12 months required by the Code. The Group calculates and projects forward the capital requirements of its regulators and those of the rating agencies to ensure that it will continue to meet any applicable solvency requirements and achieve the ratings it feels are necessary to conduct its business profitably. Whilst the Board has no reason to believe the Group's business model will not be viable over a longer period, the period over which the Board considers it possible to form reasonable expectations as to its position, is the three years to 31 December 2019. This corresponds to the forward-looking element of the Group's regulatory solvency assessments and allows reliance to be placed on the output from those assessments as well as the other arrangements described above. On the basis of its robust assessment of the principal risks and on the assumption that they can continue to be managed or mitigated as described and taking account of the most recent solvency assessments, together with the results of the stress tests and focused risk reviews, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2019.

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

Audit Committee report

Financial reporting

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 and their half-year review. The Committee is supportive of PwC in displaying the necessary professional scepticism their role requires. The primary areas of judgement considered by the Committee in relation to the 2016 Annual Report and Accounts were:

i) Reserving for insurance losses

As set out in our significant accounting policies on page 119, 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 estimates.

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

As fully explained in note 2.21, 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 2.21, 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.

Meetings and attendance table

Director	Board Attended	Audit Committee Attended	Remuneration Committee Attended	Nominations Committee Attended
RS Childs	4/4	N/A	N/A	4/4
BE Masojada	4/4	N/A	N/A	N/A
HA Hussain*	1/1	N/A	N/A	N/A
RC Watson	4/4	N/A	N/A	N/A
LA Carter	4/4	4/4	4/4	4/4
C Foulger	4/4	4/4	4/4	4/4
ER Jansen	4/4	4/4	4/4	4/4
C Keogh	3/4	3/4	3/4	3/4
A MacDonald	4/4	4/4	4/4	4/4
R McMillan	4/4	4/4	4/4	4/4
G Stokholm	4/4	4/4	4/4	4/4

*Hamayou Akbar (Aki) Hussain was appointed as a Director with effect from 12 September 2016.

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 2014 UK Corporate Governance Code the Board requested that the Committee advise on whether it believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee has provided such advice to the Board.

External auditor
Last year we reported on the audit tender process which we had begun in 2014. The conclusion of that process was a recommendation from the Committee to appoint PwC. (In view of my previous association with PwC I played no part in the tender process). That recommendation was endorsed by the Board and PwC were duly appointed as the Group's auditors at the 2016 Annual General Meeting.

Alongside this we appointed a new Group Head of Internal Audit during the year – Chris Hood, who re-joined Hiscox. Therefore, we now have the benefit of fresh perspectives in both the internal and external audit functions.

The external auditors are invited to attend all meetings of the Committee and it is the responsibility of the Committee to monitor their performance, objectivity and independence. The Committee discusses and agrees 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. Any contracts with the auditors, PwC, for non-audit services in excess of £50,000 must be approved by the Committee in advance. Approval will not be given for any contract which may impair the auditor's independence or objectivity. During the year the value of non-audit services provided by PwC amounted to £315,000 (2015: £144,000). There were no circumstances where PwC 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 without the Executive Directors present so as to provide a forum to raise any matters of concern in confidence.

Internal audit
The Group Head of Internal Audit 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. An internal Board and Committee evaluation was conducted during the year, the scope of which included the Audit Committee.

Caroline Foulger
Chairman of the Audit Committee

TESTING TIMES

In the autumn of 2016, Hiscox played a lead role in an unprecedented industry-wide ‘dry run’ of a market-turning event: a complex simulation designed to test the preparedness of the London insurance market.

Testing times continued

With catastrophes, it's not if, it's when. They're always going to happen. The question is, are we prepared for when they do?

"

On 6 November 2016, a Category 5 hurricane made landfall in Miami. After devastating Florida's most densely populated city, it crossed the Gulf of Mexico and barrelled its way towards Louisiana and Texas. Already reeling from the Halloween Blackout event and stock market meltdown caused by the previous week's cyber-attack, the US found itself confronted by unparalleled financial and humanitarian crises.

Now, none of this actually made the news. Mercifully, rather than wreaking havoc and destroying lives, this calamitous sequence of events was simply a 'dry run' simulation carried out by a consortium of insurers and brokers from across the London insurance market, as well as Lloyd's. Observers included A.M. Best, S&P Global Ratings, the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and Her Majesty's Treasury. Miami's beachfront condominiums are still standing and, barring the odd wobble, global equity prices remain remarkably robust – but that's not to say that events like this couldn't happen in the blink of an eye.

"With catastrophes, it's not if, it's when," says Robert Childs, Chairman of Hiscox. "They're always going to happen. The question is: are we prepared for them when they do?" It was in recognition of the urgency of this question that Robert set about formulating last year's dry run – an ambitious, time-intensive simulation in which dozens of London Market businesses and institutions were persuaded to participate. "It's very unusual for a market to drive something like this itself," he says. "When firms commit to something like this, it's normally an obligation, imposed by a regulator. But this was a group of businesses deciding to do it together, under their own steam."

The last time a genuine catastrophe shook the London Market was the terrorist attacks of 9/11. At that time, Robert was among the senior managers at Hiscox forced to navigate a route out of the maelstrom that followed. "9/11 wasn't necessarily a huge loss financially, but it was a shocking loss," he explains. "It affected a lot of insurance people directly; Aon and Marsh had offices in the World Trade Center, so we knew some of those who were killed. It also hit America's financial capital, where a lot of decision-makers worked. It was an Armageddon event, and that made it genuinely very frightening."

In the immediate aftermath of the events that day in New York and Washington DC, the insurance industry was briefly gripped by what felt like an existential crisis, as insurers struggled to get to grips with their exposure. "There was a lot of fear," explains Robert. "Initially, a lot of companies weren't entirely sure if they were even solvent." But as demand for specialist insurance spiralled and prices followed suit, the London Market recovered. After 9/11, in a relatively flexible regulatory environment, London's insurers were able to raise new capital, write new business, and slowly steer themselves away from the looming icebergs. Solid strategies for responding to market-turning events were forged in the heat of those post-9/11 months, but the passage of time means that very few individuals who personally experienced the stresses of that catastrophic event are still in positions of operational responsibility today. "The people who were around in 2001, the people who were bloodied by that experience, are – like me – no longer on the front line," says Robert. "The kind of people who really drive our operations are people in their late-30s and 40s, who were just coming out of college back then. They have never been through anything quite like it – and I hope they never do – but should the worst happen, preparation is critical."

Over the past decade, this generational shift has been accompanied by a significant tightening and reordering of the British insurance industry's supervisory regime. The European Union's Solvency II directive has set new capital requirements, and the insurance industry has two new regulators: the PRA and the FCA. In contrast to 2001, says Robert, those who oversee the industry are now "much more interested in whether you're going bust than they are in what you can do to grow". It is against this backdrop that the critical interaction between the market and the regulators in a crisis had not yet been rigorously tested.

The global picture has evolved too. The flood of capital into other markets in the wake of 9/11 has seen other insurance markets, particularly Bermuda, challenging London's position as the world's pre-eminent specialist insurance

How the dry run disaster unfolded

Halloween Blackout
On Monday 31 October, a cyber-attack on US power stations results in more than 50 generators malfunctioning. The subsequent blackout affects 93 million people across 15 states and lasts for several days, resulting in food shortages, a communications meltdown and reports of environmental damage from industrial failures. Outages last for over two weeks, with a projected insured loss of US$45 billion.

Global equity loss
On the first day of the blackout, the New York Stock Exchange pauses trading for only the second time since 9/11. When it reopens on 2 November, values fall by over 10%; a collapse mirrored worldwide. Collectively, global stock values drop by 16.2% over the course of the week.

Hurricane Guy Fawkes
As the Halloween Blackout continues to grip the US, a powerful hurricane makes landfall in the Caribbean. On 6th November, it becomes the first Category 5 storm to hit Miami. As it passes through Florida, enters the Gulf of Mexico and crosses Louisiana and Texas, more than 100,000 homes are destroyed, while 1.8 million buildings and many offshore energy platforms are damaged. The resulting insurance industry loss is in the region of US$125-175 billion.

Reinsurance event
While Hurricane Guy Fawkes batters Florida, the CEO of a major reinsurer is forced to resign as an accounting or model validation scandal reaches its crescendo. Potential defaults and delays in reinsurance payments mean that 10% of all reinsurance recoveries related to the storms will not be paid, and a similar proportion will be significantly delayed. The impact of the Halloween Blackout on future reinsurance capacity is also severe.

centre. “Capital is extremely fluid,” says Robert. “There’s a lot of it around, but there is no longer any guarantee that it would come to London in a major loss event. After 9/11 and the hurricanes of 2005, the majority of capital went to other places that were more receptive and that demonstrated some degree of flexibility. Capital is what fires up the market. The Hiscox head office is in Bermuda, but the London insurance market remains an important part of our operations and so of course I want that market to thrive. But to do that, it needs to be responsive.”

To be effective, the London Market’s response to a catastrophe has to be properly coordinated. The market is, says Robert, “fragmented and syndicated, a complex web”, so for any dry run to have meaning, the many strands of that web needed to be brought together. “I’ve been talking about crisis planning internally for many years, and we’ve done some things on our own, but as Hiscox, we represent just a fraction of the market. For this to work, we had to carry other people with us.”

In the London Market, carriers compete with each other for customers and capital, but the collective commitment to the market as a whole runs deep, so when Hiscox began to pitch the idea of the dry run, it was met with considerable interest. “I spoke to a lot of people and nobody thought it was a bad idea,” says Robert. “A few people didn’t want to get involved, but primarily because they didn’t have the time at what was already going to be a busy time of year in the lead up to year-end renewals. This was going to be immensely hard work – at Hiscox alone, we had at least 25 people working on this intensely at one time or another.”

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The number of organisations that chose to take part in the ‘dry run’.

In all, 28 organisations chose to take part, either as observers or participants. Insurance and reinsurance carriers were joined by an impressive cast of underwriters, brokers, ratings agencies and regulators.

The exercise was designed to be as broad as possible in its scope: as well as assessing liquidity levels and access to capital, it sought to rigorously examine the participants’ operational readiness – particularly their ability to support clients in their hour of need and pay claims swiftly and fairly. In setting the parameters, Robert was inspired in part by one of the founding legends of the London Market: “There’s a very famous quote from Cuthbert Heath, who founded the non-marine insurance market. After the 1906 San Francisco earthquake, when he was an underwriter at Lloyd’s, he sent a famous instruction to his agent over there: ‘Pay all of our policyholders in full, irrespective of the terms of their policies.’ This proved to be extraordinarily important for the London Market. Some of the other European insurers who were around in America at the time nickel and dimed, and they lost 20 or 30 years of development in the States because people remembered how badly they’d behaved.”

The exercise also forced participants to think about how they would communicate with brokers, regulators and customers.

Testing times continued

> The exercise was designed to result in an insured loss of approximately US$200 billion – almost double that caused in 2005 by Hurricanes Katrina, Wilma and Rita.

To view the report online visit: **hiscoxgroup.com/london-market-looks-ahead**

"I looked back at 9/11 and thought, what did we say to customers back then? I don't remember a whole lot of comfort being issued," says Robert. "We're a sophisticated market, and we have all of these ways of communicating with people. If Cuthbert Heath were around now, he'd have repeated his famous instruction on Twitter."

The narrative of the exercise was designed to result in an insured loss of approximately US$200 billion – almost double the combined losses caused in 2005 by Hurricanes Katrina, Wilma and Rita – and it deliberately incorporated a particularly unpalatable medley of ingredients: a non-modeled insurance loss, a modeled insurance loss, an asset stress, and a liquidity stress. Starting on 31 October 2016 – Halloween, fittingly given the horrors that would unfold – participants spent two weeks immersed in a rapidly escalating fictional crisis playing out across the USA: a crippling cyber-attack on the nation's power infrastructure, causing a blackout across 15 states; a global stock market crash; Hurricane Guy Fawkes, which tracked a destructive course across the USA's southern heartlands; and a major reinsurer default with consequent delays in reinsurance payments.

The exercise tested the mettle of the hundreds of insurance professionals who spent long days locked in its alternate reality – one that had been designed to replicate as closely as possible the intensity of a real-life crisis. "The one problem with a tabletop exercise is that you can't quite recreate the same real fear, real tension," says Robert. "But we came as close as we could."

The results of the exercise, published in a comprehensive white paper, *London Market looks ahead: preparing for the next big insurance event,* have been anonymised so that none of the parties know which numbers relate to which participants – a nod to the natural tension between competition and collaboration that exists in the London Market. Overall, the paper provides a positive view of the market's financial stability: despite significant losses, the reported liquidity level of every participant remained positive, and all of them expected to be able to recapitalise quickly and efficiently, either through their parent companies or by tapping into a global marketplace which is awash with capital.

While the overall picture is relatively clear, there are variations within it. For example, expectations of gross losses varied from as low as 30% of net capital base to as high as 120% and there were significant differences in patterns of liquidity and expectations of the extent to which rates would rise in the aftermath of a crisis. "There is a fair bit of divergence in some of the results, but in a way I see that as a positive – I hope it will make people look even harder at things," says Robert. "I hope it will make us all question some of our assumptions."

Perhaps most importantly, the paper outlines a set of recommendations for the industry. This includes ensuring customers are well served in the aftermath of a catastrophe, by establishing training programmes, building and continuously refining crisis management plans, and maintaining clear strategies for quickly raising capital. It also means working with Lloyd's to strengthen the global position of the London Market and deepen its pool of underwriting and management expertise, and collaborating with the PRA to ensure an effective post-catastrophe response.

None of the conclusions came as any surprise to Robert: "As it turned out, the process ended up saying what I thought it would say: that capital is not a problem anymore; the problem will be the speed of response, of the regulators as well as market participants. It is not just about this market carrying the losses; it is also about seizing the opportunity in a hardened rating environment post-event."

In the coming years, Hiscox will play its part in ensuring that the recommendations made in the paper are acted upon, because one thing is certain: a market-turning event is coming. It may be a cyber-attack, it may be a hurricane, or it may be something entirely different. Quite what it will be, or when it will hit, is beside the point. The point is that the market must be ready when it does.

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Remuneration

Chairman of the Remuneration Committee's letter

Dear Shareholder
At Hiscox we believe that having a clear strategy, underpinned by a simple and relevant remuneration policy, is key to incentivising and retaining senior talent. Our goal is to motivate a management team to build a strong business and make consistent returns over the long term.

Linking our remuneration approach to business outcomes

We aim to make strong shareholder returns across the cycle and consistently grow dividends and net asset value per share. Our core business is to take risk and our strategy is to maximise return on equity within a defined risk appetite. Our straightforward and consistent remuneration approach is aligned to these business objectives and we believe plays an important role in achieving sustainable strong performance.

- Annual incentive: in order for Executive Directors to receive a payment under this scheme, the Company must achieve a pre-tax 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. Like our shareholders, we are focused on results. Once the Hurdle Rate is achieved the aggregate size of the bonus pool is calculated based on the level of profits delivered and the Executive Directors' bonuses are paid from this pool. This profit share approach means that the Remuneration Committee can ensure that the total incentives paid to employees are in line with profit performance and that the Executive Directors' portion of that total represents an appropriate share. We acknowledge that this approach is not completely formulaic and therefore we have sought to explain the objectivity applied by the Remuneration Committee in awarding Executive incentives. We have done this on page 86 of the annual report on remuneration.
- Performance Share Plan (PSP): the vesting of share grants is dependent on achieving a post-tax return on equity above the pre-established Hurdle Rate. The value of the vested grant is therefore linked to a growth in net asset value per share over the performance period.
- Executive share ownership: senior managers at Hiscox are encouraged to hold a meaningful number of Hiscox shares. With a considerable amount of personal wealth invested in Hiscox shares, we believe that Directors are 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 55 times his base salary.

Renewal of the Hiscox Directors' remuneration policy

This remuneration approach is reflected in our remuneration policy which is due to be renewed at the upcoming AGM. The current policy was approved by shareholders in April 2014, however, following shareholder consultation,

The bonus outcomes described in the Annual Report reflect the year-on-year profit increase of 64% and the pre-tax ROE of 24.2% – significantly above our 7% hurdle.

Performance and remuneration outcomes

we introduced a number of additional restrictions to the policy for 2015 (including holding periods on performance shares, clawback provisions and bonus caps).

We have now formally incorporated these restrictions into the policy. Other than these, the attached policy is largely unchanged. The Remuneration Committee is confident that this remuneration approach continues to support the strategic ambitions of the Group and is aligned with shareholders' interests. Our recent consultations with shareholders have confirmed this view.

As we are a Bermuda incorporated company we are not subject to the UK Companies Act and related UK secondary legislation. However, our intention has always been to provide transparent remuneration disclosure and to engage with shareholders on the topic. We will, therefore, be submitting the policy to an advisory vote at the 2017 AGM as part of the regular three-year renewal process.

Performance and remuneration outcomes

As described earlier in this report, Hiscox delivered a record profit of £354.5 million in 2016 through a combination of good underwriting, improved investment returns and a very favourable foreign exchange gain. Post-tax return on equity was 23.0% and net asset value per share grew by 19.2%.

The bonus outcomes described in the Annual Report reflect the year-on-year profit increase of 64% and the pre-tax ROE of 24.2% – significantly above our 7% hurdle.

I am also delighted to say that over the past three years (2014/15/16) Hiscox has delivered an average post-tax ROE of 18.7%. As a result, the 2014 performance share plan grant has vested in full.

Hiscox incentivises long-term performance. Over the last four years, the average annual incentive earned by the Chief Executive has been 200% of salary (of which 50% is deferred over three years). The annual incentive scheme caps payments at 400% of salary for the Chief Executive and payments at the upper end of the range would only be considered for exceptional performance. In 2016 when record profits have been delivered, the bonus outcome represents 64% of the maximum. The long-term performance shares represent the biggest element in the Chief Executive's single figure for 2016. The value of the original awards granted have increased by over 60% as a result of share price growth and dividends over the last three years, and therefore the number in the single figure mirrors the experience of our shareholders.

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

Colin Keogh
Chairman of Remuneration Committee

Remuneration policy report

Hiscox has a forward-looking remuneration policy for its Board members.

The 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 77 to 84.

We are a Bermuda-incorporated company and therefore are not subject to the UK Companies Act and related UK secondary legislation. Our intention, however, has always been to provide transparent remuneration disclosure and to engage with shareholders on the topic therefore our remuneration reporting is consistent with the UK regulations and we will be submitting the policy and remuneration report for an advisory vote at the Annual General Meeting on 18 May 2017.

Changes to the policy

The Remuneration Committee is of the view that the current remuneration structure continues to support the strategic ambitions of the Group and is aligned with shareholders' interests. No major changes to remuneration arrangements are proposed under the new policy.

The new remuneration policy has been drafted to incorporate the restrictions previously adopted by the Company in 2015. These have been communicated to shareholders in prior years and are formalised under the new policy.

The key changes previously adopted as restrictions include:
- **maximum incentive levels** – maximum capped bonus opportunities for the Executive Directors and an upper limit on the variable incentives which may be granted under the recruitment policy;
- **clawback** – this safeguard provision was adopted in 2015 to complement the existing malus provision. It has now been formalised within the new policy; and
- **holding period** – for PSP awards granted from 2015 onwards, a two-year holding period applies following the end of the performance period.

In prior years, the Company consulted with major shareholders regarding the restrictions described above and generally received positive feedback in respect of the changes.

Future policy table

Executive Director remuneration

Base salary

Purpose and link to strategy	Fixed pay elements enable the Company to be competitive in the recruitment market when looking to employ individuals of the calibre required by the business.
Operation	Base salary is normally reviewed annually taking into account a range of factors including inflation rate movements by country, relevant market data and the competitive position of Hiscox salaries by role. Individual salaries are set by taking into account the above information as well as the individual's experience, performance and skills, increases to salary levels across the wider Group and overall business performance. By exception an individual's salary may be amended outside of the annual review process.
Maximum potential value	The salaries for current Executive Directors are set out on page 85. Executive Directors' salary increases will normally be in line with overall employee salary increases in the relevant location. Increases above this level may be considered in other circumstances as appropriate (e.g. address market competitiveness, development in the role, or a change in role size, scope or responsibility).
Performance metrics	Individual and business performance is taken into account when setting salary levels.
Application to broader employee population	Process for review of salaries is consistent for all employees.

Benefits (including retirement benefits)

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

Future policy table
Executive Director remuneration

Annual bonus

Purpose and link to strategy	To reward for performance against key objectives and achievement of financial results over the financial year. Provides a direct link between reward and performance. To provide competitive compensation packages.
Operation	Executive Directors participate in profit-related bonus pools. Bonus pools are calculated at a business unit level and for the Group as a whole on the basis of Group financial results. For 2017, the bonus pool will be funded by a set percentage of profits on achievement of a Hurdle Rate of ROE. The bonus for prior years was determined on a similar basis. Further detail is set out on page 86. For Executive Directors, individual allocations from the pool are determined by the Remuneration Committee based on a judgement of various factors including: —— size of the Group bonus pool; —— results of business area (where relevant); and —— individual performance. Amounts are paid in accordance with the bonus deferral mechanism described opposite. Bonus awards are non-pensionable. Bonus awards are subject to malus and clawback provisions as described in the notes to the policy table on page 82.
Maximum potential value	The maximum bonus opportunity for the Executive Directors will be as follows: —— CEO and CFO – 400% of salary; —— Chief Underwriting Officer – up to 500% of salary. The Company has a robust track record of paying bonuses which are proportionate to financial results, see page 86 of this report for further details. Where performance is deemed to be below a pre-determined hurdle, payouts will be nil. The total of individual bonuses paid to Executive Directors for a year will not normally exceed 15% of the total pool. If the number of Executive Directors increased in the future, this percentage would be adjusted as required.
Performance metrics	Performance is measured over one financial year. Bonus pools are determined based on financial performance, therefore this is the main determinant of overall bonus payouts. A hurdle of financial performance is set annually. Performance above this hurdle is rewarded and where performance falls below this hurdle, payouts will be nil.
Application to broader employee population	The operation of the annual incentive is consistent for the majority of employees across the Group. Arrangements tailored to roles and responsibilities are operated for selected positions. Bonuses for more junior employees are calculated using a more formulaic approach. Further details are set out on page 86.

Future policy table
Executive Director remuneration

Bonus deferral

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

Bonus of £50,000, €75,000, $100,000, and below	Paid shortly after the end of the financial year in which the bonus was achieved.
Bonus above £50,000 and below £100,000 Bonus above €75,000 and below €150,000 Bonus above $100,000 and below $200,000	£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 £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.

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

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

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

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

Future policy table
Executive Director remuneration

Performance Share Plan (PSP)

Purpose and link to strategy	To motivate and reward for the delivery of long-term objectives in line with business strategy. To encourage share ownership amongst participants and align interests with shareholders. To provide competitive compensation packages for senior employees.
Operation	Awards are granted under the Performance Share Plan approved by shareholders in 2016 (with previous awards granted under the equivalent plan implemented in 2006). All awards are governed by the rules of the relevant plan under which they are granted. Share awards (typically structured as either conditional awards or nil cost options) are made at the discretion of the Remuneration Committee. Awards normally vest after a three-year period subject to the achievement of performance conditions. An additional holding period, which is currently two years, may also apply. Awards are generally subject to continued employment, however awards may vest to leavers in certain scenarios (e.g. 'good' leaver circumstances). Dividends (or equivalents) may accrue on vested shares prior to release. Awards are subject to malus and clawback provisions as described in the notes to the policy table on page 82.
Maximum potential value	Maximum annual grant of up to 200% of salary in respect of any one financial year.
Performance metrics	The performance conditions for awards are set to align with the long-term objectives of the Company. The Committee reviews the targets prior to each grant to ensure that they remain appropriate. Currently, the performance measures are linked to the achievement of ROE performance over an agreed hurdle, during the performance period. Details of targets for awards to be granted in 2017 are set out on page 87. 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. Where the Committee considers it appropriate to do so, under the plan rules the Committee is able to modify performance criteria for outstanding awards on the occurrence of certain events (e.g. major disposal).
Application to broader employee population	Participation in this plan is restricted to Executive Directors and other senior individuals.

Future policy table
Executive Director remuneration

Shareholding guidelines

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

Future policy table
Non Executive Director remuneration

General approach	The total aggregate fees payable are set within the limit specified by the Company's Bye-laws. The fees paid are determined by reference to the skills and experience required by the Company as well as the time commitment associated with the role. The decision-making process is informed by appropriate market data. Non Executive Directors are not eligible for participation in the Company's incentive plans. Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed to Non Executive Directors. Non Executive Directors are included on the directors and officers' indemnity insurance. The current fees payable to Non Executive Directors are set out on page 88.
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 annual bonus and share plan awards to Executive Directors are intended to be closely aligned with the Company's short-term and long-term objectives.

Performance measure targets and target setting

Notes to the policy table

Performance measure targets and target setting

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

The Company operates a bonus pool approach for the annual incentive. This ensures that both individual bonus levels and overall spend are commensurate with the performance of the Company. The Committee applies judgement based on a range of factors (as described in the table on pages 77 to 81) 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 – the key indicator of the Company's long-term success.

Detailed provisions

The Committee may make minor changes to this remuneration policy to aid in its operation or implementation without seeking shareholder approval (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 share awards under the 2006 and 2016 Performance Share Plan 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).

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

Malus and clawback provisions

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

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

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

Recruitment policy

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

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

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

A 'buy-out' payment/award may be necessary in respect of arrangements forfeited on joining the Company. The size and structure of any such buy-out

The PSP performance measures are intended to motivate and reward to deliver long-term Company success.

Performance measure targets and target setting

arrangement will take account of relevant factors in respect of the forfeited terms including potential value, time horizons and any performance conditions which apply. The objective of the Committee will be to suitably limit any buy-out to the commercial value forfeited by the individual.

On initial appointment (including interim Director appointments) the maximum level of variable remuneration (excluding any buy-outs) is capped at the maximum level set out in the policy table on pages 77 to 81. Within these limits and where appropriate the Committee may tailor the award (e.g. timeframe, form, performance criteria) based on the commercial circumstances. Shareholders would be informed of the terms for any such arrangements. Ordinarily it would be expected that the package on recruitment would be consistent with the usual ongoing Hiscox incentive arrangements.

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

Service contracts

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

Policy on payment for loss of office

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

1. Notice period of up to 12 months

Executive to remain on the payroll but may be placed on gardening leave for the duration of the notice period (or until they leave early by mutual agreement, whichever is sooner). During this period they will be paid as normal, therefore this will include base pay, pension contributions (or cash 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 awards

Treatment would be in accordance with the plan rules and relevant grant documentation. The intended approach is summarised below:

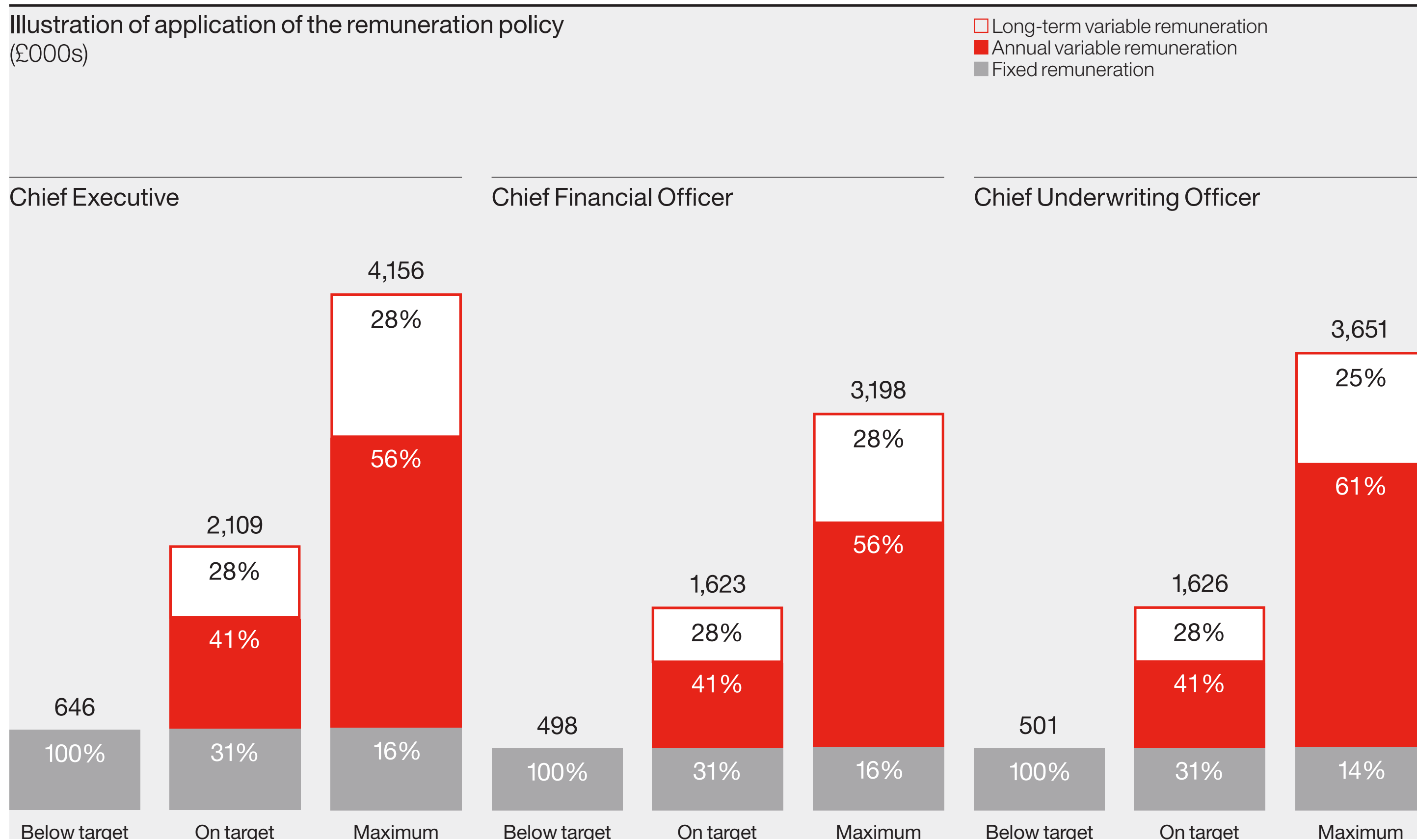
- awards will vest in line with the normal scheme vesting date (unless the Committee determines otherwise). Awards vest to the extent that the relevant performance target is considered to have been met;
- the award will normally be pro-rated to reflect the period which has elapsed from the commencement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

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

Consideration of shareholder views

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

Following the adoption of the previous policy in 2014, the Committee undertook an in-depth shareholder consultation exercise and subsequently adopted restrictions to remuneration practices in 2015. These restrictions are summarised on page 76. Shareholder consultation has taken place in relation to the proposed 2017 policy. Further engagement with shareholders was also undertaken prior to the implementation of the replacement Performance Share Plan in 2016. Following these discussions the Committee took into account shareholder views. The Committee has been pleased with the level of shareholder support in respect of the remuneration report at the 2015 and 2016 AGM.



The charts above 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 2016. — Benefits as received during 2016, as disclosed in the Executive Director remuneration table on page 85. — Retirement benefit as received during 2016, as disclosed in the Executive Director remuneration table on page 85.
Variable remuneration	Assumptions have been made in respect of the annual incentive and the PSP for the purpose of these illustrations. — Annual incentive: the amounts shown in the scenarios are for illustration only. In practice the award would be determined based on a range of performance factors, and therefore vary depending on the circumstances. The maximum award reflects the incentive caps described at the beginning of this report. — PSP: scenario analysis assumes awards are granted at the maximum level set out in the policy table on page 80. In practice, award levels are determined annually and are not necessarily granted at the plan maximum every year.

Performance scenarios

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

Annual report on remuneration 2016

This report explains how the remuneration policy was implemented for the financial year ending 31 December 2016 and how it will be applied for the 2017 financial year.

This report explains how the remuneration policy was implemented for the financial year ending 31 December 2016 and how it will be applied for the 2017 financial year. PwC has been engaged to audit the sections in the annual report on remuneration 2016 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' to the extent that would be required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013.

Executive Director remuneration

The table below sets out the remuneration received by current Executive Directors for the financial years ended 31 December 2016 and 31 December 2015.

	Year	Salary[1] £	Benefits[2] £	Bonus[3] £	Long-term incentives[4] £	Retirement benefits £	Total remuneration £
BE Masojada Chief Executive	**2016**	**582,500**	**8,839**	**1,500,000**	**1,748,077**	**52,657**	**3,892,073**
	2015	572,500	8,926	900,000	1,825,425	52,043	3,358,894
RC Watson Chief Underwriting Officer	**2016**	**445,000**	**10,095**	**1,350,000**	**1,232,617**	**40,453**	**3,078,165**
	2015	427,500	7,362	900,000	1,303,874	38,862	2,677,598
HA Hussain[5] Chief Financial Officer	**2016**	**138,068**	**1,727**	**800,000**	**569,103**	**12,551**	**1,521,449**
	2015	–	–	–	–	–	–

[1] Salaries are reviewed from 1 April, further detail on April 2016 increase can be found below.
[2] Benefits 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.
[3] A proportion of the bonus amount is deferred as set out on page 79 of the policy report.
[4] 2016 long-term incentives relate to performance share awards granted in 2014, or on joining in the case of HA Hussain, where the performance period ends on 31 December 2016. The award is due to vest on 17 March 2017. 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 2016 of 1035.56p. The 2015 long-term incentive award relates to performance share awards granted in 2013 where the performance period ends on 31 December 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 share price on 4 April 2016 of 967.00p.
[5] HA Hussain was appointed as an Executive Director on 12 September 2016. The 2016 amounts show payments made from that date. Refer to page 88 for full details of his joining arrangements.

Additional notes to the Executive Director remuneration table

Salary

Salary reviews take place in the first quarter of the year and are effective from 1 April. The annual base salaries for Executive Directors are as follows:

	April 2016	April 2017	% change
BE Masojada	585,000	599,625	2.5
RC Watson	450,000	461,250	2.5
HA Hussain	450,000[6]	461,250	2.5

[6] HA Hussain's starting salary effective 12 September 2016.

BE Masojada's salary increased by 1.7% as part of the April 2016 review. This was less than the overall UK-based employee salary increase of 3%. HA Hussain was recruited from Prudential on a salary of £450,000. RC Watson received a 4.7% (£20,000) increase which is slightly above the average overall UK-based increase. This is an individual minor correction and does not represent a change in our disciplined salary management.

The April 2017 salaries reflect an increase of 2.5%, which is in line with the average UK-based employee salary increase of 2.6%.

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 2016 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 2016 financial year was set at 7%, which was 5% above the investment benchmark rate.

The Remuneration Committee believes that the most appropriate measure for the calculation of the bonus pool is return on equity as it aligns managements' interests most effectively with shareholders' interests and minimises the possibility of anomalous results. It enables the Committee to ensure that Executive Directors' and other employees' incentives are aligned with the Company's profit performance.

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.

The profit share approach for bonuses to Executive Directors means that the Remuneration Committee can ensure the total incentives paid to employees are in line with profit performance. Although the approach is not completely formulaic, the outcomes are underpinned by a disciplined and objective decision making process.

The table below shows the ROE performance compared with average Executive Director bonus payments over the past ten years. This table is included to demonstrate to shareholders that appropriate bonus decisions are being made reflecting the varying shareholder outcomes. As can be seen from the table, the bonuses vary significantly with performance from year to year. In addition, where the Hurdle Rate is not met, bonuses are not paid.

Executive Directors' cash incentives and ROE

	Pre-tax return on equity %	Profit before tax £m	Average bonus as a percentage of salary %
2007	36	237	372
2008	14	105	53
2009	34	321	287
2010	19	211	108
2011	1	17	0
2012	18	217	183
2013	20	245	209
2014	18	231	181
2015	17	216	176
2016*	**24**	**355**	**246**

*HA Hussain's figures have been annualised and his bonus 'buy-out' included. See page 88 for full details of his joining arrangements.

In determining the 2016 incentive payments the Remuneration Committee considered the following:

- the 2016 pre-tax return on equity was 24.2%. This is significantly in excess of the 7% hurdle and therefore a bonus pool can be created;
- profit before tax in 2016 increased by over 60%;
- as part of the risk management safeguards in place, the Committee reviewed adherence to reserving policies and the strength of the overall capital position;
- the personal performance of BE Masojada and RC Watson was strong. Personal performance is assessed by taking account of achievement of strategic objectives, adherence to effective risk management and good management of ongoing business metrics. A successful performance review enables full participation in the bonus pool;
- HA Hussain was new in role, therefore his incentive payment took account of his buyout agreement from the 2016 Prudential incentive scheme as well as the Hiscox 2016 financial results;
- in determining the size of the Executive Director bonuses, the Committee also looked at the pattern of historic profit, ROE and bonus outcomes.

Considering the above factors, the Committee determined bonus outcomes for 2016 as follows: BE Masojada £1,500,000 (256% of salary), RC Watson £1,350,000 (300% of salary) and HA Hussain £800,000 (178% of salary). The Committee noted that these incentives represented less than 8% of the total bonus pool across the Group and considered this to be a reasonable share in the context of a strong 2016 profit performance.

Bonus awards for the 2017 financial year

The bonus return on equity Hurdle Rate has been reviewed as described above and will remain unchanged for the 2017 financial year at 7%.

Long-term incentives

Performance Share Plan (PSP) awards where the performance period ends with the 2016 financial year

BE Masojada and RC Watson were granted awards under the PSP in 2014 for the three-year performance period 1 January 2014 to 31 December 2016. HA Hussain was granted a buy-out award as outlined on page 88. The performance conditions for this award were set at the start of the performance period and are as follows:

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

Based on the three-year average return on equity of 18.7%, the awards ending with the 2016 performance year will vest at 100% on 17 March 2017. 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 85.

PSP awards granted during the 2016 financial year

On 8 April 2016 BE Masojada and RC Watson were granted awards under the PSP. HA Hussain was granted an award on 12 September 2016 as part of the same grant cycle (see page 88 for further details).

	Number of awards granted	Market price at date of grant £	Market value at date of grant £
BE Masojada	120,000	9.56	1,147,200
RC Watson	82,800	9.56	791,568
HA Hussain	75,000	10.46	784,500

The performance conditions for these awards are as follows:

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

As noted in last year's remuneration report, Executive Directors will be required to retain any shares vesting (net of tax charges) at the end of the performance periods for a further two years (i.e. five years post the start of the performance period).

PSP awards to be granted during 2017

In the coming year, the Committee intends to grant awards to Executive Directors and the performance conditions and targets will be unchanged from the 2016 awards.

Details of pension entitlements

All open Hiscox retirement schemes are based on defined contributions.

BE Masojada, RC Watson and HA Hussain hold lifetime allowance protection certificates and have therefore opted out of the Company pension scheme. They receive a 10% cash allowance (less an offset for the employer's UK National Insurance liability) in lieu of the standard employer pension contribution. The value of this benefit is shown in the Executive Director remuneration table on page 85.

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

Pensions

	Normal retirement age	Increase in accrued pension during the year £000	Total accrued annual pension at 31 December 2016 £000	Transfer value of increase in accrued pension £000	Transfer value of accrued pension at 31 December 2015 £000	Transfer value of accrued pension at 31 December 2016 £000	Increase/ (decrease) in transfer value of accrued benefit during the year £000
BE Masojada	60	2	50	–	1,553	1,961	408
RC Watson	60	7	160	–	4,905	6,604	1,699

HA Hussain's joining package

All terms and conditions of HA Hussain's remuneration are in line with the Company's remuneration policy. In lieu of forfeited long-term incentive plan awards from Prudential, HA Hussain was compensated with awards of an equivalent face value. These awards will vest in line with the timing of Prudential awards and will be subject to the Hiscox Performance Share Plan (PSP) performance conditions. These awards will be subject to malus, mirroring the Prudential long-term incentive plan.

Number of shares	Date of grant	Vesting date
50,787	12 Sept 2016	17 March 2017
39,709	12 Sept 2016	13 April 2018

In respect of the 2016 financial year, HA Hussain was granted an award of 75,000 Hiscox shares subject to the rules of the PSP and performance conditions which will be measured over the 2016, 2017 and 2018 financial years and will vest in 2019, but will be required to be held (net of taxes) for a further two years. This award will be subject to malus, clawback and holding period.

HA Hussain was eligible for a bonus in respect of the 2016 financial year. In lieu of the forfeited 2016 bonus from Prudential, he will be compensated with a bonus award of an equivalent value for the period up to commencement of his Hiscox employment on 12 September 2016. For the remainder of the 2016 financial year he was eligible for a bonus based on the criteria outlined on page 86.

In line with the remuneration policy, the Committee has suitably limited the above buy outs to the commercial value forfeited by the individual.

Non Executive Director remuneration

The table below sets out the remuneration received by the Non Executive Directors for the financial years ending 31 December 2016 and 31 December 2015.

	2016					2015				
	Ltd Board fee £	Ltd Committee fees £	Subsidiary Board fees £	Benefits £	Total Hiscox fees £	Ltd Board fee £	Ltd Committee fees £	Subsidiary Board fees £	Benefits £	Total Hiscox fees £
RS Childs	140,000	–	140,000	9,430	289,430	140,000	–	140,000	6,524	286,524
L Carter	67,742	32,052	–	–	99,794	33,791	13,677	–	–	47,468
C Foulger	67,742	36,356	83,984	–	188,082	54,938	26,815	65,706	–	147,459
ER Jansen	67,742	31,452	–	–	99,194	54,938	24,248	–	–	79,186
A MacDonald	67,742	27,419	–	–	95,161	33,791	13,677	–	–	47,468
R McMillan	67,742	27,419	64,516	–	159,677	54,938	22,237	52,322	–	129,497
G Stokholm	67,742	27,419	69,387	–	164,548	54,938	23,849	64,967	–	143,754
C Keogh	80,645	33,468	–	–	114,113	7,628	3,198	–	–	10,826

2016 fees that are paid in US Dollars have been converted to Great British Pounds using an exchange rate of 1.24. 2015 fees that are paid in US Dollars have been converted to Great British Pounds using an exchange rate of 1.529.

Non Executive Director fees were reviewed in January 2016 and no increases were made.

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. BE Masojada and RC Watson have over 20 and 30 years' service respectively and as such their shareholdings far exceed the guidelines.

Directors

	31 December 2016 6.5p ordinary shares number of shares beneficial	31 December 2015 6.5p ordinary shares number of shares beneficial
Executive Directors		
BE Masojada	3,211,033	3,006,378
RC Watson	700,000	751,397
HA Hussain*	–	–
Non Executive Directors		
L Carter	–	–
RS Childs	1,511,866	1,511,866
C Foulger	7,894	7,832
ER Jansen	89,947	79,457
C Keogh	11,242	5,528
A MacDonald	14,450	4,953
R McMillan	–	–
G Stokholm	–	–

*Appointed 12 September 2016.

Performance Share Plan

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

	Number of awards at 1 January 2016	Number of awards granted	Number of awards adjusted	Number of awards lapsed	Number of awards exercised	Number of awards at 31 December 2016	Market price at date of exercise £	Date from which released
HA Hussain	–	50,787	–	–	–	50,787	–	17-Mar-17
	–	39,709	–	–	–	39,709	–	13-Apr-18
	–	75,000	–	–	–	75,000	–	08-Apr-19
BE Masojada	175,000	13,772	–	–	(188,772)	–	9.410-10.210	02-Apr-16
	156,000	–	–	–	–	156,000	–	17-Mar-17
	130,000	–	–	–	–	130,000	–	13-Apr-18
	–	120,000	–	–	–	120,000	–	08-Apr-19
RC Watson	125,000	9,837	–	–	(134,837)	–	10.839-10.860	02-Apr-16
	110,000	–	–	–	–	110,000	–	17-Mar-17
	97,200	–	–	–	–	97,200	–	13-Apr-18
	–	82,800	–	–	–	82,800	–	08-Apr-19
Total	793,200	391,905	–	–	(323,609)	861,496		

The Hiscox Ltd share price at 31 December 2016 was £10.17. The highest and lowest share prices during 2016 were £10.970 and £9.005 respectively.

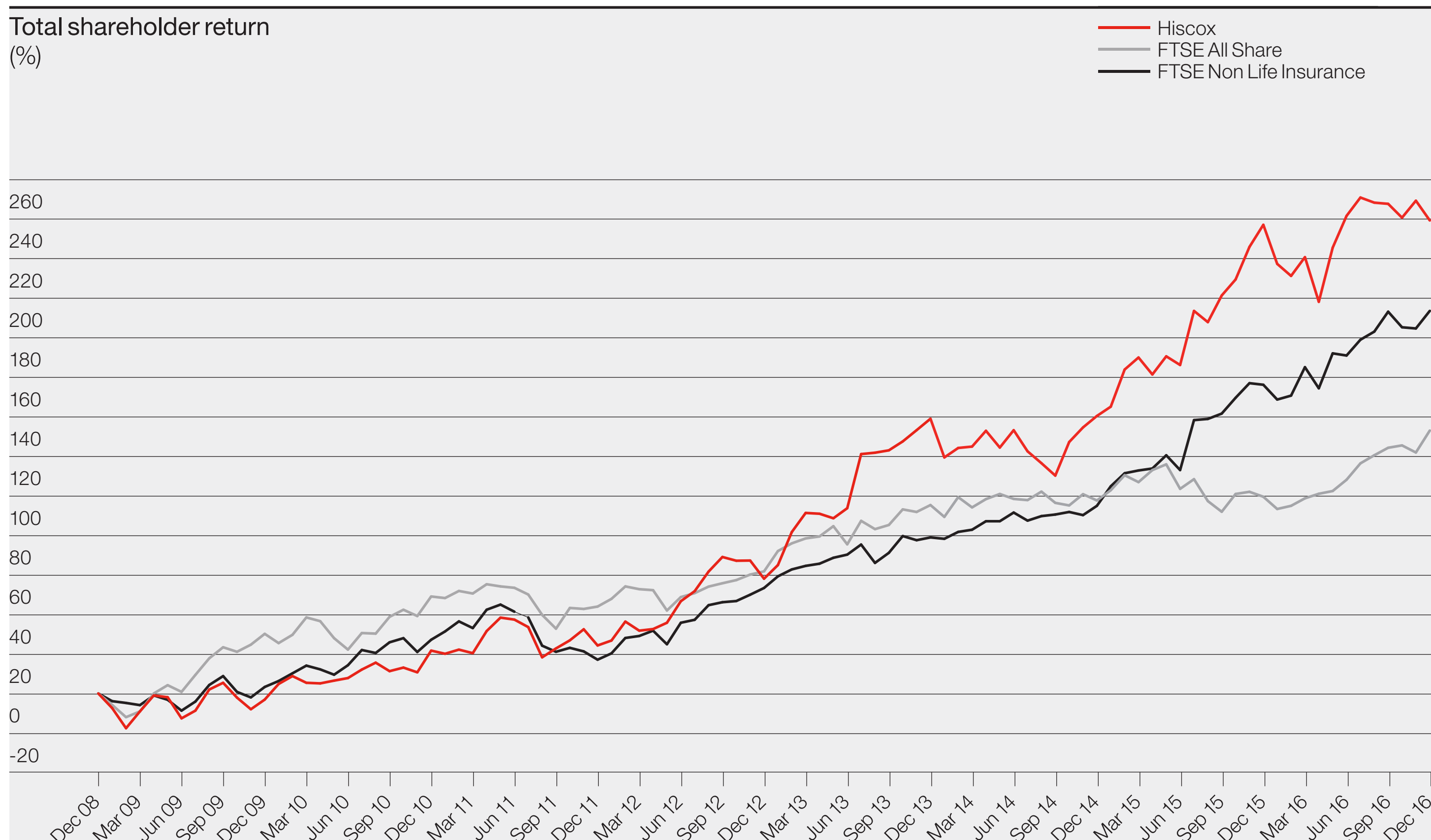
Share options

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

	Number of options at 1 January 2016	Number of options granted	Number of options lapsed	Number of options exercised	Number of options at 31 December 2016	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
BE Masojada	1,744	–	–	(1,744)	–	5.160	10.210	01-Dec-16	31-May-17
	1,649	–	–	–	1,649	5.456	–	01-Jun-17	30-Nov-17
RC Watson	3,299	–	–	–	3,299	5.456	–	01-Jun-17	30-Nov-17
Total	6,692	–	–	(1,744)	4,948				

External Non Executive Directorships

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



Performance graph

The graph above 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 eight years.

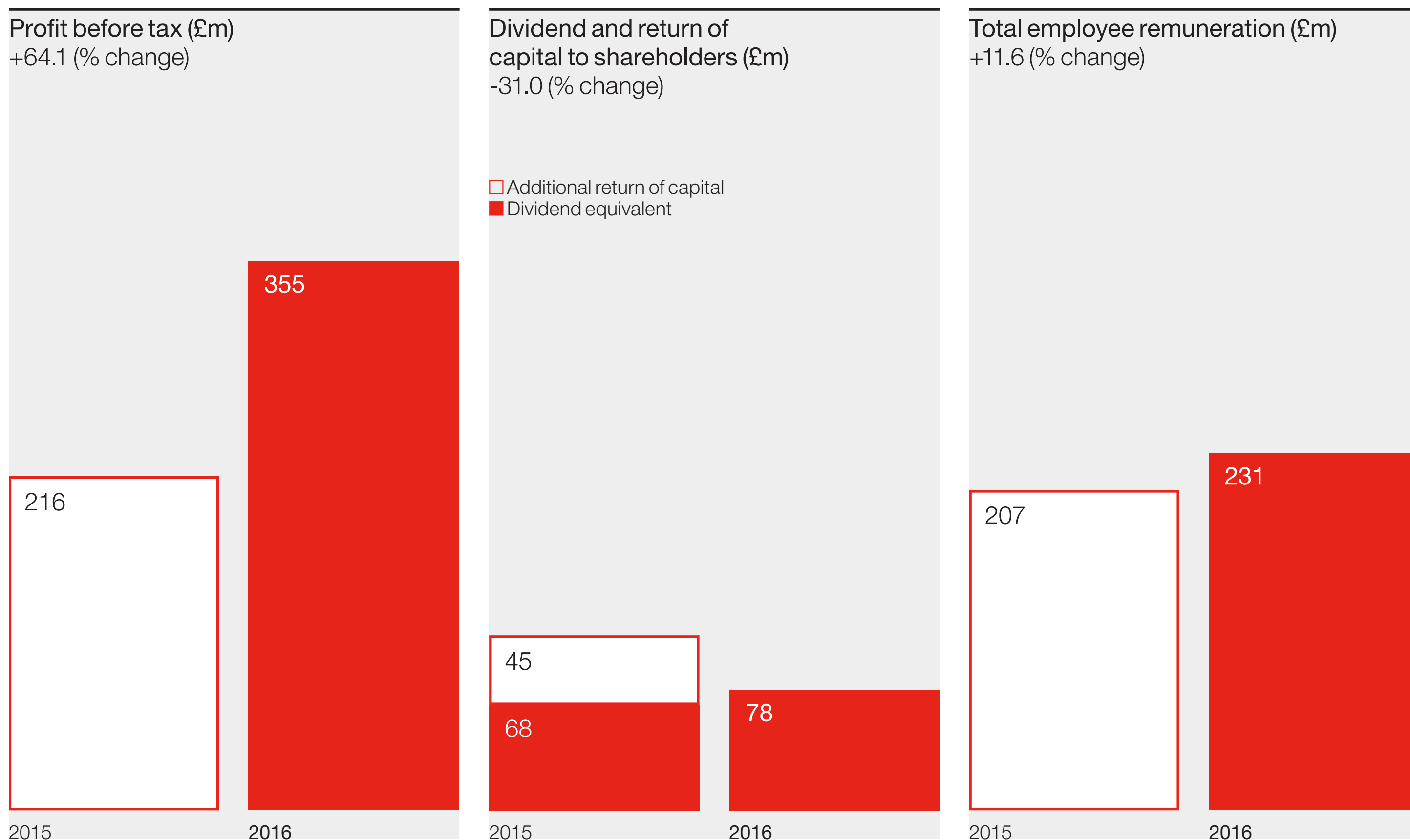
	2009	2010	2011	2012	2013	2014	2015	**2016**
CEO single figure of remuneration (£)	2,536,943	1,759,123	1,509,248	1,938,759	2,341,737	3,130,535	3,358,894	**3,892,073**
Annual bonus as % of salary[1]	286	114	–	186	204	177	157	**256**
PSP vesting as % of maximum opportunity	100	100	85	39	53	100	100	**100**

[1]Prior to 2015, the annual bonus plan was operated on an uncapped basis. Subsequently, the outcomes are shown as a percentage of salary, in order to facilitate comparison. From 2015, the bonus for the CEO was capped at 400% of salary, and therefore the outcome for 2015 and 2016 represented 39% and 64% of the maximum opportunity respectively.

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

The table below shows the percentage change in base salary, benefits and annual bonus of the Chief Executive between the 2015 and 2016 financial years. We have chosen UK-based employees as the comparator group for base salary and benefits as this is where the Chief Executive is based and this allows for the closest comparison in terms of salary increases which take into account country inflation and the benefits package provided. For bonus we have used Group employees as the comparator. The change is based on employees who were employed and eligible for a salary review and bonus in both financial years.

	% change 2014 to 2015		**% change 2015 to 2016**	
	CEO	Employee	**CEO**	**Employee**
Base salary	2	3	**2**	**3**
Benefits (including retirement benefits)	3	6	**1**	**3**
Bonus	(10)	(2)	**67**	**27**



Relative importance of the spend on pay

The charts above shows the relative movement in profit, shareholder returns and employee remuneration for the 2016 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.

Membership of the Remuneration Committee

The Committee members at 31 December 2016 were C Foulger, ER Jansen, R McMillan, G Stokholm, LA Carter, A MacDonald, C Keogh (Chairman).

No Director or Committee member was involved in determining their own remuneration during the year.

External advisors

The Committee received independent advice from Deloitte, an independent firm of remuneration consultants appointed by the Committee. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under its code of conduct in relation to executive remuneration consulting in the UK. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance and institutional investor views and on the development of the Company's incentive arrangements. Total fees for advice provided to the Committee during the year were £25,150. The Committee is satisfied that the advice they have received has been objective and independent. During the year Deloitte also provided other HR consulting services.

Statement of shareholder voting

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

	Annual report on remuneration
For	215,289,665
%	98.92
Against	2,337,325
%	1.08
Withheld	3,079,945
Total votes	220,706,935

Directors' report

The Directors have pleasure in submitting their Annual Report and consolidated financial statements for the year ended 31 December 2016.

Management report

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 Chapter 4 of the Disclosure Guidance and Transparency Rules (DTR), including additional explanation of amounts included in the financial statements and the branches of the Group in different countries, can be found on pages 10 to 17, 36 to 45 and 112 to 163.

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 10 to 17. The Chief Executive's report also describes the main trends and factors likely to affect the future development, performance and position of the Company's business and includes a description of the Company's strategy and business model. The Company's strategy is also described on page 3. A description of the principal risks and uncertainties and how they are managed or mitigated can be found in the risk management section on pages 36 to 45. In addition, note 3 to the consolidated financial statements provides a detailed explanation of the principal risks which are inherent to the Group's business and how those risks are managed.

The confirmation required by C.2.1 of the UK Corporate Governance Code can be found on page 65.

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 46 to 49. This also includes disclosure of greenhouse gas emissions.

Corporate governance statement

The information that fulfils the requirements of the corporate governance statement as referred to in DTR 7.2 can be found on pages 61 to 65 and in this report.

Diversity

The composition of the Board and the Senior Executive structure are described on pages 54 and 55 and pages 56 and 57 respectively. The role of a Hiscox Partner is described on page 58. The percentage of persons of each gender who were i) Hiscox Partners and ii) employees of the Hiscox Group, excluding the Board, is set out in the table opposite. Hiscox's approach to inclusion and diversity is outlined on page 48.

Financial results

The Group achieved a pre-tax profit for the year of £354.5 million (2015: £216.1 million). Detailed results for the year are shown in the consolidated income statement on page 108, and also within the Group financial performance section on pages 26 to 27.

27.5p

Total dividend payment for the year ended 31 December 2016.

Going concern

A review of the financial performance of the Group is set out on pages 26 to 27. 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, a period of at least 12 months from the date of this report. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements.

Viability

The statement required to be included in the Annual Report under C.2.2 of the UK Corporate Governance Code can be found on page 65.

Dividends

An interim dividend of 8.5p (net) per ordinary 6.5p share (2015: 8p (net), per ordinary 6.5p share) was paid on 9 September 2016 in respect of the year ended 31 December 2016. The Directors are proposing payment of a final dividend in respect of the year ended 31 December 2016 of 19.0p which will be paid on 20 June 2017 to shareholders on the register at 12 May 2017. In the previous year a special dividend of 16p per share as well as an amount in place of a final dividend of 16p were paid. The Directors have decided to offer a scrip alternative.

Bye-laws

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

Share capital

Details of the structure of the Company's share capital and changes in the share capital during the year are disclosed in note 24 to the consolidated financial statements. The ordinary shares of 6.5p each are the only class of shares presently in issue and carry voting rights. There is power under Bye-law 45 of the Company's Bye-laws for voting rights to be suspended if calls on shares are unpaid. However, there are no nil or partly paid shares in issue on which calls could be made. The Bye-laws also allow the Company to investigate interests in its shares and apply restrictions including suspending voting rights where information is not provided. No such restrictions are presently in place. The Company was authorised by shareholders at the 2016 Annual General Meeting to purchase in the market up to 10% of the Company's issued ordinary shares. No shares have been bought back under this authority as at the date of this report.

Directors

The names and details of all Directors of the Company who served during the year and up to the date of this report are set out on pages 54 to 55. Details of the Chairman's professional commitments are included in his biography on page 54 and there were no changes during the year. The Bye-laws of the Company govern the appointment and replacement of Directors. Mr Hamayou Akbar ('Aki') Hussain was appointed by the Board with effect from 12 September 2016 and he will submit himself for appointment as a Director by shareholders at the Annual General Meeting. In accordance with the UK Corporate Governance Code, all other Directors will submit themselves for re-appointment at the Annual General Meeting.

Biographical details of the Directors are set out on pages 54 and 55 and the reasons why the Board believe they should be appointed or re-appointed will be set out in the circular which will accompany the notice of Annual General Meeting.

The percentage of persons of each gender who were i) Hiscox Partners and ii) employees of the Hiscox Group, excluding the Board, is set out in the table below.

Diversity

Diversity

	Male %	Female %
Hiscox Partners	81.8	18.2
Employees	52.4	47.6

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Major interests in shares

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

	Number of shares	% of issued share capital as at 31 December 2016*
Invesco Limited[1]	37,662,240	13.18
Massachusetts Financial Services Company[1]	27,742,612	9.71

*Per RNS announcement there were 285,703,853 shares in issue (excluding Treasury shares) as at 31 December 2016.
[1]Indirect holdings.

18.05.17

Annual General Meeting

Political and charitable contributions

The Group made no political contributions during the year (2015: £nil). Information concerning the Group's charitable activities is contained in the report on corporate responsibility on page 48 to 49.

Major interests in shares

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

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

Power of Directors

The powers given to the Directors are contained in the Company's Bye-laws and are subject to relevant legislation and, in certain circumstances (including in relation to the issuing and buying back by the Company of its shares), approval by shareholders in a general meeting. At the Annual General Meeting in 2016 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 2017.

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 87)
Allotment of shares for cash pursuant to employee share schemes	Note 24 to the consolidated financial statements on employee share schemes (page 146)

Annual General Meeting

The notice of the Annual General Meeting, to be held on 18 May 2017, will be contained in a separate circular to be sent to shareholders. The deadline for submission of proxies is 48 hours before the meeting.

By order of the Board
Jeremy Pinchin
Secretary

Wessex House
45 Reid Street
Hamilton HM 12
Bermuda
27 February 2017

Directors' responsibilities statement

Directors' responsibilities statement

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

We confirm that to the best of our knowledge:

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

The Directors responsible for authorising the responsibility statement on behalf of the Board are the Chairman, Robert Childs, and the Chief Financial Officer, Hamayou Akbar Hussain. The statements were approved for issue on 27 February 2017.

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

HOOKED ON CLASSICS

In 2016, Hiscox began a three-year partnership with the world's longest running motoring event, the London to Brighton Veteran Car Run – the latest step in its developing relationship with the world of classic cars.

Hooked on classics continued

We want to be a top three specialist classic car insurer in the UK by 2020.

The London to Brighton Veteran Car Run has been organised by the Royal Automobile Club since 1930. Held every year on the first Sunday in November, the event re-enacts the Emancipation Run of 1896, which celebrated the raising of the speed limit for 'light locomotives' from four to 14 miles per hour and the abolition of the requirement for a man to walk ahead of every car, waving a red flag. For the 2016 run – and for two more years to come – the event's supporting partner is Hiscox.

The run (it is categorically not a 'race') is a sight to behold. There are cars of all shapes and sizes: tricycles, dogcarts, waggonettes. The most basic resemble motorised picnic hampers; others are truly beautiful, with paintwork in deep reds and greens, soft leather seats, and brass metalwork buffed to a dazzling sheen. The drivers and passengers are just as well turned out, bedecked in waxed jackets, vintage hats, scarves and goggles – think Toad of Toad Hall, but without his reckless disregard for safety.

Among the passengers in 2016 was Justin Gott, Head of Art and Private Client at Hiscox UK and Ireland, who found himself in a striking 1903 Mors. "It was such an experience," he says. "You set out in the heart of London, heading through the city as it slowly wakes up. You make your way into leafy suburbia, then out into the countryside. The event draws huge crowds, and everyone enjoys the spectacle – even the drivers who get stuck behind you while you're crawling along the A23. Nobody seems to mind."

This sponsorship arrangement, which included the hosting of a special event for the drivers at the RAC Club and the strong presence of the Hiscox brand throughout the run, was the latest step in what has been a concerted effort by the company to increase its visibility among classic car collectors both in the UK and Europe. This is a large and dynamic community of serious investors and committed enthusiasts, whose obsessions range from the 'horseless carriages' of the London to Brighton crowd to the rather different appeal of 'emerging classics' from the 1990s.

"We want to be a top three specialist classic car insurer in the UK by 2020, and we have big ambitions in Germany too, where we believe the opportunity is massive." says Justin. "Classic car covers a huge range of insurance. It encompasses insurance for established multi-million pound collections, museums, dealers, restorers, and private owners with that one special classic car. We get to know their specific needs, create propositions that meet those needs and deliver them in a way that suits the customers' buying habits."

To meet these varied needs, Hiscox has evolved in both product and distribution, building its foothold in the UK market and expanding its classic car proposition elsewhere in Europe. "If you are involved in classic cars, we want you to be able to buy what we sell through a broker, directly on the internet, through a partnership, or through a specialist agent," says Justin.

In the UK, the business already has strong partnerships with all of the leading brokers in this field. In 2015 Hiscox further boosted its capabilities with the acquisition of RH Specialist Insurance, a classic car insurer which this year celebrates its 40th birthday. "It's a very strong and well established brand in the classic car world, the service is good, and so is the proposition," says Justin. "RH Specialist Insurance has 40,000 customers paying an average premium of just over £200 – it's high volume, low premium business and brings scale and access to a market we wouldn't otherwise have. This means that we can now accommodate anything from the £100 premium to the £100 million collection."

Over the next few years, Hiscox UK and Ireland will continue to invest in its capabilities in the classic car market. "We already have a lot of classic cars insured on our luxury motor insurance policy," explains Justin, "but for those people who are attracted to the Hiscox brand, we want to give them a unique proposition that works for their classics and a separate one that works for their luxury motors: their needs are different, and we want to attract both types of customer."

In building its classic car business, Hiscox has been able to draw on its decades of experience in the fine art world, with which there are some clear parallels. "The classic car collector is often similar to a fine art collector in that they get into the detail, they understand the nuances of what they collect, and they're very focused on certain marques in much the same way as you might be with a

In building its classic car business, Hiscox has been able to draw on its decades of experience in the fine art world, with which there are some clear parallels.

certain artist," says Justin. And, just like art, the value of classic cars can fluctuate rapidly, making accurate valuation a tricky prospect and one that requires a flexible approach to underwriting.

However, there are also some major differences between the two markets – not least because classic cars are often taken out to be driven on roads or racetracks and not simply stored away in environmentally controlled rooms. "It is wonderful that you still see these things racing, moving, doing what they were built to do – most classic car owners buy them because they love them and they want to see them live and breathe," says Justin. "But that brings with it some significant risks and underwriting challenges."

The classic car world is highly active and sociable, enlivened by a large number of well-attended events and races. As Jan Willem van Es – the Head of Marketing at Hiscox Benelux and a keen classic car collector and racer – points out, "there's not really an event you can go to where you bring your painting".

The classic car scene is sub-divided into highly specialised groups, the nuances of which need to be carefully understood by insurers. "You have the London to Brighton scene, you have the Edwardians, the pre-war, the post-war, the specialist US scene, the motorcycles, the racetrack scene – each one is separate and different," explains Rainer Peukert, Partnership Manager for Classic Cars at Hiscox Europe, who has been collecting classic cars for 30 years, starting with a Plymouth Barracuda that he liberated from a breaker's yard at the age of 17.

The existence of these coherent subcultures, shaped by their respective membership organisations, enables insurers to create strong bonds through support and partnerships. For example, RH Specialist Insurance has very close and long-standing ties with the Rolls-Royce Enthusiasts' Club and the Bentley Drivers Club, whose combined worldwide membership exceeds 13,000.

The power of clubs is particularly strong in Germany. "There are 1,500 classic car clubs in Germany," explains Rainer, "and we have built partnerships with just a few of them. Every club has its own special interests, and because we are so flexible, we can hear their interests and work out the best way of insuring them. The opportunity is significant."

Sponsorship of races and events provides Hiscox with the opportunity to gain valuable visibility. In 2016, Hiscox was a sponsor at the International Edelweiss Bergpreis Rossfeld Berchtesgaden and the Stadtrallye Hamburg, as well as having a presence at several other German classic car meets. Rainer, with his sizable collection of cars, is also a great ambassador for the brand: in 2016 he attended 68 events over 40 weekends, both in Germany and further afield. Like many of his countrymen, he particularly enjoys driving in Italy: "A lot of German collectors drive in rallies in Italy. It's the nice weather, the lifestyle. They want to have fun in their cars, and they don't want rain!"

Hooked on classics continued

Over the next five years, the potential market in Germany is going to grow from 500,000 cars to 6.5 million cars. There are so many opportunities for an insurer that understands the scene.

Jan – who owns an Austin A35, a Triumph TR3 and a Jaguar E-Type – is also a familiar face on the European classic car circuit. "To understand this world, you need to have a passion for it," he says, and he certainly has no shortage of that. He has arranged for Hiscox to sponsor the Tulpenrallye ('Tulip Rally'), the Netherlands' oldest and most famous classic car race: a 2,000-mile dash across the continent by hundreds of obsessives in pre-1971 cars. "It's a group of fanatical people," says Jan. "It's more than a game – it's something you want to win." It was through this tie-up that his office "made connections with two big brokers in the Dutch market, one of whom was actually driving in the rally".

Classic car insurance is a growing marketplace, as the passage of time slowly turns old cars into collectibles. "In Germany, the car has to be 30 years or older to qualify as a classic car," explains Rainer. "1986 and 1987 had very big productions of very popular cars: the Mercedes 190, the E30 BMW, the Porsche 911. Over the next five years, the potential market in Germany is going to grow from 500,000 cars to 6.5 million cars. There are so many opportunities for an insurer that understands the scene." The prospect of growth in other areas as a direct result of success in this sector is also very real. "The classic car customers are people who we'd want to insure for many different types of insurance, and as our classic car business grows, we have many thousands of opportunities to do just that," says Justin. A collector who is happy with the service you provide for something about which they are truly obsessed is likely to trust you with the more functional aspects of their insurance as well. As Jan says: "One broker told me, for an insurance company, the easiest way to get in is through the biggest door in the house: the garage door."

That passion is hard to overstate. While some collectors are motivated at least in part by the prospect of a return on investment, for the vast majority it is a passion play. Besides, some of that investment potential can be illusory. "Prices do rise – values are increasing for very rare cars, and for cars from the 1970s that people in their 30s feel nostalgic for – but for most collectors, the cost of keeping them running probably wipes out any increase in value," explains Jan. Rainer, who understands the zeal of collectors only too well, sums it up succinctly: "I think you have to be a bit mad to do this stuff."

"There's definitely an emotional element," adds Justin. "You see it in a fine art collector. You see it in somebody who has restored a beautiful period home over ten years. You see it in anybody who has worked hard to get what they love and wants us to help them look after it. If the worst happens, we'll be there – and they know that, because we're Hiscox."

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Financial summary

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hiscox Ltd (the 'Company') and its subsidiaries (together the 'Group') as at 31 December 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

What we have audited

Hiscox Ltd's consolidated financial statements comprise:
- the consolidated income statement for the year ended 31 December 2016;
- the consolidated statement of comprehensive income for the year ended 31 December 2016;
- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of changes in equity for the year ended 31 December 2016;
- the consolidated statement of cash flows for the year ended 31 December 2016; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

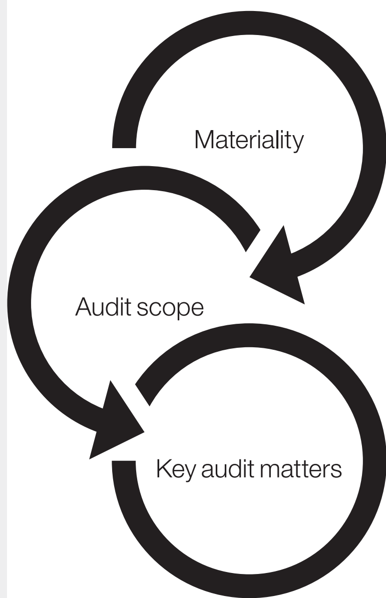
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

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

Our audit approach



Overview

- Overall group materiality: £12 million, which represents 5% of the average profit before tax over the past three years.
- We conducted an audit of five full scope components covering over 90% of the Group's consolidated assets, and revenues. Each of the components were audited by local component audit teams, located in the United Kingdom and Bermuda. The Group engagement team had regular interaction with the aforementioned component teams, and the engagement leader performed site visits during the audit process.
- Valuation of incurred but not reported (IBNR) loss reserves.

Audit scope

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

Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below.

These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £600,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overall Group materiality	£12 million
How we determined it	5% of the average profit before tax over the past three years.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards. We have applied an average to the benchmark in order to take into account the volatility in earnings driven by catastrophe loss events and foreign exchange fluctuations.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of incurred but not reported (IBNR) loss reserves See notes 2.13, 2.21, 3 and 26 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimates. Total claims incurred but not reported for the year ended 31 December 2016 are £1.59 billion. The methodologies and assumptions utilised to develop incurred but not reported reserves involve a significant degree of judgment as there is generally less information available with the related claims. The liabilities are based on the estimated ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. In addition, classes of business where there is a greater length of time between initial claim event and settlement (such as professional indemnity and other liability classes) also tend to display greater variability between initial estimates and final settlements. A range of methods may be used to determine these provisions. We focused on this area as the underlying methods include a number of explicit and implicit assumptions relating to the expected settlement amounts and settlement patterns of claims and are subject to complex calculations which include application of management's judgement.	We evaluated whether the Group's actuarial methodologies were consistent with those used in the industry and with prior periods. No inconsistencies were noted. As historical claims data is a key input into the actuarial reserving process, we tested the completeness, accuracy and reliability of the underlying data utilised by management, to support the actuarial valuation. As part of our risk assessment, we stratified the loss reserves based on the inherent nature of the business class, the size of the class relative to the total reserves, exposure to adverse market development, sensitivity to significant assumptions and the degree of prior year reserve movement. In order to challenge management's assumptions and methodologies, we were assisted by our actuarial specialist team members who performed independent re-projections on selected classes of business, particularly focusing on the largest and most volatile reserves as these were considered higher risk. For these classes we compared our independent claims reserve estimates, to those booked by management, and sought to understand any significant differences. In relation to catastrophe reserves, we also tested the point estimate to specific notifications received confirming event data. For the remaining classes we performed targeted testing of key indicators and diagnostics to identify and follow up any anomalies and assessed whether there was any audit evidence that was inconsistent with conclusions based on our knowledge from the independent projections noted above. No material differences were identified in our procedures performed.

How we tailored our Group audit scope

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

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

The Group's operations primarily consist of the legal entity operations in the United Kingdom and Bermuda. A full scope audit was performed for five components as these components are individually significant to the group and gave us over 90% coverage of operations as measured by revenue and total assets and liabilities. The five components are: (i) Hiscox Dedicated Corporate Member Syndicate No. 33, (ii) Hiscox Dedicated Corporate Member Syndicate No. 3624, (iii) Hiscox Insurance Company Limited, (iv) Hiscox Insurance Company (Bermuda) Limited and (v) Hiscox Underwriting Group Services Limited. Based on our professional judgment, certain audit procedures were conducted by the Group team, the United Kingdom or the United States component teams over certain balances within other legal entities in Bermuda, the United Kingdom and the United States. Analytical procedures over the remaining components that were not inconsequential were performed by the Group engagement team.

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

Other information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to

communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

Going concern

The Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements, as explained on page 93. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Directors' remuneration

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

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

Corporate governance statement

Under the United Kingdom's Listing Rules we are required to review the part of the Corporate Governance Statement on pages 61 to 65 relating to eleven provisions of the UK Corporate Governance Code and the Directors have requested that we also review their statements on going concern and the longer-term viability of the Company as required for UK registered companies with a premium listing on the London Stock Exchange. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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

PricewaterhouseCoopers Ltd.
Chartered Professional Accountants
Hamilton, Bermuda
27 February 2017

Consolidated income statement

For the year ended 31 December 2016	Note	2016 Total £000	2015 Total £000
Income			
Gross premiums written	4	2,402,579	1,944,220
Outward reinsurance premiums		(614,636)	(372,376)
Net premiums written	4	1,787,943	1,571,844
Gross premiums earned		2,220,853	1,828,334
Premiums ceded to reinsurers		(545,840)	(393,318)
Net premiums earned	4	1,675,013	1,435,016
Investment result	7	74,991	35,381
Other income	9	37,594	17,156
Total income		1,787,598	1,487,553
Expenses			
Claims and claim adjustment expenses	26.2	(1,004,601)	(685,897)
Reinsurance recoveries	26.2	264,829	113,444
Claims and claim adjustment expenses, net of reinsurance	26.2	(739,772)	(572,453)
Expenses for the acquisition of insurance contracts	17	(538,467)	(441,376)
Reinsurance commission income	17	128,627	97,093
Operational expenses	9	(415,719)	(361,215)
Net foreign exchange gains	12	152,408	15,153
Total expenses		(1,412,923)	(1,262,798)
Results of operating activities		374,675	224,755
Finance costs	10	(20,266)	(9,662)
Share of profit from associates after tax	16	134	1,007
Profit before tax		354,543	216,100
Tax expense	28	(17,557)	(6,205)
Profit for the year (all attributable to owners of the Company)		336,986	209,895
Earnings per share on profit attributable to owners of the Company			
Basic	31	119.8p	72.8p
Diluted	31	116.0p	70.5p

Consolidated statement of comprehensive income

For the year ended 31 December 2016	2016 Total £000	2015 Total £000
Profit for the year	336,986	209,895
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of the net defined benefit obligation	(46,531)	28,236
Income tax on the remeasurement of other comprehensive income	9,502	(6,762)
	(37,029)	21,474
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	111,094	34,478
Income tax on the remeasurement of other comprehensive income	–	–
	111,094	34,478
Other comprehensive income net of tax	74,065	55,952
Total comprehensive income for the year (all attributable to owners of the Company)	411,051	265,847

The notes on pages 112 to 163 are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2016	Note	2016 £000	2015 £000
Assets			
Goodwill and intangible assets	14	123,724	126,222
Property, plant and equipment	15	48,425	46,509
Investments in associates	16	13,835	13,525
Deferred tax	29	41,392	35,147
Deferred acquisition costs	17	346,592	271,517
Financial assets carried at fair value	19	3,792,033	2,921,585
Reinsurance assets	18, 26	805,649	538,810
Loans and receivables including insurance receivables	20	802,906	619,563
Current tax asset		2,406	3,243
Cash and cash equivalents	23	664,816	727,880
Total assets		6,641,778	5,304,001
Equity and liabilities			
Shareholders' equity			
Share capital	24	19,060	19,030
Share premium	24	18,035	15,231
Contributed surplus	24	89,864	89,864
Currency translation reserve	25	202,272	91,178
Retained earnings	25	1,488,306	1,312,660
Equity attributable to owners of the Company		1,817,537	1,527,963
Non-controlling interest		866	866
Total equity		1,818,403	1,528,829
Employee retirement benefit obligations	30	56,139	75
Deferred tax	29	17,030	29,814
Insurance liabilities	26	3,852,976	3,048,362
Financial liabilities	19	276,293	275,679
Current tax		21,735	4,884
Trade and other payables	27	599,202	416,358
Total liabilities		4,823,375	3,775,172
Total equity and liabilities		6,641,778	5,304,001

The notes on pages 112 to 163 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

HA Hussain
Chief Financial Officer

BE Masojada
Chief Executive Officer

Consolidated statement of changes in equity

	Note	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Equity attributable to owners of the Company £000	Non-controlling interest £000	Total equity £000
Balance at 1 January 2015		19,913	10,417	89,864	56,700	1,276,446	1,453,340	866	1,454,206
Profit for the year (all attributable to owners of the Company)		–	–	–	–	209,895	209,895	–	209,895
Other comprehensive income net of tax (all attributable to owners of the Company)		–	–	–	34,478	21,474	55,952	–	55,952
Employee share options:									
Equity settled share-based payments		–	–	–	–	17,726	17,726	–	17,726
Proceeds from shares issued	24	29	1,400	–	–	–	1,429	–	1,429
Deferred and current tax on employee share options	29	–	–	–	–	5,761	5,761	–	5,761
E/F Share Scheme:									
Return of capital, special distribution	32	–	(32)	–	–	(141,422)	(141,454)	–	(141,454)
Final dividend equivalent	32	–	–	–	–	(48,105)	(48,105)	–	(48,105)
Share consolidation and sub-division		(930)	930	–	–	–	–	–	–
Shares purchased by Trust		–	–	–	–	(6,712)	(6,712)	–	(6,712)
Shares issued in relation to Scrip Dividend	24, 32	18	2,516	–	–	–	2,534	–	2,534
Dividends paid to owners of the Company	32	–	–	–	–	(22,403)	(22,403)	–	(22,403)
Balance at 31 December 2015		19,030	15,231	89,864	91,178	1,312,660	1,527,963	866	1,528,829
Profit for the year (all attributable to owners of the Company)		–	–	–	–	336,986	336,986	–	336,986
Other comprehensive income net of tax (all attributable to owners of the Company)		–	–	–	111,094	(37,029)	74,065	–	74,065
Employee share options:									
Equity settled share-based payments		–	–	–	–	26,274	26,274	–	26,274
Proceeds from shares issued	24	22	1,534	–	–	–	1,556	–	1,556
Deferred and current tax on employee share options	29	–	–	–	–	1,907	1,907	–	1,907
Shares purchased by Trust		–	–	–	–	(38,558)	(38,558)	–	(38,558)
Shares issued in relation to Scrip Dividend	24, 32	8	1,270	–	–	–	1,278	–	1,278
Dividends paid to owners of the Company	32	–	–	–	–	(113,934)	(113,934)	–	(113,934)
Balance at 31 December 2016		**19,060**	**18,035**	**89,864**	**202,272**	**1,488,306**	**1,817,537**	**866**	**1,818,403**

The notes on pages 112 to 163 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016	Note	2016 £000	2015 £000
Profit before tax		354,543	216,100
Adjustments for:			
Net foreign exchange gains		(152,408)	(15,153)
Interest and equity dividend income		(54,789)	(40,951)
Interest expense		20,266	9,662
Net fair value (gains)/losses on financial assets		(13,786)	8,538
Depreciation, amortisation and impairment	9, 14, 15	28,162	22,734
Charges in respect of share-based payments	9, 24	26,274	17,726
Other non-cash movements		–	(782)
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		251,836	38,975
Financial assets carried at fair value		(431,324)	(5,606)
Financial liabilities carried at fair value		458	(7,093)
Financial liabilities carried at amortised cost		156	–
Other assets and liabilities		3,687	41,441
Interest received		55,273	40,768
Equity dividends received		505	1,027
Interest paid		(21,852)	(8,453)
Current tax paid		(6,108)	(27,757)
Cash derecognised on loss of control		(17,477)	(342,655)
Cash flows from subscriptions (paid)/received in advance		(4,000)	123,000
Net cash flows from operating activities		39,416	71,521
Cash flows from the purchase of subsidiaries		–	(7,375)
Cash flows from the sale of subsidiaries		13,596	–
Cash flows from the purchase of associates	16	(450)	(2,089)
Cash flows from sale of associates		2	–
Cash flows from the purchase of property, plant and equipment		(5,770)	(19,272)
Cash flows from the purchase of intangible assets		(20,909)	(30,952)
Net cash flows from investing activities		(13,531)	(59,688)
Proceeds from the issue of ordinary shares	24	1,556	1,429
Shares repurchased	24	(38,558)	(6,712)
Proceeds from long-term debt issue, net of fees		–	273,909
Distributions made to owners of the Company	24, 32	(112,656)	(209,428)
Net cash flows from financing activities		(149,658)	59,198
Net (decrease)/increase in cash and cash equivalents		(123,773)	71,031
Cash and cash equivalents at 1 January		727,880	650,651
Net (decrease)/increase in cash and cash equivalents		(123,773)	71,031
Effect of exchange rate fluctuations on cash and cash equivalents		60,709	6,198
Cash and cash equivalents at 31 December	23	664,816	727,880

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

Included within cash and cash equivalents held by the Group are balances totalling £136 million (2015: £126 million) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held. Additionally £38 million (2015: £172 million) is pledged cash held against Funds at Lloyd's, and £13 million held within trust funds against reinsurance arrangements.

The presentation of the cash flow statement has been reformatted to extract the foreign exchange movements on to one line to better represent the movements in the other lines. The prior year has been adjusted for comparison.

The notes on pages 112 to 163 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information
The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent Company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, Asia and the US with over 2,300 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. These 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 37 in accordance with a recognised set of Generally Accepted Accounting Principles (GAAP).

The consolidated financial statements for the year ended 31 December 2016 include all of the Group's subsidiary companies and the Group's equity interest in associates. All amounts relate to continuing operations.

The financial statements were approved for issue by the Board of Directors on 27 February 2017.

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 2.21.

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 IFRS Interpretations Committee (IFRIC).

The Group currently applies IFRS 4 Insurance Contracts which specifies the financial reporting for insurance contracts. 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.

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 investments and cash of over £4.4 billion. 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.

A review of the financial performance of the Group is set out on pages 26 to 27. 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 and overleaf, the accounting policies adopted are consistent with those of the previous financial year.

Changes in accounting policies
A number of new standards, amendments to standards and interpretations, as adopted by the European Union, are effective for annual periods beginning on or after 1 January 2016. They have been applied in preparing these consolidated financial statements. There were no new standards, amendments or interpretations that had a material impact on the Group.

The amendments included minor changes to the following standards:
- IAS 1: Presentation of Financial Statements
- IAS 16: Property, Plant and Equipment
- IAS 38: Intangible Assets Annual Improvements to IFRSs 2010 – 2012 Cycle
- IAS 19: Employee Benefits

2 Significant accounting policies
2.2 Basis of preparation
Changes in accounting policies continued

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017 and have not been applied in preparing these financial statements.

- IFRS 17 will replace IFRS 4 and is expected to include a number of significant changes to the measurement of insurance contracts and as such adoption of a final standard 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 2021 is likely to be the earliest date for the adoption of a new standard. The date of release of the standard is not yet known.
- IFRS 9: Financial Instruments; Classification and Measurement. The new standard is effective for annual periods beginning on or after 1 January 2018. The IASB has stated they will allow insurers to defer implementation of IFRS 9 until the earlier of the effective date of IFRS 17 and 2021. The Group will adopt the deferral approach to better align the implementation of the new standards. The Group qualifies for the deferral option by having a ratio of Insurance Liabilities to Total Liabilities greater than 80% and by not having any significant non-insurance related activities. A full impact analysis is expected to be completed at least 12 months prior to the effective date of the standard.
- IFRS 15: Revenue from Contracts with Customers replaces IAS 18 and is effective from 1 January 2018. Revenue from contracts accounted for under IFRS 4 is outside the scope of IFRS 15. The new standard's requirement for accounting of variable consideration could change the timing of revenue recognition for non-insurance contracts issued by the Company. The impact of this standard is expected to be limited to the timing of the recognition of profit commission, and not deemed to have a material impact at December 2016.
- IFRS 16: Leases, will take effect from 1 January 2019 and specifies how the Company will recognise, measure, present and disclose leases. The standard requires lessees to implement a 'right-of-use' model, replacing the 'risks and rewards' model of IAS 17. The new standard will therefore require the Company to recognise an asset and liability at the inception of nearly all leases. The impact of the new standard on the 2016 consolidated statement of financial position would have been an increase in assets and liabilities by £51.3 million. There is little change in how the Company is required to account for leases in the instances where the Company is the lessor.

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 2016, HDCM owned 72.5% of Syndicate 33 (2015: 72.5%), and 100% of Syndicate 3624 (2015: 100%). In view of the several but not joint liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, the Group's attributable share of the transactions, assets and liabilities of these Syndicates has been included in the financial statements. The Group manages the underwriting of, but does not participate as a member of, Syndicate 6104 at Lloyd's which provides reinsurance to Syndicate 33 on a normal commercial basis. Consequently, aside from the receipt of managing agency fees, defined profit commissions as appropriate and interest arising on effective assets included within the experience account, the Group has no share in the assets, liabilities or transactions of Syndicate 6104, nor is it controlled. The position and performance of that Syndicate is therefore not included in the Group's financial statements.

The Kiskadee Diversified Fund and Kiskadee Select Fund ('Kiskadee Funds') were launched in 2014 to provide investment opportunities to institutional investors in property catastrophe reinsurance and insurance-linked strategies. The Group made an initial investment of £30.2 million in the Kiskadee Funds. The Kiskadee Funds are managed by Kiskadee Investment Managers Ltd which is a wholly owned subsidiary of the Group. All of the Kiskadee Funds' exposures to reinsurance risk are fronted by the Group into two Bermuda Licensed Special Purpose Insurers ('SPI'), Kiskadee Reinsurance 1 Ltd and Kiskadee Reinsurance 2 Ltd which have been collateralised by the Kiskadee Funds.

Following a significant inflow of capital from third-party investors during 2015, the Group determined that it no longer meets the criteria for consolidation of the Kiskadee Funds and SPIs from 1 July 2015 as defined in IFRS 10.

As at 31 December 2016, the Group recognised a financial asset at fair value of £46.8 million (2015: £40.0 million) in relation to its investment in the Kiskadee Funds (note 19). In assessing the maximum exposure to loss from its interest in the Kiskadee Funds and SPIs, the Group has determined it is no greater than the fair value recognised as at the balance sheet date. The total size of the funds were £683 million at 31 December 2016.

In addition to the return on the financial asset, the Group also receives fee income through Kiskadee Investment Managers Ltd and Hiscox Insurance Company (Bermuda) Ltd, both wholly owned subsidiaries, under normal commercial terms.

On 9 March 2016 the Group reached an agreement to sell the Hong Kong entities of the DirectAsia business to Well Link Group Holdings Limited. The transaction subsequently received regulatory approval from the Office of the Commissioner of Insurance (OCI) in Hong Kong.

Below is a table disclosing the impact to the consolidated financial statements following the sale.

	£000
Total assets no longer recognised in the consolidated balance sheet	(20,662)
Total liabilities no longer recognised in the consolidated balance sheet	9,941
Total currency translation reserve no longer recognised in the consolidated balance sheet	221
Cash received on disposal, net of expenses	11,327
Profit recognised in other income in the consolidated income statement	827

2 Significant accounting policies
2.3 Basis of consolidation
(a) Subsidiaries continued

The Group is exposed to credit risk associated with reinsurance recoverables on risks fronted for the Kiskadee SPIs. Note 3.2(d) discusses how the Group manages credit risk associated with reinsurance assets.

The operations of the Kiskadee Funds and SPIs are financed through the issuance of preference shares to external investors. The Group does not intend to provide any further financial support to the Kiskadee Funds or SPIs.

(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'). Entities operating in France, Germany, the Netherlands, Spain, Portugal, Ireland and Belgium have functional currency of Euros; those subsidiary entities operating from the US, Bermuda, Guernsey and Syndicate 3624 have functional currency of US Dollars. Functional currencies of entities operating in Asia include US Dollars, Singapore Dollars and Thai Baht. All other entities have functional currency of Sterling.

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

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

The rates applied are as follows:

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

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

2 Significant accounting policies
2.5 Property, plant and equipment continued

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

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

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

The impairment review process examines whether or not the carrying value of the goodwill attributable to individual cash generating units exceeds its recoverable amount. Any excess of goodwill over the recoverable amount arising from the review process indicates impairment. 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 ten years and are carried at cost less accumulated amortisation and impairment losses.

(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 and liabilities 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 assets at initial recognition. The decision by the Group to designate debt and fixed income securities, equities and shares in unit trusts and deposits with credit institutions, at fair value through profit or loss reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair value basis. Regular way purchases and sales of investments are accounted for at the date of trade. Financial assets and liabilities are initially recognised at fair value. Subsequent to initial recognition financial assets and liabilities are measured as described below.

Financial assets are derecognised when the right to receive cash flows from them expires or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

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 a documented strategy, if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking.

(b) Loans and receivables

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

2 Significant accounting policies
2.7 Financial assets and liabilities including loans and receivables continued

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

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

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

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

2.10 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 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 2.16).

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. 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. The fee and profit commission equates to approximately 20% of profit on the element 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.

2 Significant accounting policies
2.13 Insurance contracts continued
(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. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

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

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

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

(g) Reinsurance commission income
Prior to the current year, the Group presented its expenses for the acquisition of insurance contracts net of reinsurance commission income on the face of the consolidated income statement and presented the gross amounts within note 17. Due to the increasing size of these positions in 2016, the Group has decided to disclose its reinsurance commission income as a separate line item within the consolidated income statement and is presenting the prior year in line with the current years' presentation. The Group continues to disclose the written and earned positions within note 17.

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

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

2.14 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

2 Significant accounting policies
2.14 Deferred tax continued

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. 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.

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

(d) Termination benefits

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

(e) Profit sharing and bonus plans

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

2 Significant accounting policies
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 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.

2.17 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.

2.18 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.

2.19 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.

2.20 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.

2.21 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 2016 is £1,588 million (2015: £1,214 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 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, as shown in note 29. To the extent that taxable losses carried forward by the Group exceed taxable temporary differences relating to the same taxation authority and taxable entity, which will result in amounts against which the losses can be utilised, the Group uses estimates of probable future taxable profits available to determine whether recognition of a deferred tax asset is appropriate. The determination and finalisation of agreed taxation assets and liabilities may not occur until several years after the balance sheet date and consequently the final amounts payable or receivable may differ from those presently recorded in these financial statements.

2 Significant accounting policies
2.22 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 in note 4 provide useful information regarding the underlying performance of the Group's businesses. These measures are widely recognised by the insurance industry and are consistent with internal performance measures reviewed by senior management including the chief operating decision-maker. However, these 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 in notes 5 and 6, are likewise considered to be additional performance measures.

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

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

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

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

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

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

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures and line of business diversification parameters are prepared and reviewed by the Chief Underwriting Officer in order to translate the Board's summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved by the Board in advance of each underwriting year. The Board continually reviews its underwriting strategy throughout each underwriting year in light of the evolving market pricing and loss conditions and as opportunities present themselves. The Group's underwriters and management consider underwriting risk at an individual contract level, and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors. To assist with the process of pricing and managing underwriting risk the Group routinely performs a wide range of activities including the following:
- regularly updating the Group's risk models;
- documenting, monitoring and reporting on the Group's strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modeling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;
- regularly aggregating risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular review. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as the maximum sums insured per insurance contract, maximum gross premiums written and maximum aggregated exposures per geographical zone and risk class. 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 compiles estimates of losses arising from realistic disaster events using statistical models alongside input from its underwriters.

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

These require significant management judgement. Realistic disaster scenarios, shown on page 21, are extreme hypothetical events selected to represent major events occurring in areas with large insured values. They also reflect the areas that represent significant exposures for Hiscox.

The selection of realistic disaster scenario events is adjusted each year and they are not therefore necessarily directly comparable from one year to the next. The events are extreme and unprecedented, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodeled risks. This means that should a realistic disaster actually eventuate, the Group's final ultimate losses could materially differ from those estimates modeled by management.

The Group's insurance contracts include provisions to contain losses, such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Group's exposure to repeated catastrophic events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period.

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

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 2016		Types of insurance risk in the Group						
		Reinsurance inwards £000	Property – marine and major assets £000	Property – other assets £000	Casualty – professional indemnity £000	Casualty – other risks £000	Other* £000	Total £000
UK and Ireland	Gross	3,947	20,198	155,380	442,369	8,513	26,706	657,113
	Net	2,479	7,709	148,777	413,980	6,973	24,600	604,518
Europe	Gross	8,480	1,880	97,148	179,814	259	26,490	314,071
	Net	5,010	1,576	80,971	157,969	214	18,463	264,203
United States	Gross	282,334	140,963	285,258	486,132	308,795	129,153	1,632,635
	Net	181,521	102,444	163,389	481,741	253,558	107,082	1,289,735
Other territories	Gross	97,154	22,776	71,027	37,288	4,839	90,106	323,190
	Net	55,309	18,619	44,417	36,894	3,971	74,886	234,096
Multiple territory coverage	Gross	277,782	165,538	191,925	72,353	132,615	85,754	925,967
	Net	170,123	127,578	102,486	71,754	109,060	73,774	654,775
Total	**Gross**	**669,697**	**351,355**	**800,738**	**1,217,956**	**455,021**	**358,209**	**3,852,976**
	Net	**414,442**	**257,926**	**540,040**	**1,162,338**	**373,776**	**298,805**	**3,047,327**

Estimated concentration of gross and net insurance liabilities on balance sheet by territory coverage of premium written 31 December 2015		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	1,862	20,491	149,818	402,266	17,326	16,522	608,285
	Net	1,417	9,697	146,085	380,556	15,253	16,034	569,042
Europe	Gross	4,363	541	99,021	151,092	29,858	39,997	324,872
	Net	1,605	517	81,714	147,163	28,117	30,147	289,263
United States	Gross	136,736	116,605	183,496	341,409	126,116	69,582	973,944
	Net	73,337	59,796	100,114	337,142	113,146	62,385	745,920
Other territories	Gross	70,755	38,507	53,837	23,954	24,134	110,332	321,519
	Net	51,118	30,016	40,864	22,177	17,018	95,885	257,078
Multiple territory coverage	Gross	268,951	174,603	108,119	49,584	134,655	83,830	819,742
	Net	206,090	148,558	58,686	48,492	121,576	64,847	648,249
Total	Gross	482,667	350,747	594,291	968,305	332,089	320,263	3,048,362
	Net	333,567	248,584	427,463	935,530	295,110	269,298	2,509,552

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

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

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

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

Reinsurance inwards

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

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

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

Property risks – marine and major assets

The Group directly underwrites a diverse range of property risks. The risk profile of the property covered under marine and major asset policies is different to that typically contained in the other classes of property (such as private households and contents insurance) covered by the Group.

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

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

Marine and major property contracts are normally underwritten by reference to the commercial replacement value of the property covered. The cost of repairing or rebuilding assets, of replacement or indemnity for contents and time taken to restart or resume operations to original levels for business interruption losses are the key factors that influence the level of claims under these policies. The Group's exposure to commodity price risk in relation to these types of insurance contracts is very limited, given the controlled extent of business interruption cover offered in the areas prone to losses of asset production.

Other property risks

The Group provides home and contents insurance, together with cover for artwork, antiques, classic cars, jewellery, collectables and other assets. The Group also extends cover to reimburse certain policyholders when named insureds or insured assets are seized for kidnap and a ransom demand is subsequently met. Events which can generate claims on these contracts include burglary, kidnap, seizure of assets, acts of vandalism, fires, flooding and storm damage. Losses on most classes can be predicted with a greater degree of certainty as there is a rich history of actual loss experience data and the locations of the assets covered, and the individual levels of security taken by owners, are relatively static from one year to the next. The losses associated with these contracts tend to be of a higher frequency and lower severity than the marine and other major property assets covered above.

The Group's home and contents insurance contracts are exposed to weather and climatic risks such as floods and windstorms and their consequences. As outlined earlier the frequency and severity of these losses do not lend themselves to accurate prediction over the short term. Contract periods are therefore not normally more than one year at a time to enable risks to be regularly repriced.

Contracts are underwritten by reference to the commercial replacement value of the properties and contents insured. Claims payment limits are always included to cap the amount payable on occurrence of the insured event.

Casualty insurance risks

The casualty underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of potential hazard, industry and geography. However, the Group's exposure is more focused towards marine and professional and technological liability risks rather than human bodily injury risks, which are only accepted under limited circumstances.

3 Management of risk
3.1 Insurance risk
i) Underwriting risk
Casualty insurance risks continued
Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence and specific losses suffered as a result of electronic or technological failure of software products and websites.

The provision of insurance to cover allegations made against individuals acting in the course of fiduciary or managerial responsibilities, including directors and officers' insurance, is one example of a casualty insurance risk. The Group's casualty insurance contracts mainly experience low severity attritional losses. By nature, some casualty losses may take longer to settle than the other categories of business.

The Group's pricing strategy for casualty insurance policies is typically based upon historical claim frequencies and average claim severities, adjusted for inflation and extrapolated forwards to incorporate projected changes in claims patterns. In determining the price of each policy an allowance is also made for acquisition and administration expenses, reinsurance costs, investment returns and the Group's cost of capital.

ii) Reserving risk
The Group's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 26.

The Group's 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.

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 elements and economic variables that could result in such an outcome relate to the reliability of fair value measures, equity price risk, interest rate risk, credit risk, liquidity risk and currency risk. The Group's policies and procedures for managing exposure to these specific categories of risk are detailed below.

(a) Reliability of fair values
The Group has elected to carry loans and receivables at amortised cost and all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy. With the exception of unquoted equity investments and the insurance-linked funds shown in note 22, 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 2016, 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.

3 Management of risk
3.2 Financial risk continued
(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 2016 was £305 million (2015: £260 million). These may be analysed as follows:

Nature of equity and unit trust holdings	2016 % weighting	2015 % weighting
Directly held equity securities	3	3
Units held in funds – traditional long only	66	68
Units held in funds – long and short and special strategies	31	29
Geographic focus		
Specific UK mandates	41	42
Global mandates	59	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. We make an allocation to less volatile, absolute return strategies within our risk assets, so as to balance our desire to maximise returns with the need to ensure capital is available to support our underwriting throughout any downturn in financial markets. A 10% downward correction in equity prices at 31 December 2016 would have been expected to reduce Group equity and profit after tax for the year by approximately £28.0 million (2015: £23.8 million) assuming that the only area impacted was equity financial assets. A 10% upward movement is estimated to have an equal but opposite effect.

(c) Interest rate risk
Fixed income investments represent a significant proportion of the Group's assets and the Board continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Group is able to underwrite or its ability to settle claims as they fall due. The fair value of the Group's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Group's debt and fixed income investments would tend to fall and vice versa if credit spreads remained constant.

Debt and fixed income assets are predominantly invested in high-quality corporate, government and asset-backed bonds. The investments typically have relatively short durations and terms to maturity. The portfolio is managed to minimise the impact of interest rate risk on anticipated Group cash flows.

The Group may also, from time to time, enter into interest rate future contracts in order to reduce interest rate risk on specific portfolios. The fair value of debt and fixed income assets in the Group's balance sheet at 31 December 2016 was £3,415 million (2015: £2,615 million). These may be analysed below as follows:

Nature of debt and fixed income holdings	2016 % weighting	2015 % weighting
Government issued bonds and instruments	30	33
Agency and government supported debt	13	12
Asset-backed securities	5	8
Mortgage-backed instruments – agency	5	3
Mortgage-backed instruments – non-agency	2	2
Mortgage-backed instruments – commercial	1	3
Corporate bonds	41	37
Lloyd's deposits and bond funds	3	2

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 £61 million (2015: £42 million) assuming that the only balance sheet area impacted was debt and fixed income financial assets. This is higher than the prior year, as a result of increased valuations and the weakened Sterling value of currency investments.

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 2016, no amounts were outstanding on the Group's borrowing facility (2015: £nil). At 31 December 2016, the Group had long-term debt of £275 million (2015: £275 million) being fixed-to-floating rate notes, as explained in note 19. The floating rate becomes effective from November 2025. The Group has no other significant borrowings or other assets or liabilities carrying interest rate risk, other than the facilities and Letters of Credit outlined in note 33.

(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.

3 Management of risk
3.2 Financial risk
(d) Credit risk continued

The Group's maximum exposure to credit risk is represented by the carrying values of financial assets and reinsurance assets included in the consolidated balance sheet at any given point in time. The Group does not use credit derivatives or other products to mitigate maximum credit risk exposures on reinsurance assets, but collateral may be requested to be held against these assets. The Group structures the levels of credit risk accepted by placing limits on their exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors with unrelated operations. Reinsurance is used to contain insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The Group Credit Committee assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance as well as detailed analysis from a dedicated in-house security consultant. The financial analysis of reinsurers produces an assessment categorised by S&P rating (or equivalent when not available from S&P).

Despite the rigorous nature of this assessment exercise, and the resultant restricted range of reinsurance counterparties with acceptable strength and credit credentials that emerges therefrom, some degree of credit risk concentration remains inevitable.

The Committee considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any ongoing negotiations between Group companies and these third parties. This information is used to update the reinsurance purchasing strategy. Individual operating units maintain records of the payment history for significant brokers and contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where counterparties are both debtors and creditors of the Group, and obtaining collateral from unrated counterparties. Management information reports detail provisions for impairment on loans and receivables and subsequent write-off. Exposures to individual intermediaries and groups of intermediaries are collected within the ongoing monitoring of the controls associated with regulatory solvency.

The Group also mitigates counterparty credit risk by concentrating debt and fixed income investments in high-quality instruments, including a particular emphasis on government bonds issued mainly by North American countries and the European Union. The Group has no exposure to sovereign debt in Spain, Italy, Ireland, Greece or Portugal.

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

As at 31 December 2016	Note	AAA £000	AA £000	A £000	Other/ non-rated £000	Total £000
Debt and fixed income securities	19	631,414	1,577,814	651,362	554,359	3,414,949
Deposits with credit institutions	19	–	5,194	5,252	14,146	24,592
Reinsurance assets	18	196,484	165,708	419,598	23,859	805,649
Cash and cash equivalents	23	21,188	87,641	531,178	24,809	664,816
Total		849,086	1,836,357	1,607,390	617,173	4,910,006
Amounts attributable to largest single counterparty		155,887	793,654	179,857	23,756	

As at 31 December 2015	Note	AAA £000	AA £000	A £000	Other/ non-rated £000	Total £000
Debt and fixed income securities	19	603,086	1,160,692	460,922	390,314	2,615,014
Deposits with credit institutions	19	–	555	5,963	166	6,684
Reinsurance assets	18	116,637	141,751	256,655	23,767	538,810
Cash and cash equivalents	23	96,917	32,994	593,286	4,683	727,880
Total		816,640	1,335,992	1,316,826	418,930	3,888,388
Amounts attributable to largest single counterparty		117,973	578,741	109,060	15,712	

Within the fixed income portfolios, which include debt securities, deposits with credit institutions and cash equivalent assets, there are exposures to a range of government borrowers, on either a direct or guaranteed basis, and banking institutions. The Group, together with its investment managers, closely manages its geographical exposures across government issued and supported debt.

The largest counterparty exposure within the AAA rating at 31 December 2016 and 2015 is the German government. For the AA rating it is with the US Treasury at both 31 December 2016 and 2015. A significant proportion of other/non-rated assets are rated BBB and BB at both 31 December 2016 and 2015.

At 31 December 2016 and 2015 the Group held no material debt or fixed income assets that were past due or impaired beyond their reported fair values. For the current period and prior period, the Group did not experience any material defaults on debt securities.

The Group's AAA rated reinsurance assets include fully collateralised positions at 31 December 2016 and 2015.

3 Management of risk
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	**2016 Total £000**	2015 Total £000
Less than one year	706,700	21,039	664,816	**1,392,555**	1,245,186
Between one and two years	1,004,085	3,054	–	**1,007,139**	836,800
Between two and five years	1,182,680	499	–	**1,183,179**	922,242
Over five years	521,484	–	–	**521,484**	345,350
Total	3,414,949	24,592	664,816	**4,104,357**	3,349,578

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	**2016 Years**	2015 Years
Pound Sterling	**3.37**	2.93
US Dollar	**4.07**	4.50
Euro	**3.96**	2.75
Canadian Dollar	**1.90**	1.96

The following is an analysis by liability type of the estimated timing of net cash flows based on the gross claims liabilities held. The Group does not discount claims liabilities. The estimated phasing of settlement is based on current estimates and historical trends and the actual timing of future settlement cash flows may differ materially from that disclosure below.

Liquidity requirements to settle estimated profile of gross claim liabilities on balance sheet	Within one year £000	Between one and two years £000	Between two and five years £000	Over five years £000	**2016 Total £000**
Reinsurance inwards	**227,438**	**117,669**	**123,975**	**42,663**	**511,745**
Property – marine and major assets	**119,114**	**73,272**	**78,464**	**27,488**	**298,338**
Property – other assets	**202,617**	**84,902**	**41,573**	**11,223**	**340,315**
Casualty – professional indemnity	**231,754**	**243,872**	**279,303**	**117,541**	**872,470**
Casualty – other risks	**86,609**	**72,901**	**138,789**	**63,555**	**361,854**
Other*	**103,556**	**31,794**	**29,051**	**16,701**	**181,102**
Total	**971,088**	**624,410**	**691,155**	**279,171**	**2,565,824**

Liquidity requirements to settle estimated profile of gross claim liabilities on balance sheet	Within one year £000	Between one and two years £000	Between two and five years £000	Over five years £000	2015 Total £000
Reinsurance inwards	155,994	85,991	90,317	38,090	370,392
Property – marine and major assets	114,808	70,342	76,013	26,668	287,831
Property – other assets	135,034	68,120	26,522	7,193	236,869
Casualty – professional indemnity	184,651	197,953	236,258	103,787	722,649
Casualty – other risks	65,715	55,198	105,009	48,427	274,349
Other*	82,253	24,953	24,113	14,687	146,006
Total	738,455	502,557	558,232	238,852	2,038,096

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

Details of the payment profile of the Group's borrowings, derivative instruments and other liabilities are given in notes 21 and 27.

3 Management of risk
3.2 Financial risk continued
(f) Currency risk

The Group operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar, Pound Sterling and the Euro. These exposures may be classified in two main categories:
- structural foreign exchange risk through consolidation of net investments in subsidiaries with different functional currencies within the Group results; and
- operational foreign exchange risk through routinely entering into insurance, investment and operational contracts, as a Group of international insurance entities serving international communities, where rights and obligations are denominated in currencies other than each respective entity's functional currency.

The Group's exposure to structural foreign exchange risk primarily relates to the US Dollar net investments made in its domestic operations in Bermuda and its overseas operation in Guernsey and the US. Other structural exposures also arise on a smaller scale in relation to net investments made in European and Asian operations. The Group's risk appetite permits the acceptance of structural foreign exchange movements within defined aggregate limits and exchange rate parameters which are monitored centrally. Exchange rate derivatives are used when appropriate to shield the Group against significant movements outside of a defined range.

At a consolidated level, the Group is exposed to foreign exchange gains or losses on balances held between Group companies where one party to the transaction has a functional currency other than Pound Sterling. To the extent that such gains or losses are considered to relate to economic hedges and intragroup borrowings, they are disclosed separately in order for users of the financial statements to obtain a fuller understanding of the Group's financial performance (note 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 below are net non-monetary liabilities of £249 million (2015: £218 million) which are denominated in foreign currencies.

As a result of the accounting treatment for non-monetary items, the Group may also experience volatility in its income statement during a period when movements in foreign exchange rates fluctuate significantly. In accordance with IFRS, non-monetary items are recorded at original transaction rates and are not remeasured at the reporting date. These items include unearned premiums, deferred acquisition costs and reinsurers' share of unearned premiums. Consequently, a mismatch arises in the income statement between the amount of premium recognised at historical transaction rates, and the related claims which are retranslated using currency rates in force at the reporting date. The Group considers this to be a timing issue which can cause significant volatility in the income statement. 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 2016	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	114,853	6,647	–	2,224	123,724
Property, plant and equipment	38,997	6,006	2,327	1,095	48,425
Investments in associates	13,383	452	–	–	13,835
Deferred tax	–	40,572	820	–	41,392
Deferred acquisition costs	97,133	200,277	39,918	9,264	346,592
Financial assets carried at fair value	786,614	2,618,118	323,460	63,841	3,792,033
Reinsurance assets	91,211	601,705	60,473	52,260	805,649
Loans and receivables including insurance receivables	254,612	454,752	59,517	34,025	802,906
Current tax asset	2,180	–	226	–	2,406
Cash and cash equivalents	232,225	281,687	94,131	56,773	664,816
Total assets	1,631,208	4,210,216	580,872	219,482	6,641,778

	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Employee retirement benefit obligations	56,139	–	–	–	56,139
Deferred tax	17,030	–	–	–	17,030
Insurance liabilities	847,600	2,480,997	402,105	122,274	3,852,976
Financial liabilities	276,176	–	117	–	276,293
Current tax	17,986	–	3,749	–	21,735
Trade and other payables	200,905	303,595	45,688	49,014	599,202
Total liabilities	1,415,836	2,784,592	451,659	171,288	4,823,375
Total equity	215,372	1,425,624	129,213	48,194	1,818,403

3 Management of risk
3.2 Financial risk
(f) Currency risk continued

As at 31 December 2015	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	118,408	7,220	–	594	126,222
Property, plant and equipment	39,278	4,787	1,250	1,194	46,509
Investments in associates	13,019	–	506	–	13,525
Deferred tax	–	34,224	923	–	35,147
Deferred acquisition costs	63,972	171,023	29,873	6,649	271,517
Financial assets carried at fair value	579,508	2,013,688	287,284	41,105	2,921,585
Reinsurance assets	61,527	420,967	31,869	24,447	538,810
Loans and receivables including insurance receivables	203,551	355,008	40,425	20,579	619,563
Current tax asset	–	–	3,194	49	3,243
Cash and cash equivalents	378,126	204,419	80,088	65,247	727,880
Total assets	1,457,389	3,211,336	475,412	159,864	5,304,001

	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Employee retirement benefit obligations	75	–	–	–	75
Deferred tax	29,814	–	–	–	29,814
Insurance liabilities	719,518	1,904,441	325,508	98,895	3,048,362
Financial liabilities	275,679	–	–	–	275,679
Current tax	4,582	–	302	–	4,884
Trade and other payables	166,723	221,704	2,275	25,656	416,358
Total liabilities	1,196,391	2,126,145	328,085	124,551	3,775,172
Total equity	260,998	1,085,191	147,327	35,313	1,528,829

Sensitivity analysis
As at 31 December 2016, the Group used closing rates of exchange of £1:€1.17 and £1:$1.24 (2015: £1:€1.36 and £1:$1.47). 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 2016	December 2016 effect on equity after tax £m	December 2016 effect on profit before tax £m	December 2015 effect on equity after tax £m	December 2015 effect on profit before tax £m
Strengthening of US Dollar	**149.8**	**88.4**	114.8	47.5
Weakening of US Dollar	**(122.6)**	**(72.3)**	(93.3)	(38.3)
Strengthening of Euro	**13.3**	**15.5**	17.6	19.9
Weakening of Euro	**(10.9)**	**(12.7)**	(14.4)	(16.3)

(g) Limitations of sensitivity analysis
The sensitivity information given in notes 3(a) to (f) demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The same limitations exist in respect to the retirement benefit scheme sensitivities presented 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 Management of risk continued

3.3 Capital risk management

The Group's primary objectives when managing its capital position are:

- to safeguard its ability to continue as a going concern, so that it can continue to provide long-term growth and progressive dividend returns for shareholders;
- to provide an adequate return to the Group's shareholders by pricing its insurance products and services commensurately with the level of risk;
- to maintain an efficient cost of capital;
- to comply with all regulatory requirements by a significant margin;
- to maintain financial strength ratings of A in each of its insurance entities; and
- to settle policyholders claims as they arise.

The Group sets the amount of capital required in its funding structure in proportion to risk. The Group then manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to obtain or maintain an optimal capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, assume debt, or sell assets to reduce debt.

The Group's activities are funded by a mixture of capital sources including issued equity share capital, retained earnings, Letters of Credit, bank debt, long-term debt and other third-party insurance capital.

The Board ensures that the use and allocation of capital are given a primary focus in all significant operational actions. With that in mind, the Group has developed and embedded capital modeling tools within its business. These join together short-term and long-term business plans and link divisional aspirations with the Group's overall strategy. The models provide the basis of the allocation of capital to different businesses and business lines, as well as the regulatory and rating agency capital processes.

During the year the Group was in compliance with capital requirements imposed by regulators in each jurisdiction where the Group operates.

Gearing

The Group currently utilises gearing as an additional source of funds to maximise the opportunities from strong markets and to reduce the risk profile of the business when the rating environment shows a weaker model for the more volatile business. The Group's gearing is obtained from a number of sources, including:

- Letter of Credit and revolving credit facility – the Group's main facility of $500 million may be drawn as cash (under a revolving credit facility), utilised as Letter of Credit or a combination thereof, providing that the cash portion does not exceed $300 million. This facility was reduced to $500 million from $875 million in December 2015 by the Company's subsidiary Hiscox plc with the maximum cash portion reduced from $400 million. This enables the Group to utilise the Letter of Credit as Funds at Lloyd's to support underwriting on the 2016, 2017 and 2018 years of account. The revolving credit facility has a maximum three-year contractual period for repayment. At 31 December 2016 US$10 million was utilised by way of Letter of Credit to support the Funds at Lloyd's requirement and there were no cash drawings (2015: US$71.9 million and £nil million respectively) to support general trading activities;
- £275 million of fixed-to-floating rate subordinated notes that are classified as Tier 2 debt. This was raised in November 2015 and matures in 2045. The debt is rated BBB- by S&P and Fitch;
- external Names – 27.5% 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 £56 million for the 2017 year of account (2016 year of account: £56 million). This Syndicate is wholly backed by external members and takes pure years of account quota share of Syndicate 33's international property catastrophe reinsurance account;
- gearing quota shares – historically the Group has used reinsurance capital to fund its capital requirement for short-term expansions in the volume of business underwritten by the Syndicate; and
- qualifying quota shares – these are reinsurance arrangements that allow the Group to increase the amount of premium it writes.

The funds raised through Letters of Credit and loan facilities have been applied to support both the 2016 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	S&P
Hiscox Insurance Company Limited	A (Excellent)	A+	A (Strong)
Hiscox Insurance Company (Bermuda) Limited	A (Excellent)	A+	A (Strong)
Hiscox Insurance Company (Guernsey) Limited	A (Excellent)	A+	–
Hiscox Insurance Company Inc.	A (Excellent)	–	–

Syndicate 33 benefits from an A.M. Best rating of A (Excellent). In addition, the Syndicate also benefits from the Lloyd's ratings of A (Excellent) from A.M. Best, A+ (Strong) from S&P and AA- (Very strong) from Fitch.

Capital performance

The Group's main capital performance measure is the achieved return on equity (ROE). This marker best aligns the aspirations of employees and shareholders. As variable remuneration, the vesting of options and longer-term investment plans all relate directly to ROE, this concept is embedded in the workings and culture of the Group. The Group seeks to maintain its cost of capital levels and its debt to overall equity ratios in line with others in the non-life insurance industry.

Capital modeling and regulation

The capital requirements of an insurance group are determined by its exposure to risk and the solvency criteria established by management and statutory regulations.

The Group's capital requirements are managed both centrally and at a regulated entity level. The assessed capital requirement for the business placed through Hiscox Insurance Company Limited, Hiscox Insurance Company (Bermuda) Limited, Hiscox Insurance Company (Guernsey) Limited 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.

3 Management of risk
3.3 Capital risk management
Capital modeling and regulation continued

The Group's regulatory capital is supervised by the Bermuda Monetary Authority (BMA). The BMA's new regulatory capital requirements became effective on 1 January 2013. The Group had sufficient capital at all times throughout the year to meet these requirements.

The Solvency II regime came into force in the UK on 1 January 2016. This requires insurance companies to calculate their capital requirements using either an internal model or a standard formula. Hiscox Insurance Company Limited uses the standard formula to calculate its regulatory capital requirement. Its risk profile is sufficiently well represented by the standard formula not to warrant going through the internal model approval process. Hiscox's Lloyd's operations use the internal model that has been built to meet the requirements of the Solvency II regime which came into force on 1 January 2016. The model is concentrated specifically on the particular product lines, market conditions and risk appetite of each risk carrier.

For Syndicate 33 and Syndicate 3624, internal model results are uplifted by Lloyd's to the level of capital required to support its ratings. Capital models are used more widely across the Group to monitor exposure to key risk types, inform decision-making and measure ROE across different segments of the business.

From the 2016 year end, the Group is required to publish a financial condition report, as part of its regulatory filing with the BMA. This will be a public document and will set out the financial performance and solvency position of the Group in accordance with the economic balance sheet return filed with the BMA.

It is intended to provide the public with certain information to be able to make informed assessments about the Group.

In the Group's other geographical territories, including the US and Asia, its subsidiaries underwriting insurance business are required to operate within broadly similar risk-based externally imposed capital requirements when accepting business.

3.4 Tax risk

The Group is subject to income taxes levied by the various jurisdictions in which the Group operates, and the division of taxing rights between these jurisdictions results in the Group tax expense and effective rate of income tax disclosed in these financial statements. Due to the Group's operating model, there is an unquantifiable risk that this division of taxing rights could be altered materially, either by a change to the tax residence, or permanent establishment profile, of Hiscox Ltd or its principal subsidiaries; or due to the re-pricing or re-characterisation for tax purposes of transactions between members of the Group, under local transfer pricing or related tax legislation. The Group seeks to manage this risk by:

- maintaining appropriate internal policies and controls over its operations worldwide;
- monitoring compliance with these policies on an ongoing basis;
- adhering to internationally recognised best practice in determining the appropriate division of profits between taxing jurisdictions.

4 Operating segments

The Group's operating segment reporting follows the organisational structure and management's internal reporting systems, which form the basis for assessing the financial reporting performance of, and allocation of resource to each business segment. The Group's four primary business segments are identified as follows:

- **Hiscox Retail** brings together the results of the UK and Europe, and Hiscox International being the USA, Special Risks and Asia retail business divisions. Hiscox UK and Europe underwrite European personal and commercial lines of business through Hiscox Insurance Company Limited, together with the fine art and non-US household insurance business written through Syndicate 33. In addition, the UK includes elements of specialty and international employees and officers' insurance written by Syndicate 3624 and Hiscox Europe excludes the kidnap and ransom business written by Hiscox Insurance Company Limited. Hiscox International comprises the specialty and fine art lines written through Hiscox Insurance Company (Guernsey) Limited, and the motor business written via DirectAsia, together with US commercial, property and specialty business written by Syndicate 3624 and Hiscox Insurance Company Inc. via the Hiscox USA business division.

  It also includes the European kidnap and ransom business written by Hiscox Insurance Company Limited and Syndicate 33.
- **Hiscox London Market** comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines, excluding the kidnap and ransom business. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage, auto extended warranty and aviation business.
- **Hiscox Re and ILS** is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda, London and Paris. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are included. The segment also includes the performance and fee income from the ILS funds, along with the gains or losses made as a result of our investment in the funds. More details can be seen in note 2.3.
- **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.

The Group has aligned its kidnap and ransom business under Special Risks during 2016, and as a result, has restated the prior period segmental information.

4 Operating segments continued

All amounts reported opposite 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 2016					Year to 31 December 2015 restated				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000	Total £000
Gross premiums written	1,181,384	726,045	495,150	–	2,402,579	989,787	571,021	383,412	–	1,944,220
Net premiums written	1,091,969	469,143	226,831	–	1,787,943	936,576	410,280	224,988	–	1,571,844
Net premiums earned	1,020,531	443,129	211,353	–	1,675,013	887,982	366,360	180,674	–	1,435,016
Investment result	31,328	13,351	11,749	18,563	74,991	17,361	6,841	4,664	6,515	35,381
Other income	14,075	9,121	13,704	694	37,594	9,004	7,520	(149)	781	17,156
Total income	1,065,934	465,601	236,806	19,257	1,787,598	914,347	380,721	185,189	7,296	1,487,553
Claims and claim adjustment expenses, net of reinsurance	(396,137)	(260,468)	(83,167)	–	(739,772)	(343,391)	(180,765)	(48,297)	–	(572,453)
Expenses for the acquisition of insurance contracts	(262,545)	(137,177)	(10,118)	–	(409,840)	(234,110)	(104,581)	(5,592)	–	(344,283)
Operational expenses	(287,642)	(57,933)	(49,335)	(20,809)	(415,719)	(250,513)	(47,955)	(40,694)	(22,053)	(361,215)
Foreign exchange gains/(losses)	37,248	34,991	22,959	57,210	152,408	(8,364)	6,862	8,327	8,328	15,153
Total expenses	(909,076)	(420,587)	(119,661)	36,401	(1,412,923)	(836,378)	(326,439)	(86,256)	(13,725)	(1,262,798)
Results of operating activities	156,858	45,014	117,145	55,658	374,675	77,969	54,282	98,933	(6,429)	224,755
Finance costs	–	–	(1,654)	(18,612)	(20,266)	_	(52)	(1,472)	(8,138)	(9,662)
Share of profit of associates after tax	1,137	(1,003)	–	–	134	661	346	–	–	1,007
Profit before tax	157,995	44,011	115,491	37,046	354,543	78,630	54,576	97,461	(14,567)	216,100

The following charges are included within the consolidated income statement:

	Year to 31 December 2016					Year to 31 December 2015 restated				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000	Total £000
Depreciation	3,105	397	167	249	3,918	2,879	375	176	173	3,603
Amortisation of intangible assets	14,555	2,694	572	77	17,898	12,341	3,556	523	78	16,498
Impairment of intangible assets	6,346	–	–	–	6,346	2,633	–	–	–	2,633

4 Operating segments

(a) *Profit before tax by segment continued*

The Group's wholly-owned subsidiary, Hiscox Syndicates Limited, oversees the operation of Syndicate 33 at Lloyd's. The Group's percentage participation in Syndicate 33 can fluctuate from year to year and, consequently, presentation of the results at the 100% level removes any distortions arising therefrom.

	Year to 31 December 2016					Year to 31 December 2015 restated				
100% ratio analysis	Hiscox Retail	Hiscox London Market	Hiscox Re and ILS	Corporate Centre	Total	Hiscox Retail	Hiscox London Market	Hiscox Re and ILS	Corporate Centre	Total
Claims ratio (%)	38.4	57.4	39.1	–	44.2	37.9	49.0	26.0	–	39.6
Expense ratio (%)	53.5	42.3	26.5	–	46.6	54.1	39.8	25.4	–	46.1
Combined ratio excluding foreign exchange impact (%)	91.9	99.7	65.6	–	90.8	92.0	88.8	51.4	–	85.7
Foreign exchange impact (%)	(3.8)	(8.7)	(11.9)	–	(6.4)	0.9	(2.2)	(4.8)	–	(0.7)
Combined ratio (%)	88.1	91.0	53.7	–	84.4	92.9	86.6	46.6	–	85.0

The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts, and operational expenses, including profit-related pay, as a proportion of net premiums earned. The foreign exchange impact ratio is calculated as the foreign exchange gains or losses as a proportion of net premiums earned. The combined ratio is the total of the claims, expenses and foreign exchange impact ratios. All ratios are calculated using the 100% results.

Costs allocated to the Corporate Centre are non-underwriting related costs and are not included within the combined ratio. The impact on profit before tax of a 1% change in each component of the segmental combined ratios is shown in the following table. Any further ratio change is linear in nature.

	Year to 31 December 2016				Year to 31 December 2015 restated			
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000
At 100% level (note 4b) 1% change in claims or expense ratio	10,468	5,502	2,425	–	9,133	4,611	2,067	–
At Group level 1% change in claims or expense ratio	10,205	4,431	2,114	–	8,880	3,664	1,807	–

4 Operating segments continued

(b) *100% operating result by segment*

	Year to 31 December 2016					Year to 31 December 2015 restated				
	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000	Total £000
Gross premiums written	1,212,774	894,825	565,006	–	2,672,605	1,017,608	709,655	437,777	–	2,165,040
Net premiums written	1,119,546	581,322	263,452	–	1,964,320	961,551	512,690	249,680	–	1,723,921
Net premiums earned	1,046,838	550,229	242,462	–	1,839,529	913,296	461,064	206,669	–	1,581,029
Investment result	32,417	17,668	13,054	18,563	81,702	17,601	9,157	5,465	6,515	38,738
Other income	8,693	2,331	8,754	694	20,472	3,873	1,421	(3,993)	781	2,082
Claims and claim adjustment expenses, net of reinsurance	(402,508)	(315,951)	(94,819)	–	(813,278)	(346,251)	(225,740)	(53,787)	–	(625,778)
Expenses for the acquisition of insurance contracts	(270,986)	(165,131)	(10,337)	–	(446,454)	(242,703)	(126,262)	(6,322)	–	(375,287)
Operational expenses	(289,028)	(67,376)	(54,015)	(20,809)	(431,228)	(250,829)	(57,497)	(46,115)	(22,053)	(376,494)
Foreign exchange (losses)/gains	40,115	48,101	28,927	57,210	174,353	(8,404)	10,342	9,893	8,328	20,159
Results of operating activities	165,541	69,871	134,026	55,658	425,096	86,583	72,485	111,810	(6,429)	264,449

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) *Geographical information*

The Group's operational segments underwrite business domestically in Bermuda and from locations in the UK and Ireland, the US, Guernsey, France, Germany, Belgium, the Netherlands, Spain, Portugal, Singapore and Thailand.

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

	Year to 31 December 2016					Year to 31 December 2015 restated				
Gross premium revenues earned from external parties	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000	Total £000	Hiscox Retail £000	Hiscox London Market £000	Hiscox Re and ILS £000	Corporate Centre £000	Total £000
UK and Ireland	414,060	4,999	3,505	–	422,564	371,860	3,712	1,947	–	377,519
Europe	202,358	22,992	10,572	–	235,922	192,605	15,129	10,620	–	218,354
United States	398,678	377,945	312,762	–	1,089,385	278,044	305,210	187,247	–	770,501
Rest of world	86,351	243,292	143,339	–	472,982	104,341	193,357	164,262	–	461,960
	1,101,447	649,228	470,178	–	2,220,853	946,850	517,408	364,076	–	1,828,334

The Group's largest external policyholder contributed less than 2% of total gross Group premium revenues earned and the details thereof are not disclosed on the grounds of materiality.

The following table provides an analysis of the Group's non-current assets by material geographical location excluding financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts:

Non-current assets	2016 total £000	2015 total £000
UK and Ireland	167,065	161,084
Europe	2,921	2,350
United States	12,333	11,302
Rest of world	3,665	11,520
	185,984	186,256

5 Net asset value per share

	2016		2015	
	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	1,818,403	649.9	1,528,829	545.0
Net tangible asset value	1,694,679	605.7	1,402,607	500.0

The net asset value per share is based on 279,805,393 shares (2015: 280,516,658 shares), being the shares in issue at 31 December, less those held in treasury and those held by the Group Employee Benefit Trust.

Net tangible assets comprise total equity excluding intangible assets.

6 Return on equity

	2016 £000	2015 £000
Profit for the year (all attributable to owners of the Company)	336,986	209,895
Opening shareholders' equity	1,528,829	1,454,206
Adjusted for the time-weighted impact of capital distributions and issuance of shares	(60,742)	(146,028)
Adjusted opening shareholders' equity	1,468,087	1,308,178
Return on equity (%)	23.0	16.0

7 Investment result

The total result for the Group before taxation comprises:

	Note	2016 £000	2015 £000
Investment income including interest receivable		54,789	40,951
Net realised gains on financial investments at fair value through profit or loss		6,416	2,968
Net fair value gains/(losses) on financial investments at fair value through profit or loss		13,631	(10,239)
Investment result – financial assets	8	74,836	33,680
Net fair value gains on derivative financial instruments	21	155	1,701
Total result		74,991	35,381

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:

	2016 %	2015 %
Sterling	3.2	2.1
US Dollar	1.5	0.8
Other	0.7	0.6

(b) Investment return

	2016		2015	
	£000	%	£000	%
Debt and fixed income securities	55,709	1.9	21,585	0.9
Equities and units in unit trusts	17,246	6.2	10,410	4.0
Deposits with credit institutions/cash and cash equivalents	1,881	0.3	1,685	0.4
	74,836	1.9	33,680	1.0

9 Other income and operational expenses

	2016 £000	2015 £000
Agency-related income	11,743	9,117
Profit commission	11,720	10,000
Other underwriting income	3,666	(4,196)
Other income	10,465	2,235
Other income	37,594	17,156
Wages and salaries	145,997	124,466
Social security cost	23,288	21,884
Pension cost – defined contribution	8,243	8,432
Pension cost – defined benefit	172	1,825
Share-based payments	26,274	17,726
Marketing expenses	42,051	44,499
Investment expenses	4,361	4,267
Depreciation, amortisation and impairment	28,162	22,734
Other expenses	137,171	115,382
Operational expenses	415,719	361,215

Wages and salaries have been shown net of transfers to acquisition and claims expenses.

Other expenses include, but not limited to, legal and professional costs, computer costs, contractor-based costs and property costs. None of the items are individually material.

10 Finance costs

	Note	2016 £000	2015 £000
Interest charge associated with long-term debt	19	16,844	1,754
Interest and expenses associated with bank borrowings		1,703	2,156
Interest and charges associated with Letters of Credit	33	580	5,363
Interest charges on experience account		1,139	389
		20,266	9,662

11 Auditor's remuneration

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

Group	2016 £000	2015 £000
Amounts receivable by the auditor and associates in respect of:		
The auditing of the accounts of any associate of the Group	1,545	1,241
All audit-related assurance services	–	98
All non-audit-related assurance services	315	144
	1,860	1,483

The full audit fee payable for the Syndicate 33 audit has been included above, although an element of this is borne by the third-party participants in the Syndicate.

12 Net foreign exchange gains

The net foreign exchange gains for the year include the following amounts:

	2016 £000	2015 £000
Exchange gains recognised in the consolidated income statement	152,408	15,153
Exchange gains classified as a separate component of equity	111,094	34,478
Overall impact of foreign exchange-related items on net assets	**263,502**	49,631

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.

	2016 £000	2015 £000
Opening balance sheet impact of non-retranslation of non-monetary items	3,450	1,608
Gain included within profit representing the non-retranslation of non-monetary items	8,094	1,842
Closing balance sheet impact of non-retranslation of non-monetary items	**11,544**	3,450

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.

Impact as at 31 December 2016	Consolidated income statement 2016 £000	Consolidated other comprehensive income 2016 £000	Total impact on equity 2016 £000
Unrealised translation gains/(losses) on intragroup borrowings	8,146	(8,146)	–
Total gains/(losses) recognised	**8,146**	**(8,146)**	**–**

Impact as at 31 December 2015	Consolidated income statement 2015 £000	Consolidated other comprehensive income 2015 £000	Total impact on equity 2015 £000
Unrealised translation (losses)/gains on intragroup borrowings	(1,888)	1,888	–
Total (losses)/gains recognised	(1,888)	1,888	–

14 Goodwill and intangible assets

	Goodwill £000	Syndicate capacity £000	State authorisation licences £000	Software and development costs £000	Other £000	Total £000
At 1 January 2015						
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
Year ended 31 December 2015						
Opening net book amount	9,889	24,505	6,308	43,955	21,289	105,946
Acquisitions on purchase of subsidiary	–	–	–	–	9,185	9,185
Other additions	–	–	–	20,141	10,127	30,268
Amortisation charges	–	–	–	(13,374)	(3,124)	(16,498)
Impairment	(2,154)	–	–	–	(479)	(2,633)
Foreign exchange movements	–	–	–	(46)	–	(46)
Closing net book amount	7,735	24,505	6,308	50,676	36,998	126,222
At 31 December 2015						
Cost	10,165	24,505	6,308	90,205	43,902	175,085
Accumulated amortisation and impairment	(2,430)	–	–	(39,529)	(6,904)	(48,863)
Net book amount	7,735	24,505	6,308	50,676	36,998	126,222
Year ended 31 December 2016						
Opening net book amount	7,735	24,505	6,308	50,676	36,998	126,222
Other additions	–	–	–	20,735	844	21,579
Disposals	–	–	–	(333)	–	(333)
Amortisation charges	–	–	–	(9,766)	(8,132)	(17,898)
Impairment	(163)	–	–	(1,901)	(4,282)	(6,346)
Foreign exchange movements	–	–	–	500	–	500
Closing net book amount	7,572	24,505	6,308	59,911	25,428	123,724
At 31 December 2016						
Cost	10,165	24,505	6,308	110,191	44,746	195,915
Accumulated amortisation and impairment	(2,593)	–	–	(50,280)	(19,318)	(72,191)
Net book amount	7,572	24,505	6,308	59,911	25,428	123,724

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the smallest identifiable unit to which cash flows are generated. £5,480,000 (2015: £5,480,000) is allocated to the Lloyd's corporate member entity CGU and £2,092,000 (2015: £2,255,000) is allocated to the CGUs within the Hiscox Retail business segment. Goodwill is considered to have an indefinite life and as such is tested annually for impairment based on the recoverable amount which is considered to be the higher of the fair value less cost to sell or value in use.

All intangible assets have a finite useful life except for the Syndicate capacity, goodwill and US state authorisation licences.

14 Goodwill and intangible assets continued

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% (2015: 6.4%), 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 2016, the £163,000 impairment recognised in the year for goodwill and is included in operational expenses in the consolidated income statement and relates to Hiscox UK as a CGU (2015: £2,154,000 relating to DirectAsia as a CGU).

The Group's intangible asset relating to Syndicate capacity has been allocated, for impairment testing purposes, to one individual CGU, being the active Lloyd's corporate member entity. The asset is tested annually for impairment based on its recoverable amount which is considered to be the higher of the asset's fair value less costs to sell or its value in use. The fair value of Syndicate capacity can be determined from the Lloyd's of London Syndicate capacity auctions. Based on the average open market price witnessed in the recent autumn 2016 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 business.

The carrying value of this asset is tested for impairment based on its value in use to the Group's US insurer. The value in use is calculated using a discounted projected cash flow based on business plans approved by management, and discounted at the WACC rate. Key assumptions include new business growth, retention rates, market cycle and claims inflation. The results of that test show no impairment is due.

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 test led to £4,282,000 of impairment (2015: £479,000) being recognised.

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. Additionally, at the end of each reporting period, the Group reviews the positions for any indication of impairment, and as a result of this impaired a value of £1,901,000 relating to the DirectAsia CGU and is included in operational expenses in the consolidated income statement.

All of the software and development costs are internally generated.

At 31 December 2016 there were £24,797,000 of assets under development on which amortisation has yet to be charged (2015: £20,478,000).

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

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 2015					
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
Year ended 31 December 2015					
Opening net book amount	10,342	2,628	58	16,469	29,497
Additions	12,093	975	25	7,543	20,636
Acquired purchase of subsidiary	–	–	–	–	–
Disposals	–	(39)	(2)	(193)	(234)
Depreciation charge	(40)	(764)	(48)	(2,751)	(3,603)
Impairment	–	–	–	–	–
Foreign exchange movements	–	107	(1)	107	213
Closing net book amount	22,395	2,907	32	21,175	46,509
At 31 December 2015					
Cost	22,874	6,738	146	52,032	81,790
Accumulated depreciation	(479)	(3,831)	(114)	(30,857)	(35,281)
Net book amount	22,395	2,907	32	21,175	46,509
Year ended 31 December 2016					
Opening net book amount	**22,395**	**2,907**	**32**	**21,175**	**46,509**
Additions	**–**	**742**	**80**	**3,991**	**4,813**
Acquired purchase of subsidiary	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**(4)**	**(275)**	**(279)**
Depreciation charge	**(923)**	**(703)**	**(31)**	**(2,261)**	**(3,918)**
Impairment	**–**	**–**	**–**	**–**	**–**
Foreign exchange movements	**–**	**406**	**2**	**892**	**1,300**
Closing net book amount	**21,472**	**3,352**	**79**	**23,522**	**48,425**
At 31 December 2016					
Cost	**22,874**	**8,549**	**146**	**46,691**	**78,260**
Accumulated depreciation	**(1,402)**	**(5,197)**	**(67)**	**(23,169)**	**(29,835)**
Net book amount	**21,472**	**3,352**	**79**	**23,522**	**48,425**

The Group's land and buildings assets relate to freehold property in the UK. There was no impairment charge during the year (2015: £nil). Assets with a net book value of £nil were held under finance leases (2015: £nil). During the year, the Group disposed of £10.2 million fully depreciated fixtures, fittings and equipment.

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

16 Investments in associates

Year ended 31 December	2016 £000	2015 £000
At beginning of year	**13,525**	10,670
Additions during the year	**450**	2,089
Disposals during the year	**(2)**	–
Distributions received	**(272)**	(241)
Net profit from investments in associates	**134**	1,007
At end of year	**13,835**	13,525

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
2016					
Associates incorporated in the UK and US	from 17 to 35%	53,731	30,456	43,037	3,905
Associates incorporated in Europe	from 10% to 26%	2,323	1,821	2,060	727
Total at the end of 2016		56,054	32,277	45,097	4,632

16 Investments in associates continued

					100% results
	% interest held at 31 December	Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
2015					
Associates incorporated in the UK	from 10% to 35%	74,881	50,036	41,312	4,734
Associates incorporated in Europe	from 10% to 49%	1,969	1,454	2,616	207
Total at the end of 2015		76,850	51,490	43,928	4,941

The equity interests held by the Group in respect of associates do not have quoted market prices and are not traded regularly in any active recognised market. The associates concerned have no material impact on the results or assets of the Group.

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

17 Deferred acquisition costs

			2016			2015
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance deferred at 1 January	**271,517**	**(33,211)**	**238,306**	230,373	(30,215)	200,158
Acquisition costs incurred in relation to insurance contracts written	**586,115**	**(157,738)**	**428,377**	474,534	(94,021)	380,513
Acquisition costs expensed to the income statement	**(538,467)**	**128,627**	**(409,840)**	(441,376)	97,093	(344,283)
Foreign exchange and other adjustments	**27,427**	**(4,359)**	**23,068**	7,986	(6,068)	1,918
Balance deferred at 31 December	**346,592**	**(66,681)**	**279,911**	271,517	(33,211)	238,306

The deferred amount of insurance contract acquisition costs attributable to reinsurers of £66,681,000 (2015: £33,211,000) 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:

	2016 £000	2015 £000
Within one year	**252,837**	212,149
After one year	**27,074**	26,157
	279,911	238,306

18 Reinsurance assets

	Note	2016 £000	2015 £000
Reinsurers' share of insurance liabilities		**806,245**	539,540
Provision for non-recovery and impairment		**(596)**	(730)
Reinsurance assets	26	**805,649**	538,810

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

	2016 £000	2015 £000
Within one year	**466,041**	301,022
After one year	**339,608**	237,788
	805,649	538,810

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 £134,000 (2015: gain of £10,000) in respect of previously impaired balances.

19 Financial assets and liabilities

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

	Note	2016 £000	2015 £000
Debt and fixed income securities		3,414,949	2,615,014
Equities and units in unit trusts		305,342	259,705
Deposits with credit institutions		24,592	6,684
Total investments		3,744,883	2,881,403
Insurance-linked funds		46,821	40,045
Derivative financial assets	21	329	137
Total financial assets carried at fair value		3,792,033	2,921,585

The effective maturity of the debt and fixed income securities due within and after one year are as follows:

	2016 £000	2015 £000
Within one year	706,700	607,968
After one year	2,708,249	2,007,046
	3,414,949	2,615,014

Equities and units in unit trusts do not have any maturity dates. The effective maturity of all other financial assets are due within one year.

An analysis of the credit risk and contractual maturity profiles of the Group's financial instruments is given in notes 3.2(d) and 3.2(e).

	Note	2016 £000	2015 £000
Derivative financial liabilities	21	474	16
Total financial liabilities carried at fair value		474	16

	Note	2016 £000	2015 £000
Long-term debt		274,019	273,909
Accrued interest on long-term debt		1,800	1,754
Total financial liabilities carried at amortised cost		275,819	275,663

All of the financial liabilities carried at fair value are due within one year. The long-term debt is due after one year, with its accrued interest due within one year.

On 24 November 2015, the Group issued £275.0 million 6.125% fixed-to-floating rate callable subordinated notes due 2045, with a first call date of 2025.

The notes bear interest from and including 24 November 2015 at a fixed rate of 6.125% per annum payable annually in arrears starting 24 November 2016 up until the first call date in November 2025, and thereafter at a floating rate of interest equal to three-month LIBOR plus 5.076% payable quarterly in arrears on each floating interest payment date. The Group is exposed to cash flow interest rate risk on its long-term debt.

On 25 November 2015 the notes were admitted for trading on the London Stock Exchange's regulated market. The notes were rated BBB- by S&P as well as by Fitch.

The fair value of the long-term debt is estimated as £292.3 million. The fair value measurement is classified within Level 1 of the fair value hierarchy. The fair value is estimated by reference to the actively traded value on the London Stock Exchange.

The interest accrued on the long-term debt was £1.80 million at the balance sheet date and is included in financial liabilities.

Note 10 includes details of the interest expense for the year included in financing costs.

19 Financial assets and liabilities continued

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

	2016 £000	2015 £000
Debt and fixed income securities		
Sterling	623,402	443,902
US Dollars	2,406,736	1,848,684
Euro and other currencies	384,811	322,428
	3,414,949	2,615,014
Equities and shares in unit trusts		
Sterling	159,199	134,888
US Dollars	146,143	124,817
Euro and other currencies	–	–
	305,342	259,705
Deposits with credit institutions		
Sterling	3,903	1,089
US Dollars	18,199	–
Euro and other currencies	2,490	5,595
	24,592	6,684
Total investments	3,744,883	2,881,403

20 Loans and receivables including insurance receivables

	2016 £000	2015 £000
Gross receivables arising from insurance and reinsurance contracts	699,768	538,652
Provision for impairment	(1,276)	(2,175)
Net receivables arising from insurance and reinsurance contracts	698,492	536,477
Due from contract holders, brokers, agents and intermediaries	524,958	405,284
Due from reinsurance operations	173,534	131,193
	698,492	536,477
Prepayments and accrued income	7,713	8,130
Other loans and receivables:		
Net profit commission receivable	21,232	26,139
Accrued interest	12,590	8,637
Share of Syndicates' other debtors' balances	30,223	13,173
Other debtors including related party amounts	32,656	27,007
Total loans and receivables including insurance receivables	802,906	619,563

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

	2016 £000	2015 £000
Within one year	720,509	546,109
After one year	82,397	73,454
	802,906	619,563

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 gain of £899,000 (2015: loss of £44,000) for the impairment of receivables during the year ended 31 December 2016. This is recorded under operational expenses in the consolidated income statement. The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

£52,208,000 of loans and receivables previously reported as within one year in the prior year, has been correctly presented under positions due after one year.

21 Derivative financial instruments

The Group entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2016. 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 2016 all mature within one year of the balance sheet date and are detailed below:

31 December 2016 Derivative financial instruments included on balance sheet	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Foreign exchange forward contracts	26,591	312	(121)	191
Interest rate futures contracts	56,728	17	(106)	(89)
Equity index futures	10,223	–	(247)	(247)

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

Gross fair value of assets	12,724	13,746	26,470
Gross fair value of liabilities	(12,412)	(13,867)	(26,279)
	312	(121)	191

31 December 2015 Derivative financial instruments included on balance sheet	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Foreign exchange forward contracts	11,610	81	(16)	65
Interest rate futures contracts	31,031	56	–	56
Equity index futures	–	–	–	–

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

Gross fair value of assets	12,765	367	13,132
Gross fair value of liabilities	(12,684)	(383)	(13,067)
	81	(16)	65

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 £664,000 (2015: gain of £1,940,000) as included in note 7. There was no initial purchase cost associated with these instruments.

Interest rate futures contracts

During the year the Group continued short selling a number of government bond futures denominated in a range of currencies to informally hedge interest rate risk on specific long portfolios. All contracts are exchange traded and the Group made a loss on these futures contracts of £111,000 (2015: loss of £239,000) as included in note 7.

Equity index options

During the year, the Group purchased a number of equity index futures in order to economically hedge equity market exposure. All contracts were exchange traded and the Group made a loss on these future contracts of £398,000 (2015: £nil) as included in note 7.

22 Fair value measurements

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

As at 31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	1,005,111	2,409,838	–	3,414,949
Equities and shares in unit trusts	–	293,187	12,155	305,342
Deposits with credit institutions	24,592	–	–	24,592
Insurance-linked funds	–	–	46,821	46,821
Derivative instrument assets	–	329	–	329
Total	1,029,703	2,703,354	58,976	3,792,033
Financial liabilities				
Derivative financial liabilities	–	474	–	474
Total	–	474	–	474

22 Fair value measurements continued

As at 31 December 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	836,950	1,778,064	–	2,615,014
Equities and shares in unit trusts	–	246,065	13,640	259,705
Deposits with credit institutions	6,684	–	–	6,684
Insurance-linked fund	–	–	40,045	40,045
Derivative instrument assets	–	137	–	137
Total	843,634	2,024,266	53,685	2,921,585
Financial liabilities				
Derivative financial liabilities	–	16	–	16
Total	–	16	–	16

The levels of the fair value hierarchy are defined by the standard as follows:
- Level 1 – fair values measured using quoted prices (unadjusted) in active markets for identical instruments;
- Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on market observable data;
- Level 3 – fair values measured using valuation techniques for which significant inputs are not based on market observable data.

The fair values of the Group's financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

Investments in mutual funds, which are included in equities and shares in unit trusts, comprise a portfolio of stock investments in trading entities which are invested in various quoted investments. The fair value of shares in unit trusts is based on the net asset value of the fund as reported by independent pricing sources or the fund manager.

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, long-term debt and exchange-traded equities which are measured based on quoted prices in active markets. The fair value of the long-term debt that is carried at amortised cost, is estimated at £292.3 million and is considered as Level 1 in fair value hierarchy.

Level 2 of the hierarchy contains certain government bonds, US government agencies, corporate securities, asset backed securities and mortgage-backed securities. The fair value of these assets is based on the prices obtained from both investment managers and investment custodians as discussed above. The Group records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US government agencies and corporate securities are based on a limited number of transactions for those securities and as such the Group considers these instruments to have similar characteristics to those instruments classified as Level 2. Also included within Level 2 are units held in traditional long funds and long and short special funds and over-the-counter derivatives.

Level 3 contains investments in a limited partnership, unquoted equity securities and an insurance-linked fund which have limited observable inputs on which to measure fair value. Unquoted equities are carried at fair value. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant. At 31 December 2016, the insurance-linked funds of £46,821,000 represents the Group's investment in the Kiskadee Funds (2015: £40,045,000).

The fair value of the Kiskadee Funds is estimated to be the net asset value as at the balance sheet date. The net asset value is based on the fair value of the assets and liabilities in the Fund. The majority of the assets of the Fund are cash and cash equivalents. Significant inputs and assumptions in calculating the fair value of the assets and liabilities associated with reinsurance contracts written by the Kiskadee Funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the Kiskadee Funds if reasonably different inputs and assumptions were used and has found no significant changes in the valuation.

22 Fair value measurements continued

In certain cases, the inputs used to measure the fair value of a financial instrument may fall into more than one level within the fair value hierarchy. In this instance, the fair value of the instrument in its entirety is classified based on the lowest level of input that is significant to the fair value measurement.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred.

During the year, there were no transfers made between Level 1 and Level 2 of the fair value hierarchy.

The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy:

	Financial asset			Financial liability
31 December 2016	Equities and shares in unit trusts £000	Insurance linked fund £000	Total £000	Third-party investment in Kiskadee Funds £000
Balance at 1 January	13,640	40,045	53,685	–
Fair value gains or losses through profit or loss*	(279)	3,666	3,387	–
Foreign exchange gains	729	7,719	8,448	–
Purchases	305	–	305	–
Recognition/(derecognition) on deconsolidation	–	–	–	–
Settlements	(2,240)	(4,609)	(6,849)	–
Closing balance	**12,155**	**46,821**	**58,976**	**–**
Unrealised gains and losses in the year on securities held at the end of the year	**(1,397)**	**2,305**	**908**	**–**

*Fair value gains/(losses) are included within the investment result in the income statement for equities and shares in unit trusts and through other income for the insurance-linked fund.

	Financial asset			Financial liability
31 December 2015	Equities and shares in unit trusts £000	Insurance linked fund £000	Total £000	Third-party investment in Kiskadee Funds £000
Balance at 1 January	13,678	22,888	36,566	7,033
Fair value gains or losses through profit or loss*	(230)	2,189	1,959	6,374
Foreign exchange gains	283	2,959	3,242	(3,968)
Purchases	52	–	52	264,306
Recognition/(derecognition) on deconsolidation	–	35,362	35,362	(273,745)
Settlements	(143)	(23,353)	(23,496)	–
Closing balance	13,640	40,045	53,685	–
Unrealised gains and losses in the year on securities held at the end of the year	(257)	2,201	1,944	–

*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.

23 Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	**568,186**	601,301
Short-term deposits	**96,630**	126,579
	664,816	727,880

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.

24 Share capital

Group	31 December 2016 Share capital £000	31 December 2016 Number of shares 000	31 December 2015 Share capital £000	31 December 2015 Number of shares 000
Authorised ordinary share capital of 6.5p (2015: 6.5p)	**240,000**	**3,692,308**	240,000	3,692,308
Issued ordinary share capital of 6.5p (2015: 6.5p)	**19,060**	**293,227**	19,030	292,776

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	E Shares £000	F Shares £000
At 1 January 2015	19,913	10,417	89,864	–	–
Employee share option scheme – proceeds from shares issued	29	1,400	–	–	–
Issue of E/F Shares	–	(32)	–	143,176	46,351
Redemption of E/F Shares	–	–	–	(143,176)	(46,351)
Share consolidation and subdivision	(930)	930	–	–	–
Scrip dividends to owners of the Company	18	2,516	–	–	–
At 31 December 2015	19,030	15,231	89,864	–	–
Employee share option scheme – proceeds from shares issued	22	1,534	–	–	–
Scrip dividends to owners of the Company	8	1,270	–	–	–
At 31 December 2016	**19,060**	**18,035**	**89,864**	**–**	**–**

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

During the year, the Group offered its shareholders the option of receiving a scrip dividend alternative to the interim cash dividend. This resulted in the Company paying the shareholders, who opted for a scrip dividend, in shares of equal value to the cash dividend at a specified date. The full dividend was distributed from retained earnings, and the new shares issued for the scrip dividend were reflected in share capital and share premium.

The Company relies upon dividend streams from its subsidiary companies to provide the cash flow required for distributions to be made to shareholders. The ability of the subsidiaries to pay dividends is subject to regulatory restrictions within the jurisdiction from which they operate.

Share repurchase

The Trustees of the Group's Employee Benefit Trust purchased Hiscox Ltd shares through the market during the period for £38,558,000 (2015: £6,712,000) 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) 2016	Number of ordinary shares in issue (thousands) 2015
At 1 January		**292,776**	331,874
Employee share option scheme – ordinary shares issued		**332**	458
Scrip dividends to owners of the Company	32	**119**	274
Share consolidation as a result of the special capital distribution		**–**	(39,830)
At 31 December		**293,227**	292,776

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.

24 Share capital

Share options and Performance Share Plan awards continued

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 £26,274,000 (2015: £17,726,000). This comprises charges of £25,585,000 (2015: £17,136,000) in respect of Performance Share Plan awards and £689,000 (2015: £590,000) in respect of share option awards. The Group has applied the principles outlined in the Black-Scholes option pricing model when determining the fair value of each share option instrument.

The range of principal Group assumptions applied in determining the fair value of share-based payment instruments granted during the year under review are:

Assumptions affecting inputs to fair value models	2016	2015
Annual risk-free rates of return and discount rates (%)	0.16-0.55	0.76-0.82
Long-term dividend yield (%)	3.59	4.28
Expected life of options (years)	3.25	3.25
Implied volatility of share price (%)	22.0	19.4
Weighted average share price (p)	966.7	884.7

The weighted average fair value of each share option granted during the year was 183.8p (2015: 156.7p). The weighted average fair value of each Performance Share Plan award granted during the year was 961.8p (2015: 885.0p).

Movements in the number of share options and Performance Share Plan awards during the year and details of the balances outstanding at 31 December 2016 for the Executive Directors are shown in the Annual report on remuneration. The total number of options and Performance Share Plan awards outstanding is 10,848,727 (2015: 11,005,621) of which 2,528,736 are exercisable (2015: 2,043,465). The total number of SAYE options outstanding is 1,971,842 (2015: 2,041,124).

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

	2016 £000	2015 £000
Currency translation reserve at 31 December	202,272	91,178
Retained earnings at 31 December	1,488,306	1,312,660

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 2016 for a net amount of £38,558,000 and placed them in the Trust for future utilisation on vesting of Performance Share Plan awards (2015: £6,712,000).

At 31 December 2016 Hiscox Ltd held 7,523,190 shares in treasury (2015: 8,098,190). Additional details are shown in note 35 to these financial statements in respect of additional Hiscox Ltd shares held by subsidiaries.

26 Insurance liabilities and reinsurance assets

	Note	2016 £000	2015 £000
Gross			
Claims reported and claim adjustment expenses		977,664	824,397
Claims incurred but not reported		1,588,160	1,213,699
Unearned premiums		1,287,152	1,010,266
Total insurance liabilities, gross		3,852,976	3,048,362
Recoverable from reinsurers			
Claims reported and claim adjustment expenses		159,141	118,322
Claims incurred but not reported		383,974	247,155
Unearned premiums		262,534	173,333
Total reinsurers' share of insurance liabilities	18	805,649	538,810
Net			
Claims reported and claim adjustment expenses		818,523	706,075
Claims incurred but not reported		1,204,186	966,544
Unearned premiums		1,024,618	836,933
Total insurance liabilities, net		3,047,327	2,509,552

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

	2016 £000	2015 £000
Within one year	1,674,538	1,330,074
After one year	1,372,789	1,179,478
	3,047,327	2,509,552

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 2016 and 2015 are not material.

26 Insurance liabilities and reinsurance assets continued

26.1 Insurance contracts assumptions

(a) Process used to decide on assumptions

There are many risks associated with insurance contracts, and this means that there is a considerable amount of uncertainty in estimating the future settlement cost of claims. There is uncertainty in both the amounts and the timing of future claim payment cash flows.

Claims paid are claims transactions settled up to the reporting date including settlement expenses allocated to those transactions.

Unpaid claims reserves are made for known or anticipated liabilities which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims.

The Group relies on actuarial analysis to estimate the settlement cost of future claims. There is close communication between the actuaries and other key stakeholders, such as the underwriters, claims and finance teams when setting and validating the assumptions. The unpaid claims reserve is estimated based on past experience and current expectations of future cost levels. Allowance is made for the current premium rating and inflationary environment.

The claim reserves are estimated on a best estimate basis, taking into account current market conditions and the nature of risks being underwritten.

Under certain insurance contracts, the Group may be permitted to sell property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). If it is certain a recovery or reimbursement will be made at the valuation date, specific estimates of these salvage and/or subrogation amounts are included as allowances in the measurement of the insurance liability for unpaid claims. This is then recognised in insurance and reinsurance receivables when the liability is settled.

Estimates of where claim liabilities will ultimately settle are adjusted each reporting period to reflect emerging claims experience. Changes in expected claims may result in a reduction or an increase in the ultimate claim costs and a release or an increase in reserves in the period in which the change occurs.

Booked reserves are held above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy. This approach is consistent with last year.

(b) Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The Group analyses actual claims development compared with previous estimates on an accident year basis. This exercise is performed to include the liabilities of Syndicate 33 at the 100% level regardless of the Group's actual level of ownership. Analysis at the 100% level is required in order to avoid distortions arising from reinsurance to close arrangements which subsequently increase the Group's share of ultimate claims for each accident year, three years after the end of that accident year.

The top half of each table, on the following pages, illustrates how estimates of ultimate claim costs for each accident year have changed at successive year ends. The bottom half reconciles cumulative claim costs to the amounts still recognised as liabilities. A reconciliation of the liability at the 100% level to the Group's share, as included in the Group balance sheet, is also shown.

26 Insurance liabilities and reinsurance assets
26.1 Insurance contracts assumptions
(b) Claims development tables continued
Insurance claims and claim adjustment expenses reserves – gross at 100%

Accident year	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:	940,241	1,347,174	996,948	1,201,724	1,543,152	1,300,193	1,034,567	1,137,696	1,226,108	**1,528,757**	12,256,560
one year later	838,997	1,135,957	816,493	1,016,047	1,394,391	1,158,433	907,425	964,030	1,094,579	**–**	9,326,352
two years later	796,659	1,104,116	749,485	944,757	1,351,867	1,070,293	806,311	895,765	–	**–**	7,719,253
three years later	804,281	1,056,016	743,844	929,321	1,365,161	1,066,830	752,789	–	–	**–**	6,718,242
four years later	800,794	1,017,625	743,785	904,832	1,343,580	1,059,662	–	–	–	**–**	5,870,278
five years later	768,906	976,096	739,273	891,480	1,307,009	–	–	–	–	**–**	4,682,764
six years later	749,590	964,251	724,414	870,930	–	–	–	–	–	**–**	3,309,185
seven years later	730,652	948,797	724,057	–	–	–	–	–	–	**–**	2,403,506
eight years later	724,389	940,974	–	–	–	–	–	–	–	**–**	1,665,363
nine years later	720,172	–	–	–	–	–	–	–	–	**–**	720,172
Current estimate of cumulative claims	720,172	940,974	724,057	870,930	1,307,009	1,059,662	752,789	895,765	1,094,579	**1,528,757**	9,894,694
Cumulative payments to date	(689,653)	(917,418)	(658,604)	(785,898)	(1,140,107)	(851,923)	(607,999)	(624,594)	(491,118)	**(301,271)**	(7,068,585)
Liability recognised at 100% level	30,519	23,556	65,453	85,032	166,902	207,739	144,790	271,171	603,461	**1,227,486**	2,826,109
Liability recognised in respect of prior accident years at 100% level											154,921
Total gross liability to external parties at 100% level											2,981,030

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2016.

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

Accident year	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Current estimate of cumulative claims	720,172	940,974	724,057	870,930	1,307,009	1,059,662	752,789	895,765	1,094,579	**1,528,757**	9,894,694
Less: attributable to external Names	(144,291)	(182,237)	(128,204)	(138,535)	(198,495)	(141,369)	(84,465)	(102,594)	(124,604)	**(179,099)**	(1,423,893)
Group's share of current ultimate claims estimate	575,881	758,737	595,853	732,395	1,108,514	918,293	668,324	793,171	969,975	**1,349,658**	8,470,801
Cumulative payments to date	(689,653)	(917,418)	(658,604)	(785,898)	(1,140,107)	(851,923)	(607,999)	(624,594)	(491,118)	**(301,271)**	(7,068,585)
Less: attributable to external Names	137,580	179,034	116,177	121,117	166,079	112,737	67,777	67,870	47,428	**29,515**	1,045,314
Group's share of cumulative payments	(552,073)	(738,384)	(542,427)	(664,781)	(974,028)	(739,186)	(540,222)	(556,724)	(443,690)	**(271,756)**	(6,023,271)
Liability for 2007 to 2016 accident years recognised on Group's balance sheet	23,808	20,353	53,426	67,614	134,486	179,107	128,102	236,447	526,285	**1,077,902**	2,447,530
Liability for accident years before 2007 recognised on Group's balance sheet											118,294
Total Group liability to external parties included in balance sheet – gross**											2,565,824

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

26 Insurance liabilities and reinsurance assets
26.1 Insurance contracts assumptions
(b) Claims development tables continued
Insurance claims and claim adjustment expenses reserves – net at 100%

Accident year	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	**2016 £000**	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:	804,386	923,701	810,574	951,373	1,189,412	943,564	894,286	929,576	989,143	**1,159,340**	9,595,355
one year later	732,291	821,783	668,649	827,787	1,093,988	829,413	790,595	808,310	910,852	**–**	7,483,668
two years later	708,530	818,095	638,718	777,800	1,050,980	768,106	707,765	736,572	–	**–**	6,206,566
three years later	674,822	769,056	640,339	757,594	1,050,396	739,800	655,427	–	–	**–**	5,287,434
four years later	672,936	733,702	629,004	733,884	1,042,659	734,139	–	–	–	**–**	4,546,324
five years later	645,634	719,639	626,499	730,026	1,003,706	–	–	–	–	**–**	3,725,504
six years later	638,340	710,364	612,803	706,861	–	–	–	–	–	**–**	2,668,368
seven years later	622,638	695,062	610,192	–	–	–	–	–	–	**–**	1,927,892
eight years later	617,337	687,151	–	–	–	–	–	–	–	**–**	1,304,488
nine years later	612,481	–	–	–	–	–	–	–	–	**–**	612,481
Current estimate of cumulative claims	612,481	687,151	610,192	706,861	1,003,706	734,139	655,427	736,572	910,852	**1,159,340**	7,816,721
Cumulative payments to date	(587,110)	(666,551)	(547,900)	(644,972)	(883,757)	(583,987)	(529,952)	(493,314)	(399,426)	**(262,665)**	(5,599,634)
Liability recognised at 100% level	25,371	20,600	62,292	61,889	119,949	150,152	125,475	243,258	511,426	**896,675**	2,217,087
Liability recognised in respect of prior accident years at 100% level											109,328
Total net liability to external parties at 100% level											2,326,415

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2016.

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

Accident year	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	**2016 £000**	Total £000
Current estimate of cumulative claims	612,481	687,151	610,192	706,861	1,003,706	734,139	655,427	736,572	910,852	**1,159,340**	7,816,721
Less: attributable to external Names	(124,662)	(125,656)	(102,043)	(102,294)	(139,327)	(81,499)	(69,026)	(79,824)	(99,137)	**(118,809)**	(1,042,277)
Group's share of current ultimate claims estimate	487,819	561,495	508,149	604,567	864,379	652,640	586,401	656,748	811,715	**1,040,531**	6,774,444
Cumulative payments to date	(587,110)	(666,551)	(547,900)	(644,972)	(883,757)	(583,987)	(529,952)	(493,314)	(399,426)	**(262,665)**	(5,599,634)
Less: attributable to external Names	118,571	122,635	91,082	90,422	117,833	59,999	54,445	52,763	35,865	**23,375**	766,990
Group's share of cumulative payments	(468,539)	(543,916)	(456,818)	(554,550)	(765,924)	(523,988)	(475,507)	(440,551)	(363,561)	**(239,290)**	(4,832,644)
Liability for 2007 to 2016 accident years recognised on Group's balance sheet	19,280	17,579	51,331	50,017	98,455	128,652	110,894	216,197	448,154	**801,241**	1,941,800
Liability for accident years before 2007 recognised on Group's balance sheet											80,909
Total Group liability to external parties included in the balance sheet – net**											2,022,709

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

26 Insurance liabilities and reinsurance assets continued
26.2 Movements in insurance claims liabilities and reinsurance claims assets

Year ended 31 December	2016 Gross £000	2016 Reinsurance £000	2016 Net £000	2015 Gross £000	2015 Reinsurance £000	2015 Net £000
Total at beginning of year	(2,038,096)	365,477	(1,672,619)	(1,967,864)	368,319	(1,599,545)
Claims and claim adjustment expenses for year	(1,004,601)	264,829	(739,772)	(685,897)	113,444	(572,453)
Cash paid for claims settled in the year	776,722	(149,465)	627,257	673,083	(129,606)	543,477
Exchange differences and other movements	(299,849)	62,274	(237,575)	(57,418)	13,320	(44,098)
Total at end of year	(2,565,824)	543,115	(2,022,709)	(2,038,096)	365,477	(1,672,619)
Claims reported and claim adjustment expenses	(977,664)	159,141	(818,523)	(824,397)	118,322	(706,075)
Claims incurred but not reported	(1,588,160)	383,974	(1,204,186)	(1,213,699)	247,155	(966,544)
Total at end of year	(2,565,824)	543,115	(2,022,709)	(2,038,096)	365,477	(1,672,619)

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

Year ended 31 December	2016 Gross £000	2016 Reinsurance £000	2016 Net £000	2015 Gross £000	2015 Reinsurance £000	2015 Net £000
Current year claims and claim adjustment expenses	(1,275,018)	299,564	(975,454)	(943,824)	165,507	(778,317)
Over-provision in respect of prior year claims and claim adjustment expenses	270,417	(57,465)	212,952	257,927	(52,063)	205,864
Acquisitions/(divestments) and transfers*	–	22,730	22,730	–	–	–
Total claims and claim adjustment expenses	(1,004,601)	264,829	(739,772)	(685,897)	113,444	(572,453)

*The net movement in 2016 relates to a retroactive reinsurance arrangement that transferred the benefits and risks of some of the Group's insurance portfolio.

A reconciliation of the unearned premium reserves is as follows:

	2016 Gross £000	2016 Reinsurance £000	2016 Net £000	2015 Gross £000	2015 Reinsurance £000	2015 Net £000
Balance deferred at 1 January	1,010,266	(173,333)	836,933	867,335	(157,026)	710,309
Premiums written	2,402,579	(614,636)	1,787,943	1,944,220	(372,376)	1,571,844
Premiums earned through the income statement	(2,220,853)	545,840	(1,675,013)	(1,828,334)	393,318	(1,435,016)
Foreign exchange and other adjustments	95,160	(20,405)	74,755	27,045	(37,249)	(10,204)
Balance deferred at 31 December	1,287,152	(262,534)	1,024,618	1,010,266	(173,333)	836,933

The amounts expected to be recovered before and after one year, based on historical experience, are included in the first table to this note 26.

27 Trade and other payables

	Note	2016 £000	2015 £000
Creditors arising out of direct insurance operations		27,997	20,208
Creditors arising out of reinsurance operations		319,494	210,654
		347,491	230,862
Share of Syndicates' other creditors' balances		9,844	11,095
Social security and other taxes payable		16,429	12,266
Other creditors		5,650	11,654
		31,923	35,015
Reinsurers' share of deferred acquisition costs	17	66,681	33,211
Accruals and deferred income		153,107	117,270
Total		599,202	416,358

Included within accruals and deferred income is £9.6 million (2015: £nil) of deferred gain on retroactive reinsurance contracts.

27 Trade and other payables continued

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

	2016 £000	2015 £000
Within one year	474,023	322,123
After one year	125,179	94,235
	599,202	416,358

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.

£59,123,000 of trade and other payables previously reported as within one year in the prior year, has been correctly presented under positions due after one year.

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

	2016 £000	2015 £000
Current tax		
Expense for the year	32,240	9,906
Adjustments in respect of prior years	(5,010)	(264)
Total current tax expense	27,230	9,642
Deferred tax		
Credit for the year	(5,055)	(1,849)
Adjustments in respect of prior years	(3,786)	(490)
Effect of rate change	(832)	(1,098)
Total deferred tax credit	(9,673)	(3,437)
Total tax charged to the income statement	17,557	6,205

The standard rate of corporation tax in Bermuda is 0% whereas the effective rate of tax for the Group is 5.0% (2015: 2.9%). A reconciliation of the difference is provided below:

	2016 £000	2015 £000
Profit before tax	354,543	216,100
Tax calculated at the standard corporation tax rate applicable in Bermuda: 0% (2015: 0%)	–	–
Effects of Group entities subject to overseas tax at different rates	17,104	2,688
Impact of overseas tax rates on:		
Effect of rate change	(832)	(1,098)
Expenses not deductible for tax purposes	7,487	1,999
Tax losses for which no deferred tax asset is recognised	2,155	6,936
Other	(373)	(513)
Adjustment for share-based payments	812	260
Non-taxable income	–	(3,313)
Prior year tax adjustments	(8,796)	(754)
Tax charge for the period	17,557	6,205

The UK Finance Act 2015 introduced a new tax with effect from 1 April 2015, the Diverted Profits Tax (DPT), which in certain situations applies a tax of 25% on income which would not otherwise be chargeable to UK tax. The Group is currently in discussions with HMRC as to the scope of the new tax in the context of the Group's operations. No provision for DPT has been made in 2016 or 2015.

29 Deferred tax

Deferred reconciliation tax assets	2016 £000	2015 £000
Trading losses in overseas entities	41,392	35,147

Net deferred tax liabilities	2016 £000	2015 £000
Deferred tax assets	34,388	29,193
Deferred tax liabilities	(51,418)	(59,007)
Total net deferred tax liability	(17,030)	(29,814)

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

	2016 £000	2015 £000
At 1 January	35,147	33,490
Income statement credit	6,245	1,657
Recognised in equity	–	–
At 31 December	41,392	35,147

The income statement credit is mainly as a result of the revaluation of positions to exchange rates applicable at year end.

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

At 31 December	2015 £000	Income statement (charge)/credit £000	Recognised in equity £000	2016 £000
Tangible assets	735	(212)	–	523
Trade and other payables	3,780	256	–	4,036
Intangible assets – Syndicate capacity	1,784	(246)	–	1,538
Retirement benefit obligations	893	(2,302)	9,502	8,093
Reinsurance premiums	14,459	(1,660)	–	12,799
Other items	7,542	3	(146)	7,399
Total deferred tax assets	29,193	(4,161)	9,356	34,388
Financial assets	(805)	52	–	(753)
Insurance contracts – equalisation provision*	(30,256)	5,799	–	(24,457)
	(31,061)	5,851	–	(25,210)
Open years of account	(27,946)	1,738	–	(26,208)
Total deferred tax liabilities	(59,007)	7,589	–	(51,418)
Net total deferred tax liabilities	(29,814)	3,428	9,356	(17,030)

*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 adjusted each year based on 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 UK 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. From 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. Finance Act 2012 repealed the legislation treating the equalisation provision as a tax deductible expense, and treats the existing equalisation provision as a receipt taxable over six years with effect from January 2016, when the current solvency regulations are replaced by Solvency II which does not require an equalisation provision. The Group has provided for the deferred tax liability on its claims equalisation provisions during the year.

29 Deferred tax

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

Following changes to the future UK main rate of corporation tax introduced in the Finance Act 2016, the deferred tax on the Syndicates' open years of account is calculated with reference to the tax rate expected to be in force when those years close. Equally, the deferred tax liability on equalisation provision is calculated at the tax rate expected to be applicable as it unwinds. All other UK deferred income tax assets and liabilities are calculated at 17% for the year ended 31 December 2016 (2015: 18%).

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 £11,409,000, comprising £9,356,000 deferred tax and £2,053,000 current tax (2015: £5,204,000 deferred tax and £(4,203,000) current tax).

Deferred tax assets of £41,392,000 (2015: £35,147,000), relating to losses arising in overseas entities, which depend on the availability of future taxable profits in excess of profits arising from the reversal of other timing differences, are recognised above. Business projections indicate it is probable that sufficient future taxable income will be available against which to offset these recognised deferred tax assets within six years. £40,572,000 (2015: £34,224,000) 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 £29,988,000 (2015: £20,474,000) including £26,843,000 (2015: £20,474,000) in relation to losses in overseas companies of £88,185,000 (2015: £72,016,000). 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 £41,392,000 (2015: £35,147,000).

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.

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

	2016 £000	2015 £000
Present value of scheme obligations	271,072	199,120
Fair value of scheme assets	(214,933)	(199,045)
Deficit for funded plans	56,139	75
Net amount recognised as a defined benefit obligation	56,139	75

As the fair value of scheme obligations exceeds the present value of the scheme assets, the scheme reports a deficit.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit actuarial cost method. A formal full actuarial valuation is performed on a triennial basis, most recently at 31 December 2014, and updated at each intervening balance sheet date by the actuaries. The 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	2016 £000	2015 £000
Managed fund pooled investment vehicles		
UK equity funds	76,233	70,871
Emerging market equity funds	9,949	7,515
Global equity funds	35,495	46,129
Bond funds	48,901	38,580
US equities	24,530	16,302
Cash	19,825	19,648
	214,933	199,045

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.

30 Employee retirement benefit obligations continued

The amounts recognised in total comprehensive income are as follows:

	Note	2016 £000	2015 £000
Interest cost on defined benefit obligation		7,916	8,320
Interest income on plan assets		(7,910)	(7,118)
Net interest cost		6	1,202
Administrative expenses and taxes		166	623
Total expense recognised in operational expenses in the income statement	9	172	1,825
Remeasurements			
Effect of change in demographic assumptions		–	(4,324)
Effect of change in financial assumptions		68,094	(13,374)
Effect of experience adjustments		–	(13,836)
Return on plan asset (excluding interest income)		(12,202)	(2,382)
Changes in asset ceiling/onerous liability (excluding interest income)		–	–
Remeasurement of third-party Names share of defined benefit obligation		(9,361)	5,680
Total remeasurement included in other comprehensive income		**46,531**	(28,236)
Total defined benefit charge/(credit) recognised in comprehensive income		**46,703**	(26,411)

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

	2016 £000	2015 £000
Group defined benefit liabilities at beginning of the year	75	32,166
Third-party Names' share of liability	(13)	(5,422)
Net defined benefit liability at beginning of year	62	26,744
Defined benefit cost included in net income	172	1,825
Credit from third-party Names	(28)	(271)
Total remeasurement included in other comprehensive income	46,531	(28,236)
Net defined benefit liability at end of year	46,737	62
Third-party Names' share of liability	9,402	13
Group defined benefit liability at end of year	**56,139**	75

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

	2016 £000	2015 £000
Opening fair value of scheme assets	199,045	195,209
Interest income	7,910	7,118
Cash flows		
Contribution by the employer	–	–
Benefit payments	(5,671)	(5,041)
Administration expenses	(166)	(623)
Increase due to plan combinations	1,613	–
Remeasurements		
Return on plan assets (excluding interest income)	12,202	2,382
Closing fair value of scheme assets	**214,933**	199,045

30 Employee retirement benefit obligations continued

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

	2016 £000	2015 £000
Opening present value of scheme obligations	199,120	227,375
Interest expense	7,916	8,320
Cash flows		
Benefit payments	(5,671)	(5,041)
Increase due to plan combinations	1,613	–
Remeasurements		
Changes in demographic assumptions	–	(4,324)
Changes in financial assumptions	68,094	(13,374)
Impact of experience adjustments	–	(13,836)
Closing present value of scheme obligations	271,072	199,120

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

	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of scheme obligations	271,072	199,120	227,375	179,479	173,420	155,685	146,737
Fair value of scheme assets	(214,933)	(199,045)	(195,209)	(185,666)	(156,513)	(140,517)	(144,056)
Present value of unfunded obligations/(surplus scheme assets)	56,139	75	32,166	(6,187)	16,907	15,168	2,681
Effect of asset ceiling/onerous liability	–	–	–	10,553	–	–	–
Gross liability recognised on balance sheet	56,139	75	32,166	4,366	16,907	–	–

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

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

	2016 years	2015 years
Male	28.5	28.4
Female	29.7	29.6

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

	2016 years	2015 years
Male	29.8	29.7
Female	31.1	31.0

The weighted average duration of the defined benefit obligation at 31 December 2016 was 23 years (2015: 20.5 years).

30 Employee retirement benefit obligations continued

Other principal actuarial assumptions are as follows:

	2016 %	2015 %
Discount rate	2.7	4.0
Inflation assumption (RPI)	3.2	3.1
Inflation assumption (CPI)	2.2	2.1
Pension increases	3.2	3.1

The scheme operates under UK trust law and the Trust is a separate legal entity from the Group. The scheme is governed by a board of trustees, comprised of member and employee trustees. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies together with the principal employer. The scheme is funded by the Group when required. Funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the statement of funding principles, schedule of contributions and recovery plan agreed between the trustees and the Company.

The triennial valuation carried out as at 31 December 2014 resulted in a surplus position of £8.6 million. The Group is therefore not required to currently make any contributions to the pension scheme.

The expected return on scheme assets is based on historical data and management's expectations of long-term future returns. While management believes that the actuarial assumptions are appropriate, any significant changes to those could affect the balance sheet and income statement. For example, an additional one year of life expectancy for all scheme members would increase the scheme obligations by £9,281,000 at 31 December 2016 (2015: £5,712,000), and would increase the recorded net deficit on the balance sheet by £9,281,000 (2015: £5,712,000).

The most sensitive and judgemental assumptions are the discount rate and inflation. These are considered further below.

CPI revaluation in deferment is used for contracted-out members. Contracted-in members are linked to RPI as well as for all pension in payment increase.

The Group has estimated the sensitivity of the net obligation recognised in the consolidated balance sheet to isolated changes in these assumptions at 31 December 2016 as follows:

	Present value of unfunded obligations before change in assumption £000	Present value of unfunded obligations after change £000	(Increase) /decrease in obligation recognised on balance sheet £000
Effect of a change in discount rate			
Use of discount rate of 2.95%	56,139	41,375	14,764
Use of discount rate of 2.45%	56,139	72,099	(15,960)
Effect of an increase in inflation			
Use of RPI inflation assumption of 3.45%	56,139	62,718	(6,579)
Use of RPI inflation assumption of 2.95%	56,139	49,943	6,196

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.

Basic	2016	2015
Profit for the year attributable to the owners of the Company (£000)	336,986	209,895
Weighted average number of ordinary shares (thousands)	281,175	288,209
Basic earnings per share (pence per share)	119.8p	72.8p

Diluted

Diluted earnings per share is calculated adjusting for the assumed conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options and awards. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2016	2015
Profit for the year attributable to the owners of the Company (£000)	336,986	209,895
Weighted average number of ordinary shares in issue (thousands)	281,175	288,209
Adjustments for share options (thousands)	9,402	9,603
Weighted average number of ordinary shares for diluted earnings per share (thousands)	290,577	297,812
Diluted earnings per share (pence per share)	116.0p	70.5p

Diluted earnings per share has been calculated after taking account of 8,653,254 (2015: 8,872,744) options and awards under employee share option and performance plan schemes and 748,600 (2015: 730,477) options under SAYE schemes.

32 Dividends paid to owners of the Company

	2016 £000	2015 £000
Second interim dividend for the year ended:		
31 December 2015 of 32.0p (net) per share	89,674	–
Interim dividend for the year ended:		
31 December 2016 of 8.5p (net) per share	24,260	–
31 December 2015 of 8.0p (net) per share	–	22,403
	113,934	22,403

The second interim dividend for the year ended 31 December 2015 was comprised of a final dividend equivalent of 16p per share, and an additional return of capital of 16p per share. No scrip dividend alternative was offered.

The interim dividends for 2016 and 2015 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 2016 was paid in cash of £22,983,000 (2015: £20,202,000) and 119,302 shares for the scrip dividend (2015: 274,455).

The Board has declared a final dividend of 19p per share to be paid on 20 June 2017 to shareholders on the register at 12 May 2017, taking the total ordinary dividend per share for the year to 27.5p (2015: 40.0p).

When determining the level of dividend each year, the board considers the ability of the group to generate cash; the availability of that cash in the Group, while considering constraints such as regulatory capital requirements; and the level required to invest in the business. This is a progressive policy and is expected to be maintained for the foreseeable future.

33 Contingencies and guarantees

The Group's subsidiaries are, like most other insurers, continuously involved in legal proceedings, claims and litigation in the normal course of business.

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance contracts. There are no contingencies associated with the Group's compliance or lack of compliance with these regulations.

The following guarantees have also been issued:

(a) Hiscox Ltd and Hiscox Capital Ltd have entered into deeds of covenant in respect of a subsidiary, Hiscox Dedicated Corporate Member Limited (HDCM), 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 (2015: £29 million) in respect of Hiscox Ltd supported by £34 million of investment securities (2015: £30 million) and US$486 million (2015: US$423 million) in respect of Hiscox Capital Ltd supported by US$369 million of investment securities (2015: US$401 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. Additionally, HDCM held £221 million of investment securities and £38 million of cash in favour of Lloyd's (2015: £172 million in cash).

(b) Hiscox plc continued with its Letter of Credit and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, at US$500 million (2015: US$500 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$300 million. In addition, the terms also provide that upon request the facility may be drawn in a currency other than US Dollar. At 31 December 2016 US$10.0 million (2015: US$71.9 million) was utilised by way of Letter of Credit to support the Funds at Lloyd's requirement and no cash drawings were outstanding (2015: £nil).

(c) Hiscox Insurance Company Limited has arranged a Letter of Credit of £50,000 (2015: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's the arrangement is collateralised with cash of £50,000 (2015: £50,000).

(d) The Council of Lloyd's has the discretion to call a contribution of up to 3% of capacity if required from the managed Syndicates.

(e) As Hiscox Insurance Company (Bermuda) Limited (Hiscox Bermuda) is not an admitted insurer or reinsurer in the US, the terms of certain US insurance and reinsurance contracts require Hiscox Bermuda to provide Letters of Credit or other terms of collateral to clients. Hiscox Bermuda has in place a Letter of Credit Reimbursement and Pledge Agreement with Citibank for the provision of a Letter of Credit facility in favour of US ceding companies and other jurisdictions, and also Letter of Credit facility agreements with National Australia Bank and Commerzbank AG. The agreements combined are a three-year secured facility that allowed Hiscox Bermuda to request the issuance of up to US$400 million in Letters of Credit (2015: US$350 million). Letters of Credit issued under these facilities are collateralised by cash, US government and corporate securities of Hiscox Bermuda. Letters of Credit under these facilities totalling US$95.9 million were issued with an effective date of 31 December 2016 (2015: US$81.1 million on a US$350 million facility) and these were collateralised by US government and corporate securities with a fair value of US$109.1 million (2015: US$92.4 million). In addition, Hiscox Bermuda holds US$468 million (2015: US$404 million) of restricted cash and marketable securities collateralising reinsurance obligations.

(f) Hiscox Europe Underwriting Limited has arranged bank guarantees with respect to their various office deposits for a total of €207,000. These guarantees are held with ING Bank (Belgium) for €14,000, ABN Amro (Netherlands) for €33,000 and HypoVereinsbank-UniCredit (Germany) for €160,000.

34 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 £1,881,000 (2015: £2,168,000).

Operating lease commitments

The Group acts as both lessee and lessor in relation to various offices in the UK and overseas which are held under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group also has payment obligations in respect of operating leases for certain items of office equipment. Operating lease rental expenses for the year totalled £9,236,000 (2015: £9,794,000). Operating lease rental income for the year totalled £448,000 (2015: £226,000).

The aggregate minimum lease payments required by the Group under non-cancellable operating leases, over the expected lease terms, are as follows:

		2016 £000	2015 £000
No later than one year	Land and buildings	10,045	8,951
	Office equipment and other	573	356
Later than one year and no later than five years	Land and buildings	34,141	29,801
	Office equipment and other	547	557
Later than five years	Land and buildings	16,402	25,205
		61,708	64,870

The total future aggregate minimum lease rentals receivable by the Group as lessor under non-cancellable operating property leases are as follows:

	2016 £000	2015 £000
No later than one year	528	149
Later than one year and no later than five years	352	746
Later than five years	–	–
	880	895

35 Principal subsidiary companies of Hiscox Ltd at 31 December 2016

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
Direct Asia Insurance (Holdings) Pte Ltd	Holding company	Singapore
Direct Asia Insurance (Singapore) Pte Limited	General insurance	Singapore

*Held directly.
**Hiscox Holdings Limited held 38,030 shares in Hiscox Ltd at 31 December 2016 (2015: 38,030).

All principal subsidiaries are wholly owned. The proportion of voting rights of subsidiaries held is the same as the proportion of equity shares held.

36 Related-party transactions

Details of the remuneration of the Group's key personnel are shown in the annual report on remuneration 2016 on pages 85 to 91. 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 2016 £000	31 December 2015 £000	**31 December 2016 £000**	31 December 2015 £000
Hiscox Syndicates Limited	**48,775**	42,496	**57,833**	54,211
Hiscox Group insurance carriers	**54,302**	19,181	**31,802**	58,960
Hiscox Group insurance intermediaries	**6,890**	6,425	**(16,336)**	(15,396)
Other Hiscox Group companies	**–**	–	**(6,626)**	(8,043)
	109,967	68,102	**66,673**	89,732

(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.

	2016 £000	2015 £000
Gross premium income achieved through associates	**234,201**	185,588
Commission expense charged by associates	**21,318**	15,538
Amounts payable to associates at 31 December	**–**	–
Amounts receivable through associates at 31 December	**58,536**	67,455

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.

37 Subsequent events

On 27 February 2017, the Lord Chancellor announced a change to the discount rate in relation to compensation claims as a result of personal injury from +2.5% to -0.75%. The impact to the Group has been assessed as not material.

Five-year summary

	2016 £000	2015 £000	2014 £000	2013 £000	2012 restated £000*
Results					
Gross premiums written	**2,402,579**	1,944,220	1,756,260	1,699,478	1,565,819
Net premiums written	**1,787,943**	1,571,844	1,343,410	1,371,114	1,268,140
Net premiums earned	**1,675,013**	1,435,016	1,316,259	1,283,311	1,198,621
Profit before tax	**354,543**	216,100	231,075	244,538	217,454
Profit for the year after tax	**336,986**	209,895	216,152	237,758	208,026
Assets employed					
Intangible assets	**123,724**	126,222	105,946	72,720	69,617
Financial assets carried at fair value	**3,792,033**	2,921,585	2,828,847	2,585,054	2,406,269
Cash and cash equivalents	**664,816**	727,880	650,651	564,375	657,662
Insurance liabilities and reinsurance assets	**(3,047,327)**	(2,509,552)	(2,309,854)	(2,150,299)	(2,056,223)
Other net assets	**285,157**	262,694	178,616	337,611	288,041
Net assets	**1,818,403**	1,528,829	1,454,206	1,409,461	1,365,366
Net asset value per share (p)	**649.9**	545.0	462.5	402.2	346.4
Key statistics					
Basic earnings per share (p)	**119.8**	72.8	67.4	66.3	53.1
Diluted earnings per share (p)	**116.0**	70.5	64.5	63.5	51.0
Combined ratio (%)	**84.4**	85.0	83.9	83.0	85.5
Return on equity (%)	**23.0**	16.0	17.1	19.3	17.1
Dividends per share (p)	**27.5**	24.0	22.5	21.0	18.0
Share price – high† (p)	**1,097.0**	1,059.0	735.0	695.0	489.4
Share price – low† (p)	**900.5**	707.5	624.5	453.6	369.3

*The 2012 results have been restated to reflect the revised pension accounting standard.
†Closing mid-market prices.

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