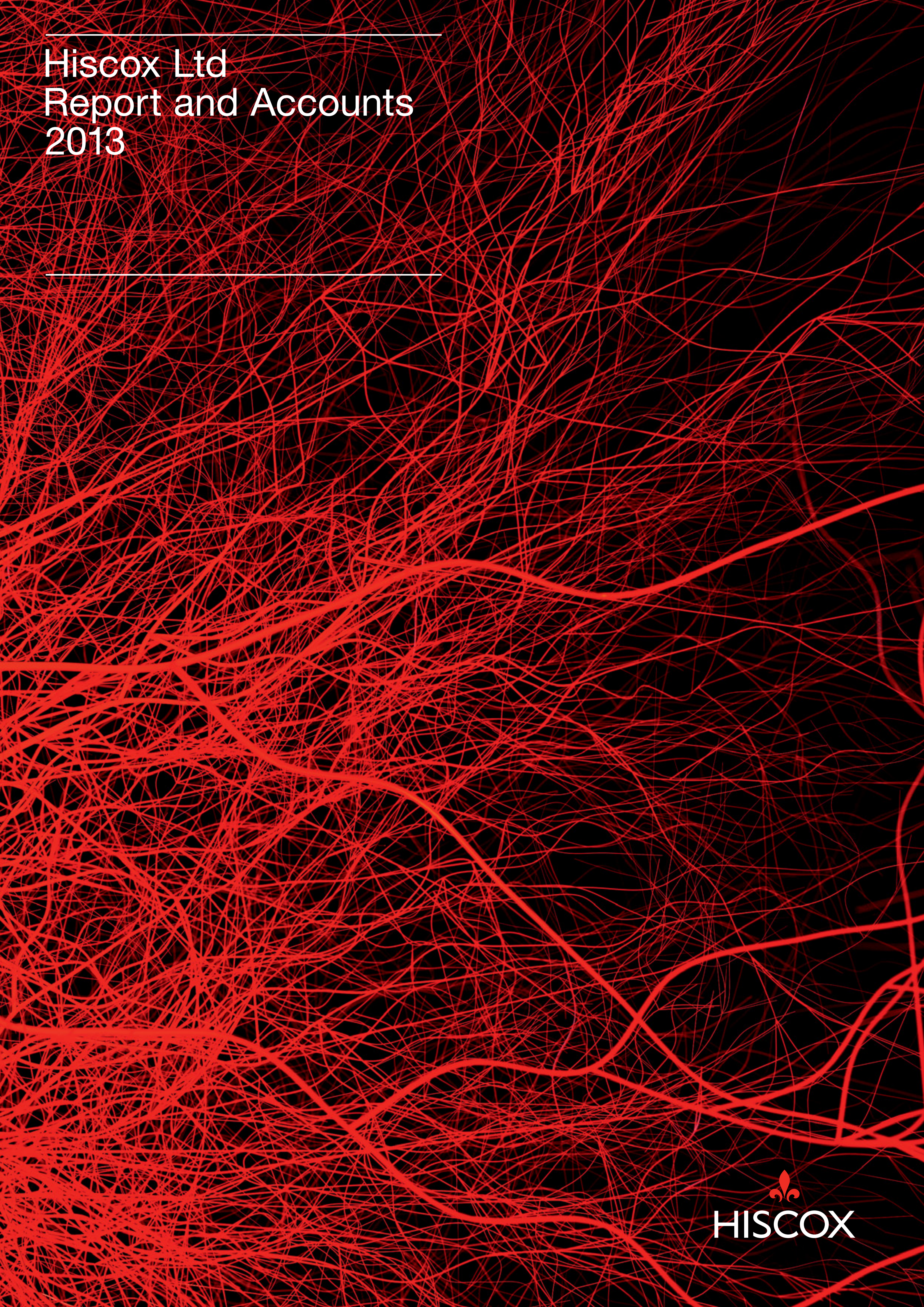
Hiscox Ltd
Report and Accounts
2013



HISCOX

Contents

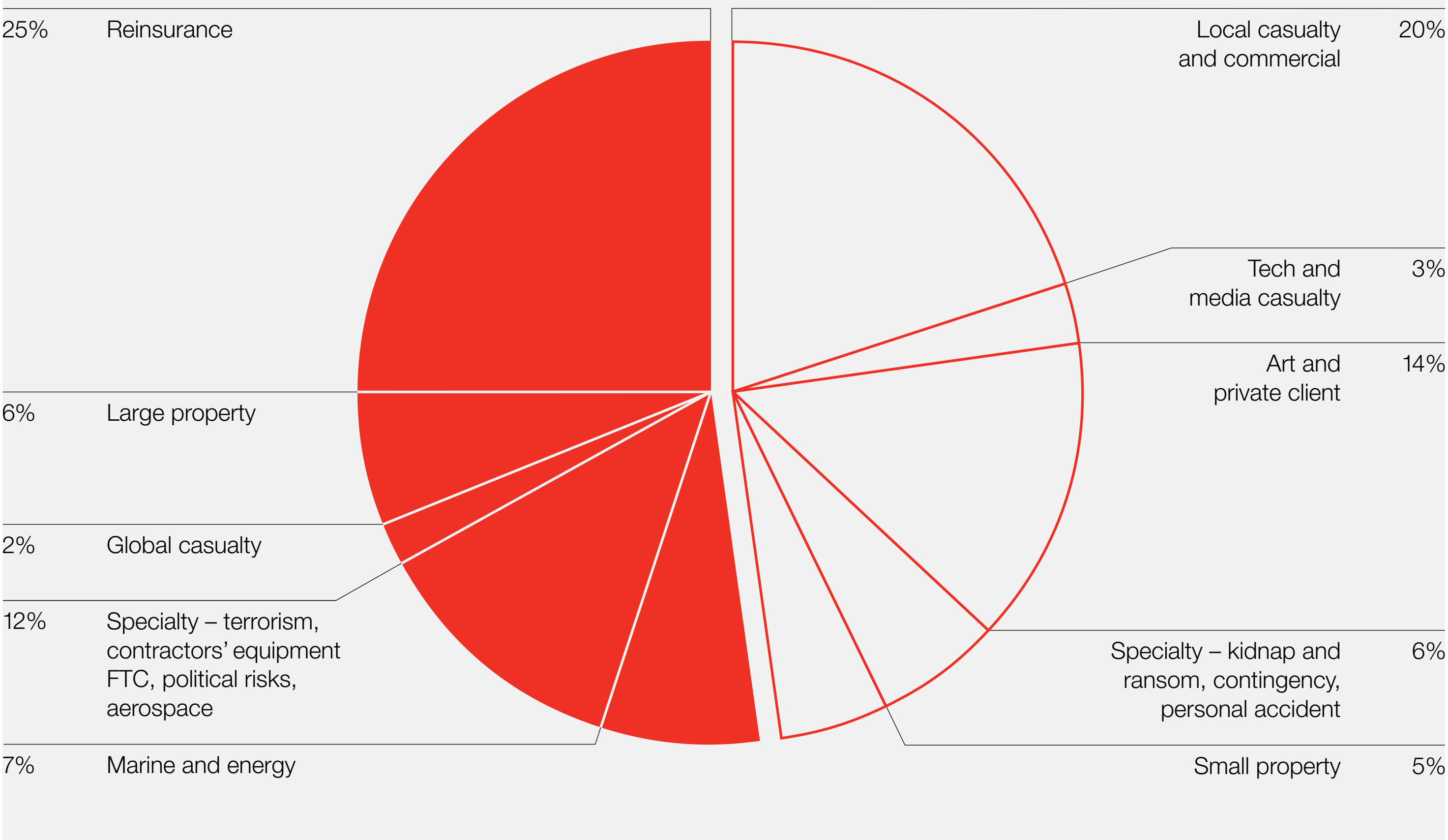
Our ambition is to be a highly respected specialist insurer with a diverse portfolio by product and geography. We believe that building balance between catastrophe-exposed business and less volatile local specialty business gives us opportunities for profitable growth throughout the insurance cycle.

Our strategy is:

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

Strategic focus
Total Group controlled income for 2013

100% = £1,924m



Corporate highlights

Group key performance indicators

	2013	2012* restated
Gross premiums written (£m)	1,699.5	1,565.8
Net premiums earned (£m)	1,283.3	1,198.6
Profit before tax (£m)	244.5	217.5
Profit after tax (£m)	237.8	208.0
Earnings per share (p)	66.3	53.1
Total dividend per share for year (p)	21.0	18.0
Net asset value per share (p)	402.2	346.4
Group combined ratio (%)	83.0	85.5
Group combined ratio excluding foreign exchange (%)	82.1	84.6
Return on equity (%)	19.3	17.1
Investment return (%)	1.9	3.1
Reserve releases (£m)	140.3	151.9

Capital return

Capital return of 50.0p per share, approximately £178 million, by way of C/D share scheme combined with share consolidation.

Includes final dividend equivalent of 14.0p taking total dividend for the year to 21.0p, an increase of 16.7% (2012: 18.0p).

Additional special distribution of 36.0p per share.

Operational highlights

Gross written premiums grew by 8.5%.

Hiscox London Market delivered excellent profit of £116.0 million (2012: £121.9 million).

Hiscox UK provides another solid performance, with profits of £45.4 million (2012: £45.2 million).

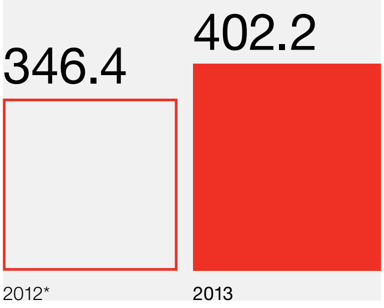
Hiscox Europe returns record profits of £10.9 million (2012: £3.9 million).

Hiscox USA continues good premium growth, up by 31.1% to £189.5 million (2012: £144.5 million).

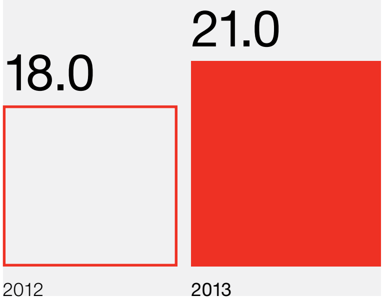
Formed Hiscox Re, our combined reinsurance teams in London, Paris and Bermuda.

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

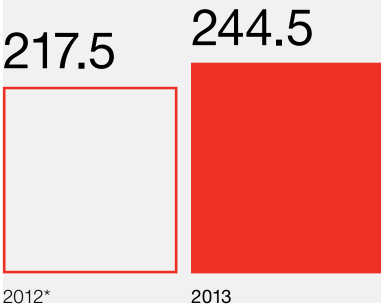
Net asset value p per share



Dividend p per share



Profit before tax (£m)



Why invest in Hiscox?

We are a leading specialist insurer with:
- balance that creates opportunity throughout the cycle;
- strong financial performance;
- a transparent approach to risk;
- specialist expertise that is valued by our customers.

Our business
A balanced portfolio that creates opportunity throughout a cyclical market

Hiscox's strategy is to balance the more volatile catastrophe-exposed insurance and reinsurance with steady local specialty insurance. Our diversity by product and geography gives us great flexibility, particularly in a tough commercial environment. We are able to grow and shrink the catastrophe-exposed lines according to market conditions. Our local specialty insurance business tends to be steadier throughout the insurance cycle and we have successfully grown our retail lines by 9.3% year-on-year over the last five years.

Our performance
Strong financial performance

Hiscox has a strong record of top-line growth with a focus on ROE. Performance highlights between 2009 and 2013 include:
- increased gross written premiums by 18.4% to £1.7 billion;
- healthy combined ratio averaging 88.7%;
- delivered average ROE of 16.9%;
- maintained a progressive dividend policy with compound growth of 8.8%;
- returned additional £278 million of capital.

Our expertise
A transparent approach to risk

The very business of insurance is managing risk. The understanding of risk is intrinsic to every level of decision-making in the Group. We devote a great deal of expertise to understanding the impact of global events and model these rigorously. We also draw on over 100 years of experience in insurance to assess these risks.

Catastrophes such as hurricanes and earthquakes could hit at any time, and naturally would have an impact on our business. Therefore twice a year, in our analysts' presentations and on our website, we publish estimates of what the Group's losses would be should such a catastrophe occur.

Our people
Specialist expertise that is valued by our customers

We are market leaders in many of our specialist areas and our customers value the expertise and cover we provide. What our customers have said about us:*
- in France, 98% of small business customers found Hiscox service excellent or good;
- in the USA, 96% of small business customers surveyed would recommend us;
- small business customers gave Hiscox UK an average of 4.77 out of a possible rating of 5 for service satisfaction;
- home insurance customers gave Hiscox UK an average of 4.5 out of a possible 5 for service satisfaction.

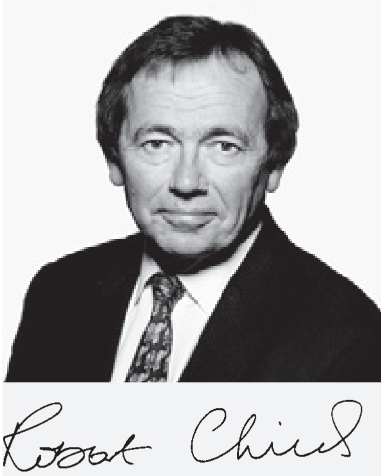
Hiscox was awarded 'Best Small Business Insurer' as voted for by Start Your Business Magazine for the fifth year in a row. Our claims service was recognised by Post Magazine and the Insurance Times, winning Personal Lines Team of the Year as well as the UK Claims Excellence Award. Hiscox London Market's Terrorism team received Underwriting Team of the Year at the Insurance Day London Market Awards 2013.

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

The quality of our people has been a key ingredient in our success

Hiscox's reputation for innovation and dynamism is built in large part on the energy, professionalism, commitment and expertise of our employees. In September 2013, Hiscox conducted its sixth global employee engagement survey. Open to all permanent members of staff, it looks at how connected employees feel to Hiscox, their managers, their teams and their role. Hiscox continues to have high employee engagement, averaging in the top 75th percentile when compared with over 200 companies worldwide. Of particular note is that 92% of staff are proud to work for Hiscox. 95% of Hiscox employees also responded favourably to the question 'I believe in the values at Hiscox'.

Chairman's statement



Robert Childs
Chairman

In my first full-year statement as Chairman, it is pleasing to report an excellent underwriting result and the second highest profit for the Group. A benign hurricane season and sound underwriting contributed to the very good results, with every area performing well. Our reinsurance and London Market insurance benefited from the lack of US hurricanes, and also underwrote well to minimise losses from the European and Calgary storms. Our regional businesses in the UK, Europe, Guernsey and USA have also reaped the rewards of sustained investments in both infrastructure and marketing.

The plan has not changed with the passing of the baton from the previous Chairman to me. We aim to expand our regional businesses continuously, whilst growing the bigger ticket businesses when margins are high, or contracting when those margins reduce. We will maintain the same strategy of balance that has served us so well over time.

Results

The results for the year ending 31 December 2013 were a profit before tax of £244.5 million (2012: £217.5 million). Gross written premium increased by 8.5% to £1,699.5 million (2012: £1,565.8 million) and net earned premium increased 7.1% to £1,283.3 million (2012: £1,198.6 million). The combined ratio was 83.0% (2012: 85.5%). Earnings per share increased by 24.9% to 66.3p (2012: 53.1p) and the tangible net asset value per share increased by 16.0% to 381.4p (2012: 328.7p). Return on equity increased to 19.3% (2012: 17.1%).

Dividend, balance sheet and capital management

The Board has reviewed the capital requirements of the Group for the coming year and has proposed that a special distribution of 36.0p per share (amounting to approximately £128 million), should be made. This represents two successive years where we have been able to share our success with shareholders with an additional capital return. We do not promise a third.

Following the distribution, the Group's capital levels will be similar to those of the opening balance sheet, post the 2013 capital return, which will have a favourable impact on both the Group premium to capital gearing ratio and return on capital, whilst still providing sufficient headroom above existing internal and external capital needs. This proposed return of capital will be made by way of a C/D share scheme, which is a variation of the B share scheme used in 2013, and as in the previous year, will be combined with a share consolidation.

In addition, a sum of 14.0p per share will be paid instead of a final dividend for the year ended 31 December 2013 as part of the C/D share scheme. This amount, together with the interim dividend of 7.0p per share, represents a total dividend for 2013 equal to 21.0p per share (2012: 18.0p), an increase of 16.7%, in line with our policy of progressive dividend growth. As a result of this amount being paid as part of the C/D share scheme, a scrip dividend alternative will not be offered to shareholders.

Full details of the proposed return of capital and final dividend equivalent will be set out in a circular expected to be despatched to Hiscox shareholders on or around 25 February 2014.

Investments

Traditionally many in our industry have relied on investment income for more than half their overall profits. However, the persistence of low interest rates has shifted the balance between underwriting and investment income. Our investment strategy remains cautious: we will not take undue risk, preferring modest investment returns alongside better underwriting results to fuel profits. Our investments delivered a return of 1.9% (2012: 3.1%) which is good, given the challenging year in bond markets, and was driven by our allocation to risk assets, principally equities. A return to higher interest rates will be welcome, but given the more likely long road to normality, it seems that bond investors will have the wind in their faces for another year, and we will remain patient.

The market and our opportunities

So much of the punditry this year has been about the growth of the ILS (insurance linked securities) market and its effect on reinsurers and pricing. Competition has increased but as a respected leader in reinsurance we have been able to maintain our share of well-rated business. Reducing margins are a big issue for businesses that have no alternative to reinsurance. Although we are not immune, we are in the fortunate position of being able to reduce lines of business where this competition impinges and grow in areas where it does not.

We have organised the two reinsurance teams under a single leader to face the new challenges of today and we have also formed our own ILS fund to deploy both our own and others' capital.

Our success in reinsurance has rather overshadowed the London Market insurance business which has quietly been doing very well. With its new leadership we feel it is well placed to continue to grow in 2014.

In Hiscox UK, Hiscox Europe and Hiscox USA, our market share in our chosen specialist lines is still small and we see many opportunities for growth. We are investing heavily in our direct-to-consumer businesses in the UK, Europe and USA as we aim to take advantage of the growing trend to purchase insurance direct, online and over the phone. In 2013, 50% of our customers in the UK and USA (160,000 householders and businesses) chose to buy cover directly from us. In 2013, the Group spent £30 million on marketing, and plan for the same this year. Under the leadership of Steve Langan, our investment in marketing has built a recognised and respected consumer brand in the UK and we are making good headway in other markets.

People and future

As I write this, the windows of my office are rattling in the wind, rivers are rising and the media are reporting the polar vortex freeze in the USA. Events such as these remind us of the importance of insurance and delivering on our promise to our customers. We issue a promise to pay, and it is only when a claim is made that we truly prove our worth.

When we surveyed our employees this year about life at Hiscox, 95% said they believed in our values and 92% were proud to work here. When I first started at Hiscox in 1986 we employed 18 people in the London Market only. Today we employ over 1,600 skilled and determined people around the world and they are the future of this business. We have been setting our ambitions for the next ten years and believe it is essential that our employees continue to keep the Hiscox values at our core. To reach our ambitious targets, we are asking more of our employees; more courage and great entrepreneurship delivered with Hiscox's characteristic spirit. I am very proud to work with such talented people and thank them for their sterling efforts this year.

Finally

We have underwritten and sold well. We continue to strive for world-class service and to delight our customers when they make a claim. We have also had good luck but we have taken our chances when they were presented. However we cannot presume that the elements in 2014 will be as kind to us as they were in 2013, already we have seen extreme weather events, freezes in the US and floods in the UK. We can rely on core skills to drive profitability. Opportunities abound across our retail businesses in UK, Europe and USA and we have great people taking advantage of them. We are not complacent and will continue to invest for the future, both in markets and in infrastructure, and we relish the challenges ahead.

Robert Childs
24 February 2014

A benign hurricane season and sound underwriting contributed to the very good results, with every area performing well.

Chief Executive's report

I am pleased to report a profit before tax of £244.5 million (2012: £217.5 million) and a return on equity of 19.3% (2012: 17.1%). The improved profit was the result of better performance within our European and US businesses, coupled with continued good performances from our UK, Guernsey, London Market and Bermuda businesses. Our long-term strategy of building locally traded specialist retail business to balance our internationally traded business continues to deliver.

With these results, we have announced a capital return of 50p per share, equal to approximately £178 million in total. We are fortunate that our business is strong enough both to allow this return of capital whilst simultaneously investing in new opportunities.

The insurance market is currently facing many challenges. Alternative sources of capital have entered the reinsurance market putting pressure on pricing, while central banks' policies of financial repression are keeping investment returns low. Thanks to our long-term strategy we have choices – in product, distribution and geography – which should allow us to continue to deliver good results in a changing world.

Hiscox London Market

Our London Market businesses delivered another excellent profit of £116.0 million (2012: £121.9 million), and increased gross written premiums by 4.4% to £668.2 million (2012: £640.0 million). It achieved a combined ratio of 75.4% (2012: 75.5%), driven by a relative lack of natural catastrophes and good underwriting.

During the year we separated our London Market business into insurance and reinsurance lines. Our aim has been to give these different product areas more dedicated leadership, providing greater focus on the changing market conditions and the opportunities they produce.

London Market Insurance

The London Market Insurance lines of property, marine and energy, casualty, aerospace and specialty have consistently delivered excellent profits over the last ten years and in 2013 they delivered another good result.

In April, Paul Lawrence was promoted to Chief Underwriting Officer of Hiscox London Market and, together with his more focused leadership team, he has brought new energy and a business development mindset which is already bearing fruit.

Business in the London Market has always been placed either on a stand-alone, risk-by-risk basis, or grouped together to facilitate placement. There has been a lot of controversy surrounding facilities in the London Market this year as the market has seen an increase in their number and size. We have a lot of experience writing them in the US where business has been routinely placed in this way. We believe that facilities can be underwritten profitably provided we have underwriting control, a right to say no and realistic commissions. If these conditions are satisfied, then we expect facilities to play a role in 2014's business expansion plans.

Looking at each division in turn:

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

  A lack of natural catastrophes and a refocus of the business have delivered an excellent result for our big-ticket commercial and household property lines. We have grown our small binding authority business, which is still carrying rate increases, whilst maintaining our larger big-ticket business at reasonable rates.

  Our terrorism business had a strong year, as a young energetic team took the reins. It was recognised by its peers with the accolade of 'Underwriting Team of the Year' at the Insurance Day London Market Awards. Drawing on new hires with global security and front-line counter terrorism experience, we created a counter terrorism advisory team which assists clients with risk management and prevention. This supplements our relationship with Control Risks and consolidates our market-leading position.

- **Marine and energy:** The marine and energy team delivered another good profit. The marine hull team have worked hard to improve profitability in a lack-lustre market and delivered an exceptional result. Pressure was felt in energy lines as fewer construction projects, and more oil companies looking to self insure, led to reduced demand. In 2014, we are focused on building opportunities in emerging markets such as Brazil.

  The Costa Concordia market loss continues to deteriorate as leading-edge salvage operations go on at insurers' expense. Thanks to astute reinsurance purchasing, our results were not affected by the continually increasing market loss. We have seen an improvement in terms and prices at the renewal of the International Group of P&I Clubs in February, as the market adjusts as a result of ever-growing salvage costs.

Bronek Masojada
Chief Executive

We launched an online product for marine employers' liability, accessible to retail brokers in the US. It has already generated £1 million in premium, a good start, and developed technology which we expect to put to use in other London Market lines.

— Casualty: In casualty we have seen some firming of rates, but it is by no means a hard market. We continue to pick our way through, marrying good underwriting with our core appetite to deliver a strong result. We have ambitions to play a significant part in the London Market directors and officers' (D&O) arena, writing US and some international business. We have bolstered our team with some senior hires during the year. We now have the ability to offer a full suite of products across a broad range of markets, professions and risks including lawyers, architects and engineers, healthcare, technology risks, miscellaneous errors and omissions (E&O), management liability, and privacy. We have also created a consortium with another Lloyd's insurer, creating significant D&O capacity, and increasing the attractiveness of Lloyd's to the US market.

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

The aviation market has seen significant downward pressure on major airline accounts. Our underwriters remain disciplined, walking away from poorly rated business, seeking growth by developing products which combine aviation with our terrorism capabilities. The space market has suffered around $700 million of satellite losses during the year, which we largely avoided. We expect this will have a positive impact on rates.

Our political risks team have had a good year despite the challenging times. The team is looking at ways to leverage their expertise and underwrite outside the Lloyd's market, potentially using licences available to our insurance companies.

Contingency continues to be a small jewel in our crown, delivering another good result. The personal accident team developed a new product which will cover top European football clubs for financial loss when star players suffer long-term injury or illness. This has already generated headlines and we hope will generate good incremental revenues.

— Alternative distribution: It is a perception, though a slightly unfair one, that Lloyd's underwriters sit at Lloyd's waiting for business. Our underwriters are frequent travellers visiting existing brokers and seeking new agents who will send business to London. We have created a new division that combines technology with this desire to travel to bring new opportunities to London. The marine employers' liability product referred to earlier is a case in point.

Through our relationship with White Oak, a specialist automotive and equipment underwriting agency, we provide extended warranty cover against sudden and unforeseen mechanical breakdown for cars, trucks and other heavy machinery. Our business with White Oak has grown rapidly over recent years and now represents 24% of our London Market Insurance gross written premium. This type of indemnity does not include endemic failure or product recall. During the year White Oak launched a scheme in China (in conjunction with local Chinese carrier Ping An) which will become one of the largest Chinese deals in the London Market. We also cover fire, theft and collision (FTC) for heavy machinery used within agriculture, construction and forestry businesses globally, providing first-party coverage to the client's vehicle only.

We expect that the importance of this division will grow, bringing new opportunities to the other parts of the London Market team.

London Market reinsurance

The reinsurance team trading in London has performed well. Premiums reduced slightly as the team exercised discipline in the face of price declines at the June and July renewals. Our marine, catastrophe, pro-rata and retro books performed well. Our risk excess book suffered from the Rio Tinto, YPF/La Plata, Dietz and Watson events. Aggregate profits remained strong. During the year we brought together the leadership of the London and Paris reinsurance teams which comprise the London Market reinsurance business with the teams in Bermuda, to underwrite as Hiscox Re from January 2014, giving us greater presence in an evolving market. This consolidates our expertise, capacity and market profile under the leadership of Jeremy Pinchin. The teams underwrote a combined £411.5 million of reinsurance premium during 2013, making Hiscox a top tier player.

Hiscox International

Hiscox International comprises our activities in Bermuda, Guernsey and the United States.

Our long-term strategy of building locally traded specialist retail business to balance our internationally traded business continues to deliver.

Gross written premiums grew by 12.9% to £472.1 million (2012: £418.3 million) driven by good growth in Hiscox USA. Profit before tax increased to £80.9 million (2012: £62.7 million) and the combined ratio improved to 81.0% from (2012: 89.2%).

Hiscox Bermuda
Hiscox Bermuda had another good year, with premiums growing by 5.6% to £211.9 million (2012: £200.7 million), with good growth in our healthcare business. Profits remained strong.

As expected, reinsurance rates at the important 1 January renewals were down by approximately 16%. Given the aggressive nature of competition from both traditional and new sources of capital, our reinsurance business will shrink in 2014 as we continue to prioritise quality clients who value our underwriting, brand and balance sheet.

Third-party capital partners are very important to the Group and we have good support from quota share partners and Syndicate Names. In 2014 they are backing Hiscox Re at a record level. We continue to explore new opportunities in the insurance linked securities (ILS) space, and through Kiskadee we launched a number of collateralised reinsurance funds during the year. We have deployed $110 million of capital – less than we had expected as we are seeing signs that capital markets investors are being more disciplined than some traditional reinsurers. We believe that over time, our record of prioritising profit over volume will win a following in this new investor base, and our support from them will grow.

Hiscox Guernsey
In Guernsey we underwrite fine art, kidnap and ransom (including piracy) and terrorism, supported by broking teams in London and Miami. Premium income reduced slightly to £70.8 million (2012: £73.0 million). Profits have grown strongly through a combination of disciplined underwriting and fewer claims. We have benefited from subrogation recoveries from other insurers on prior-year claims and the absence of large fine art losses. The team is not resting on its laurels and is investing in more talent in Miami and London to expand distribution on a stand-alone basis and in partnership with local insurers and brokers.

Hiscox USA
Our US business had another year of strong growth. Gross written premiums grew by 31.1% to £189.5 million (2012: £144.5 million) with progress across all major areas. Losses reduced materially as we grew towards scale and benefited from a positive development of reserves.

Our wholesale business, which includes property and professional liability lines, grew by 20% and made a good profit. Our specialty business grew by 22% but profitability was mixed. Strong performance in kidnap and ransom, media, technology and terrorism was offset by more challenging performance in construction, and the still nascent D&O and entertainment businesses. We refocused our underwriting appetite in construction and adjusted our pricing in D&O, we expect this to drive better performance in 2014.

Our small business proposition, which we sell direct and through partnerships, grew by 140%; we now have over 50,000 small business customers, and are selling over 1,000 policies a week. We continue to explore new distribution opportunities and launched a portal to wholesale brokers during the year. Brand building continues, with campaigns in San Diego, Austin and Boston. In time these efforts will benefit the entire US business.

The rating environment in the US is mixed. Overall rates remain healthy, with slight upward pressure in some casualty lines, and downward pressure in property. We are very pleased with our fast-growing US business and expect that, absent significant catastrophe losses, it will make a small profit in 2014.

Hiscox UK and Hiscox Europe
Our retail businesses in the UK and Europe delivered a record profit of £56.4 million (2012: £49.1 million). Gross written premiums grew by 10.2% to £559.1 million (2012: £507.5 million). The combined ratio improved to 92.6% (2012: 94.4%).

We have built our retail businesses by understanding local markets and bringing Lloyd's-style flexible underwriting and thinking to local brokers. As part of the evolution of Hiscox, Steve Langan, previously Managing Director of Hiscox UK, became Managing Director of Hiscox UK and Europe. Pierre-Olivier Desaulle remains Managing Director of Hiscox Europe, reporting to Steve, and we created two new divisions in the UK, one for the broker channel and one for direct. The Managing Directors of these two divisions report to Steve. The restructure will allow customer insight, alternative distribution approaches, new products and good marketing practices to be shared more easily – all part of the ongoing 'retailisation' of our business.

Hiscox UK
Hiscox UK had another excellent year and grew gross written premiums by 9.9% to £412.4 million (2012: £375.2 million). The business had profits of £45.4 million (2012: £45.2 million) with a combined ratio of 90.7% (2012: 92.1%).

Hiscox London Market

	2013 £m	2012 £m
Gross premiums written	**668.2**	640.0
Net premiums earned	**433.5**	419.0
Underwriting profit	**110.2**	105.1
Investment result	**8.9**	27.0
Foreign exchange	**(3.1)**	(10.2)
Profit before tax	**116.0**	121.9
Combined ratio	**75.4%**	75.5%
Combined ratio excluding foreign exchange	**74.1%**	73.1%

Hiscox International

	2013 £m	2012 £m
Gross premiums written	**472.2**	418.3
Net premiums earned	**341.4**	302.7
Underwriting profit	**70.8**	30.3
Investment result	**12.7**	29.2
Foreign exchange	**(2.6)**	3.1
Profit before tax	**80.9**	62.6
Combined ratio	**81.0%**	89.2%
Combined ratio excluding foreign exchange	**80.3%**	90.2%

The business benefited from our continued investment in marketing and a focus on solid underwriting. It had a charmed first 11 months, as the weather had been benign until mid-December while the few major weather events, such as the St Jude's day storm in October, had little impact. The heavy rain and consequent flooding in December changed this. Our clients suffered extensive damage to their homes both from driving rain and flooding and we responded quickly. A post-bag of thank-you letters in January is testament to the fact that dealing with the Hiscox claims team is succour in troubled times.

Our high net worth household business was tested by the floods and has performed well. Its market reputation meant that client retention remained strong and it had its best new business premium for ten years. Our professions and specialty commercial book also made good progress and a new technology insurance portfolio offering that responds to the growing prevalence of breach of contract claims was launched. Our underwriting relationship with Dual, an independent managing general agent, had a testing year and we have agreed changes to underwriting appetite which should see better performance in the future. Our partnerships business had a good year, retaining all of its existing partnerships as well as securing five new ones including the Royal Institute of British Architects and the Royal College of General Practitioners. Our new tied agency Hiscox Private Client is doing well.

We are also establishing a strong presence in York, where we are creating a purpose-built multi-function office. We now have 70 people based in our temporary office, working within our Customer Experience Centre, Hiscox Underwriting Centre and IT. In December we received planning consent for the permanent building, and construction will commence in the first half of 2014.

Hiscox Europe

Our European business had an outstanding year, generating a record profit of £10.9 million (2012: £3.9 million), despite £3 million investment in marketing to support our fledging direct businesses in France and Germany. It had solid growth of 10.9% to £146.7 million (2012: £132.3 million), with new business up by 14% driven by commercial lines in Germany and France. After shrinking for several years, our high net worth business in Europe also returned to growth.

Hiscox Europe continues to lead the way in devising alternative distribution deals, in which we sell our specialist products through larger financial institutions. This year we added France's Crédit Agricole to our list of partners.

Work continues to reduce expenses across Europe, with a simplified referral process, greater use of pre-priced proposal forms and an operating model which ensures that underwriters are able to focus on business development and underwriting larger risks, with smaller risks and renewals handled by office-based teams. We expect a continued steady improvement in expenses, maintaining our profit performance.

In Germany we launched direct-to-consumer small business insurance. Aimed at businesses in knowledge-based professions including IT, management and business consulting, it matches our existing offering in France and complements the German broker channel. As in the US and UK, we expect that in time the marketing expenditure required to build our French and German brands will benefit all distribution channels.

Our market positions in mainland Europe are small compared with our UK position and the quality of our offering is reflected by strong growth despite tough economic conditions, so we expect continued profitable growth and development in mainland Europe.

Claims

2013 was a relatively benign year for large-scale catastrophe losses. Despite the market increasing reserves for the Costa Concordia our net loss has reduced slightly to US$19 million. For the first 11 months we did not experience material losses as a result of extreme weather events, such as the Central European floods, the Calgary storm in Canada, the St Jude's day storm which hit the UK and Europe, and typhoon Haiyan which battered the Philippines. This clearly changed in the UK with the period of sustained rain and flooding which began in mid-December. We reserved £11 million for UK flood claims in December. UK flood and storm losses have continued into January and February. We expect to reserve a further £5 million to cover these losses.

Our commitment to pay claims fairly, fast and with a smile remains at the heart of our business. We have built claims teams that lead the market and it is gratifying to receive external recognition of this. Our London Market business was ranked in the top three for claims in a recent Gracechurch survey and our UK team was recognised with a number of industry awards; 'UK Claims Excellence Awards' at the Insurance Times Claims Excellence Awards and 'Personal Lines Claims Team of the Year' at Post Magazine's Claims Awards.

Whilst reserve releases of £140 million were down from £152 million last year, they continue to reflect Hiscox's cautious reserving approach.

Hiscox UK

	2013 £m	2012 £m
Gross premiums written	412.4	375.2
Net premiums earned	379.2	351.3
Underwriting profit	38.1	31.2
Investment result	11.7	14.6
Foreign exchange	(4.4)	(0.6)
Profit before tax	45.4	45.2
Combined ratio	90.7%	92.1%
Combined ratio excluding foreign exchange	89.5%	91.9%

Hiscox Europe

	2013 £m	2012 £m
Gross premiums written	146.7	132.3
Net premiums earned	129.2	125.6
Underwriting profit	3.4	1.8
Investment result	6.5	3.1
Foreign exchange	1.0	(1.0)
Profit before tax	10.9	3.9
Combined ratio	98.1%	100.9%
Combined ratio excluding foreign exchange	98.9%	100.2%

Chief Executive's report continued

The UK Government and the insurance industry are currently working on the creation of Flood Re to provide mutualised insurance cover. Hiscox support the overall initiative but feel that current plans are unfair and unworkable. At the moment rented properties, leasehold properties, homes built after 2009 and H/I band council tax homes are being excluded from the mutual. The excluded will also have to pay a levy to fund Flood Re, but would be unable to purchase subsidised insurance from Flood Re, even though their neighbours and other bands would be able to. It has been widely reported that the levy would be £10.50 per residential property. This is highly misleading; it will actually be 2.2% of premium paid and we estimate that Band H homes will pay 20 times more than the average home in Britain. We are calling on the Government to work with us to find a solution to ensure that either these groups are included in Flood Re, or that they are excluded fully – both in payment and benefit. Floods are one of the most traumatic claims we see, a flood doesn't discriminate and neither should the Government.

Marketing

During 2013 we spent £30.6 million on marketing across the Group, an increase from £26.3 million in 2012. Most of this was spent promoting our direct-to-customer operations in the UK, the US, France and Germany. The balance was spent on broker channel marketing; either marketing to brokers, or helping them market to their customers. A small amount was also spent on corporate sponsorships, mainly supporting art-related activities.

Our marketing activity has been instrumental in building the Hiscox brand, communicating what we do to an ever-broader audience, building awareness of Hiscox and ultimately driving sales. Its benefits have been most felt in the UK where it has had a positive impact not only on the direct channel, but also in the retail broker channel, and even in our Lloyd's activities. As we spend more in other geographies I believe we will see similar broad business benefits.

Operations and IT

Efficient operations and sound IT form the backbone which supports the day-to-day activities of every part of our Group. During 2013 we made progress on a number of inter-related projects which will benefit different divisions within the Group.

During the year we successfully insourced the service centre dealing with our UK direct home insurance clients. This involved hiring 35 people to staff a newly formed Customer Experience Centre in York. This process went very smoothly and we are now considering its extension to other lines of business.

We also began a project to replace the core underwriting, policy administration and claims systems supporting our retail businesses. The current core system is over 20 years old, so it has performed well, but its time is now up. We are working under the slogan 'simplicity is the ultimate sophistication' and we expect to complete the first phase of implementation, for our UK direct home system, this year. In time we expect to replace the entire UK retail infrastructure, and then that of our European businesses. The total cost of the project in the UK is expected to be £45 million spent over a period of four to five years.

In Europe our 'Get Fit' programme is gaining traction. This is based on a foundation of lean manufacturing principles and we are slowly seeing our European expense ratio reducing. This programme is continuing in 2014 and should help underpin growing profitability of our European broker channel business.

In the US our operations team have been working hard to support the 30% growth. This has seen further investment in our Atlanta and Virginia Beach service centres.

In our London Market activities we are very dependent on shared services which support Lloyd's, the company market and the brokers. At the beginning of 2013 we took the decision to become more engaged in driving improvement across the market, and we now have representatives on several key committees. Involvement in market reform can at times be a frustrating process, but we feel that we can play a role in leading the market for the benefit of all.

Investments

Hiscox's investment income has historically accounted for about half of the Group's profits, but this was never going to be the case in 2013 given the harsh investment climate and our excellent underwriting result. Our investments, before derivatives, made £58.9 million (2012: £92.7 million) equating to a return of 1.9% (2012: 3.1%). We had expected our return to be lower than in 2012, but 1.9% can qualify as better than expected in the world of financial recession in which we are investing. The return from our bond portfolios was much lower than in 2012, but this was as forecast. It has been a challenging time for most fixed income investors, and indeed 2013 turned out to be one of the more volatile years in these markets. It was a good year to be short duration, and our caution has resulted in a low, but positive contribution.

Our exposure to risk assets made a significant contribution to the investment performance this year, and a number of our UK-focused funds produced particularly strong returns. We started 2013 with a weighting to risk assets of 6.2% and trimmed this slightly after the strong run in May, but this has now moved up to 7.1%.

Our overall asset allocation did not change very much during the year. We built up our cash levels towards the end of 2013 and we are happy to have money in the bank ahead of a year where bonds markets face headwinds and equities are unlikely to maintain their recent performance. Central bankers' reaffirmation that short-term interest rates were set to stay low for some time has meant our return expectations from our bond portfolios remain modest. Our overall investment income in 2014 is expected to be dependent on the performance of our risk asset portfolio. Although short-dated bonds may be similarly valued to a year ago, the same cannot be said of equities. Current valuations and an uncertain outlook for corporate earnings means we will continue to closely monitor our exposure. Patience and prudence still lie at the heart of our investment strategy but with some appetite for risk in asset classes where valuation seems more reasonable.

Capital management

We have announced today a capital return of 50p per share, equal to approximately £178 million. This is composed of a 36p per share capital return and a further amount of 14p in place of a final dividend. This will take total capital back to £1,231 million, slightly more than our level at the start of 2013, post the capital return in March of last year.

This is the second year in a row of such a capital return, but we do not believe that this is a pattern. We are working hard to deploy as much capital as possible in sectors where we can earn returns in excess of our cost of capital, but we think the right decision is to return capital not properly deployed, after retaining a prudent buffer, to shareholders. The Board will continue to keep this balance under review.

Our people

2013 was a year that saw substantial changes in Hiscox's leadership and structure. Robert Hiscox retired as Chairman in February 2013 and was succeeded by Robert Childs, who was previously our Chief Underwriter. Richard Watson, Rob's successor as Chief Underwriter, was appointed to the Board in May.

We have also made progress in areas less visible to shareholders. We are steadily appointing a second tier of management who will in the future be candidates to assume the most senior leadership roles within Hiscox. In the broader organisation 39% of promotions were filled by internal candidates. We want Hiscox to be a great place to work and grow for the ambitious and talented – so I am delighted that we have filled so many roles from within.

Structural and role changes always have the potential to upset a business, so it is a testament to the robustness of Hiscox and the drive to succeed amongst all our staff that we flourished this year. I would like to thank all staff for the role they played in achieving this – but know that they remain hungry for further progress and success.

Outlook

During 2013 we used the change of Chairman to initiate a process to define our ambitions for the years ahead. This process considered the more conventional strategic questions of products, markets and customers, as well as the type of firm we aspire to be in the future.

The good news from a shareholder perspective is that the strategic work suggests that the insurance markets and customer segments we already serve are sufficiently large enough, and our current market shares small enough, to allow us to double the size of business we have today through organic growth. We also believe that we can create further growth opportunities through judicious hiring of talented people or teams, or through small acquisitions which serve as a base for further development.

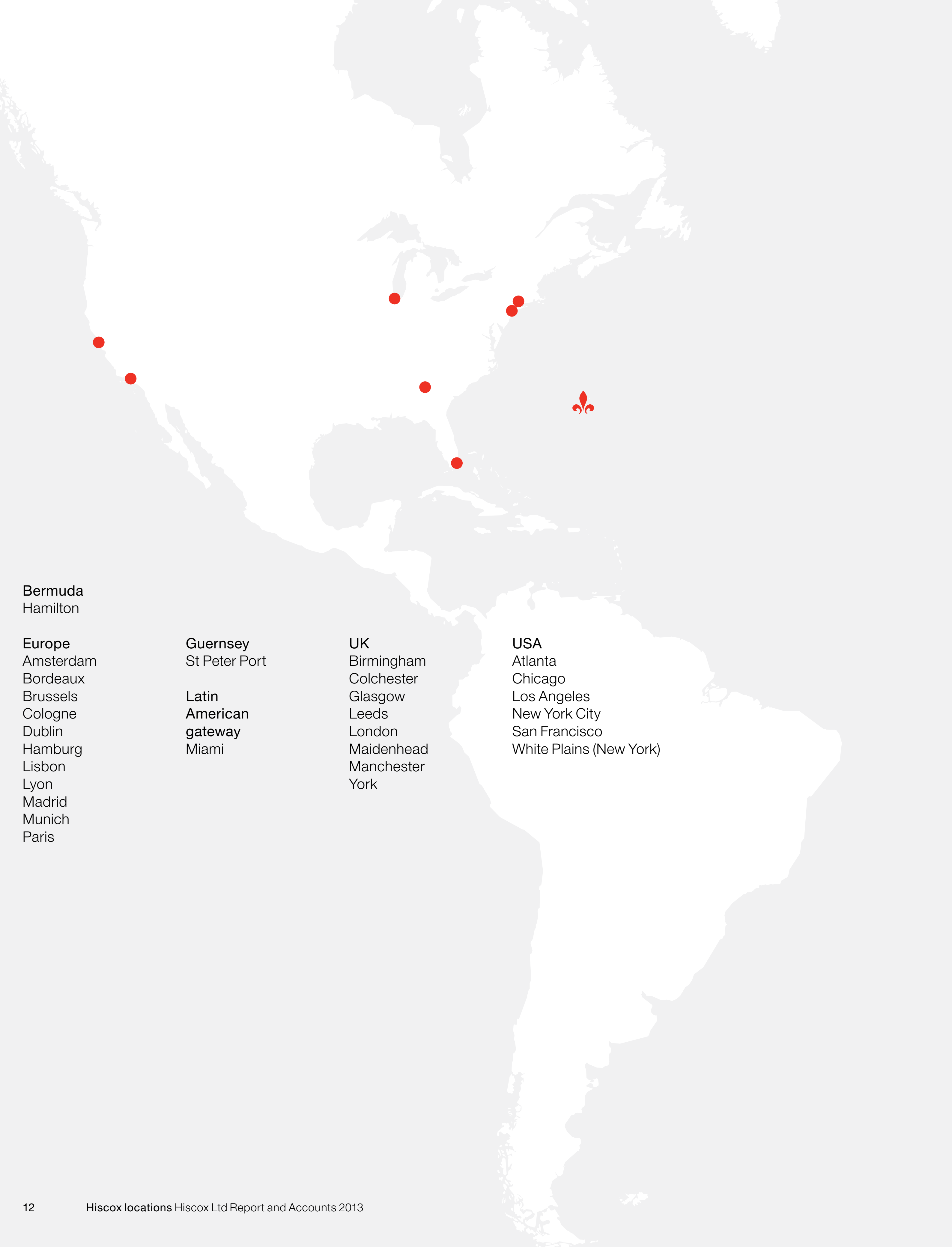
The conversation with our staff showed them to have the ambition to capture this strategic opportunity whilst wanting to retain the values that have guided Hiscox to date. However, we realise that we all need to grow personally if we are to develop Hiscox in this way. We have therefore committed Hiscox to living our values of courage, quality, integrity, excellence in execution and humanity. We have also challenged each member of staff to acknowledge that 'what got us here, won't get us there' and to accept that delivering on each of our personal growth agendas is the key to unlocking the business growth opportunities.

For me personally, after 20 years at Hiscox, this process has been hugely energising. My colleagues and I remain restlessly ambitious to grow and develop Hiscox.

Bronek Masojada
24 February 2014

My colleagues and I remain restlessly ambitious to grow and develop Hiscox.

The Hiscox Group has over 1,600 staff in 11 countries.



Bermuda
Hamilton

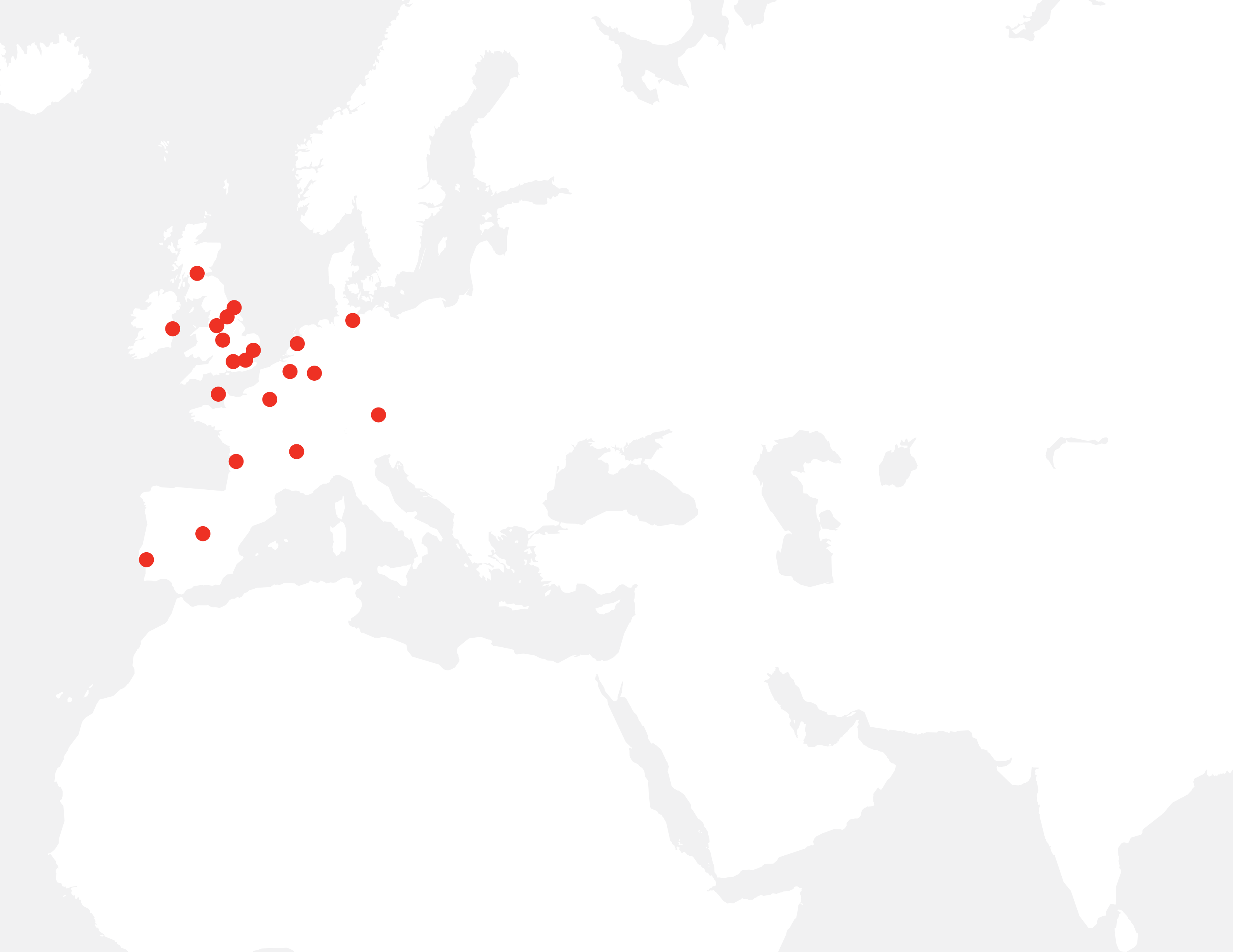
Europe
Amsterdam
Bordeaux
Brussels
Cologne
Dublin
Hamburg
Lisbon
Lyon
Madrid
Munich
Paris

Guernsey
St Peter Port

Latin American gateway
Miami

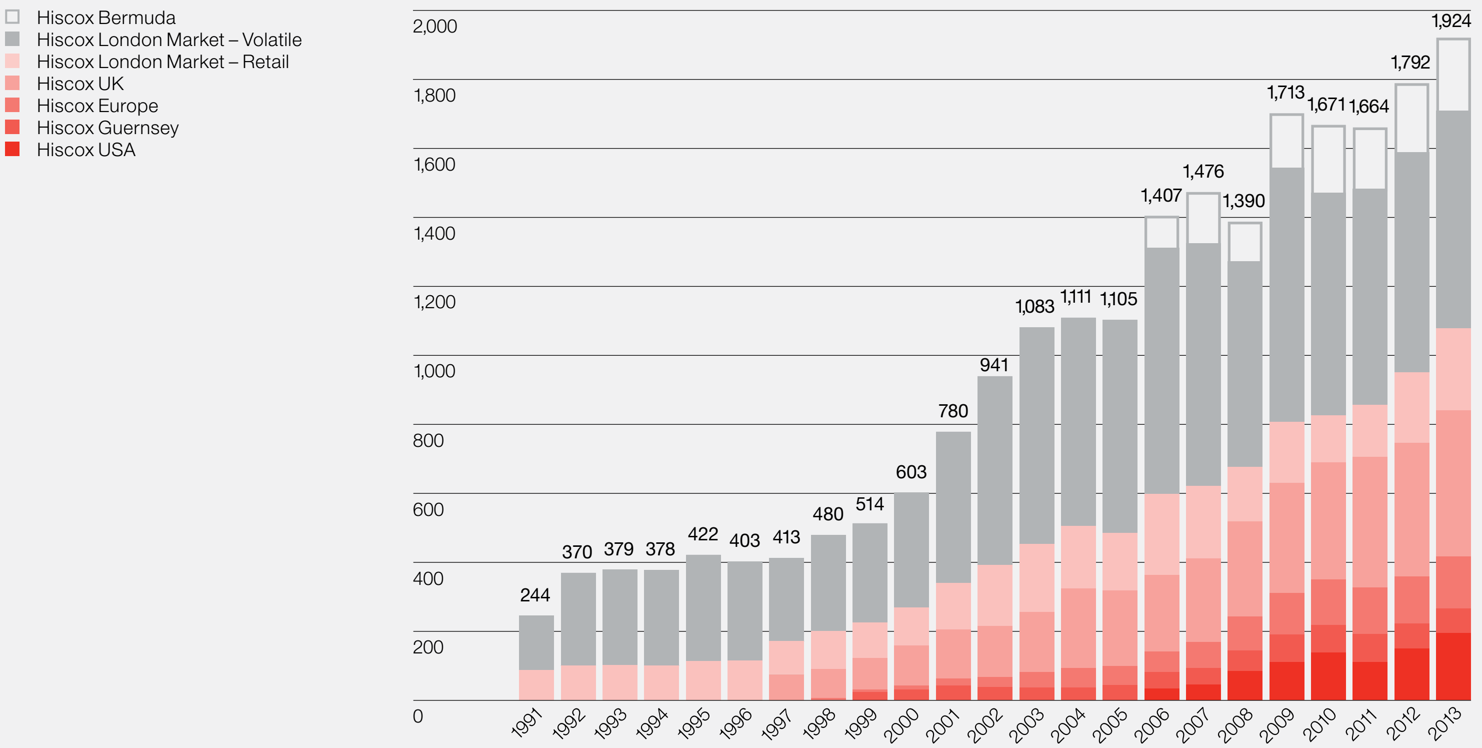
UK
Birmingham
Colchester
Glasgow
Leeds
London
Maidenhead
Manchester
York

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



Building a balanced business

Gross premiums written at 100% level (£m)



New Hiscox business structure for 2014

Hiscox Retail

Hiscox UK and Europe

Hiscox UK and Europe

Steve Langan
Managing Director
UK and Europe

Hiscox UK and Ireland

Kate Markham
Managing Director
Hiscox UK Direct

Ross Dingwall
Managing Director
Hiscox UK and Ireland Broker

Hiscox began writing insurance outside of Lloyd's in 1996 and now has nine offices in the UK and Ireland. Hiscox specialises in art, private client and luxury motor insurance, as well as professional liability and property insurance for small- and medium-sized businesses. Hiscox UK also provides home and small business insurance directly to consumers.

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

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

Hiscox Europe

Pierre-Olivier Desaulle
Managing Director

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

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

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

Hiscox International

Hiscox USA

Ben Walter
Chief Executive Officer

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

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

Security
Hiscox Insurance Company Inc. has an A (Excellent) rating from A.M Best.

Hiscox Guernsey

Steve Camm
Managing Director

Since 1998 Hiscox has been providing specialist insurance and expertise for global risks through its Guernsey office. Hiscox also has staff introducing Latin American business to Guernsey from offices in London and Miami.

Products include
Household, fine art, kidnap and ransom, terrorism.

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

Hiscox London Market

Hiscox Re

Hiscox London Market

Paul Lawrence
Chief Underwriting Officer

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

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

Capacity
For 2014, Hiscox's capacity for:
- Syndicate 33 is £1bn
- Syndicate 6104 is £72m
- Syndicate 3624 is £300m.

Security
Hiscox Syndicate 33 has an A (Excellent) Syndicate rating from A.M Best. It also benefits from Lloyd's own ratings, A (Excellent) from A.M Best, A+ (Strong) from Standard and Poor's and A+ (Strong) from Fitch.

Hiscox Re

Jeremy Pinchin
Chief Executive Officer

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

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

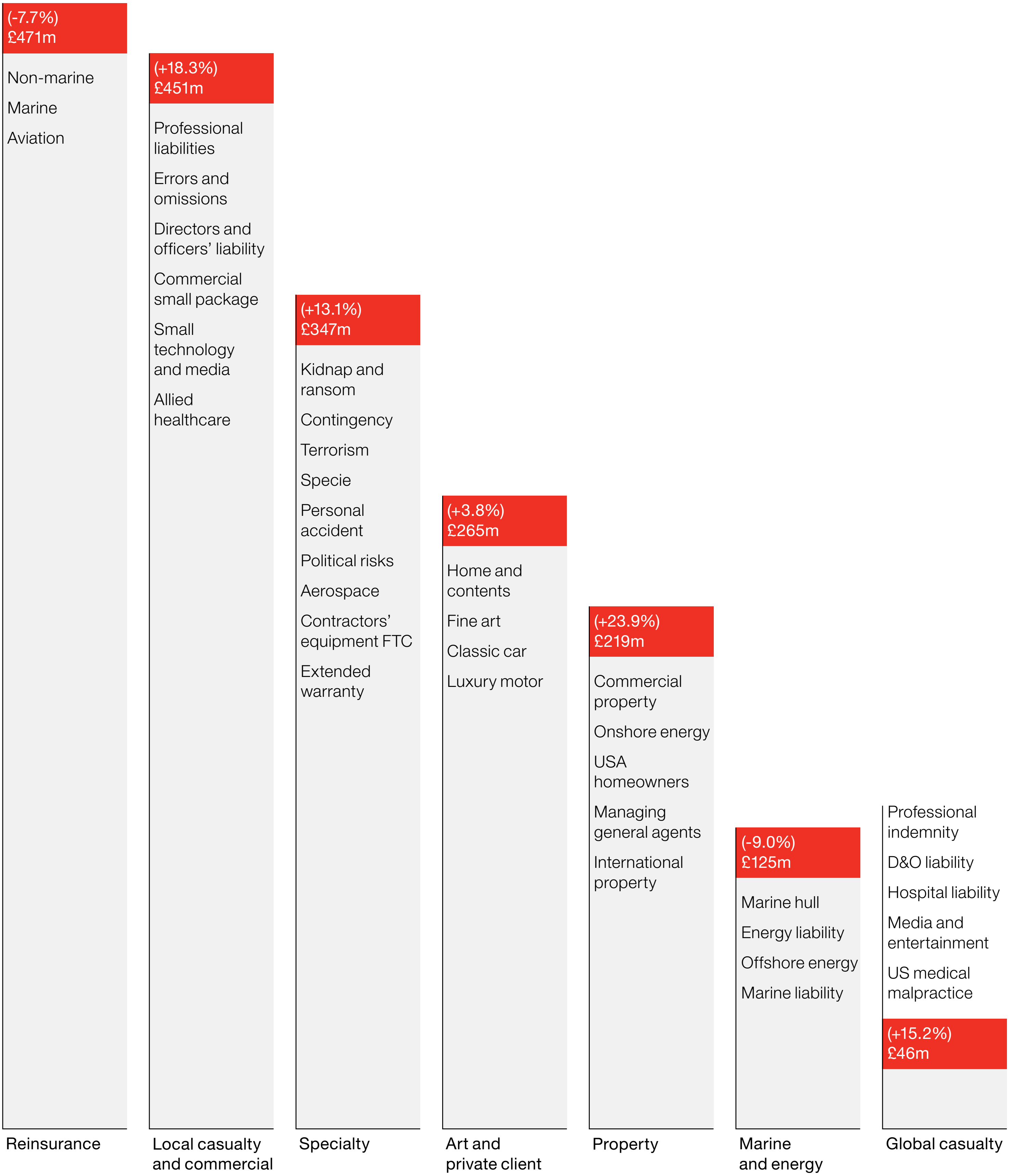
Products include
Property reinsurance and retrocession; specialty including: marine, aviation, crop and terrorism; casualty.

Security
Hiscox Re is supported by two carriers – Hiscox Insurance Company (Bermuda) Limited and Syndicate 33 at Lloyd's. Both of these are rated A (Excellent) by A.M. Best.

An international insurance group with a spread of global and regional businesses.

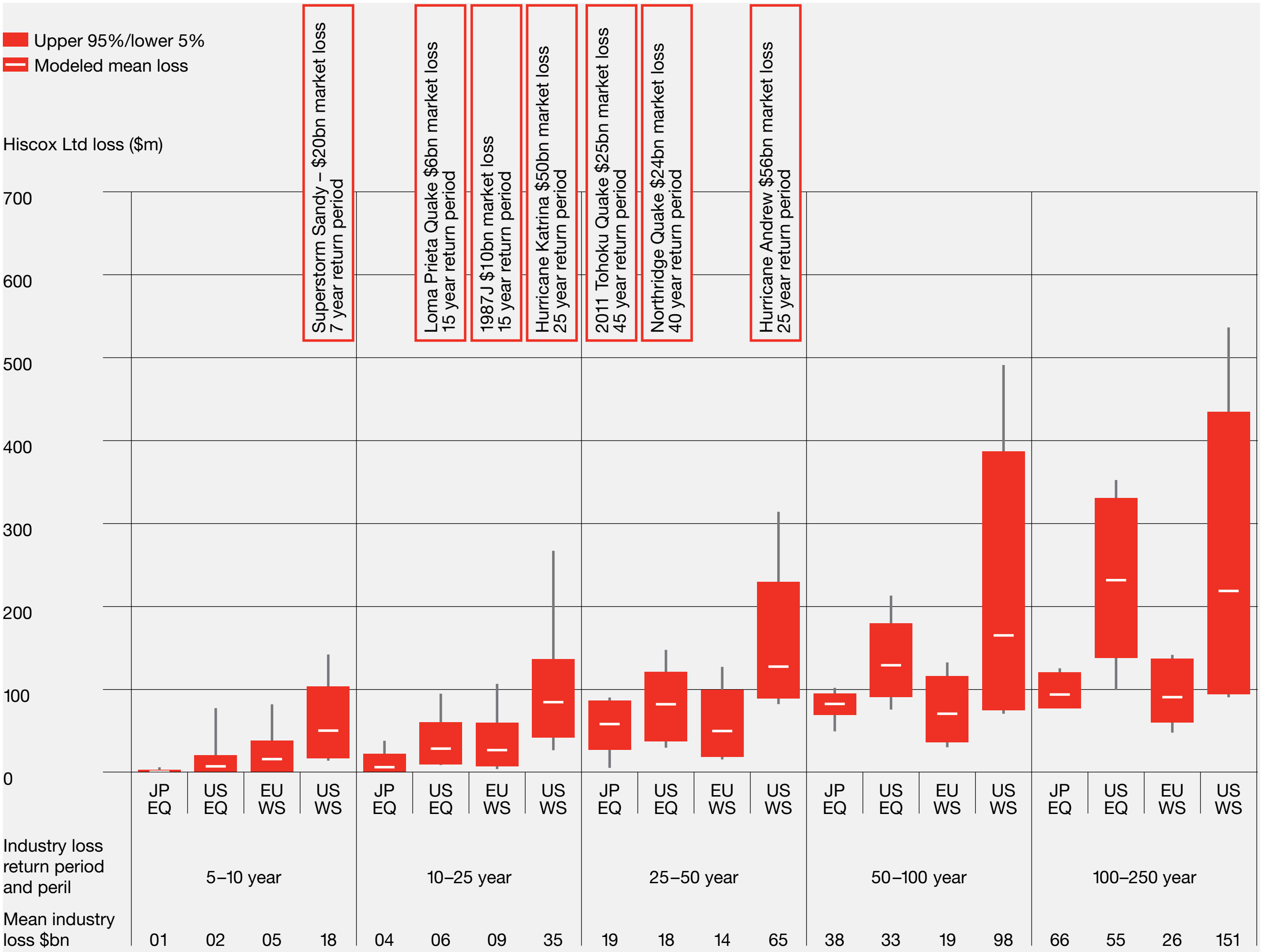
Actively managed business mix

Total Group controlled premium December 2013: £1,924m
(Year-on-year growth in local currency)



Actively managed key underwriting exposures

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



This chart shows a modeled range of net loss the Group might expect from any one castastrophe 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 2014 and industry data. Given the nature of the risks underwritten, the loss estimates may be materially different than those that arise depending on the size and nature of the event.

	Gross loss US$m	Net loss US$m	Gross loss as a % of total equity	Net loss as a % of total equity	Net loss as % of insurance industry loss	Industry loss size US$bn	Return period years
Japan earthquake	399	99	17.2	4.3	0.2	50	240
Gulf of Mexico windstorm	851	128	36.6	5.5	0.1	107	80
Florida windstorm	597	75	25.7	3.2	0.1	125	100
European windstorm	463	111	19.9	4.8	0.4	30	200
San Francisco earthquake	666	180	28.6	7.7	0.4	50	110

Marketing at Hiscox

Good marketing is essential to any retail business. It builds awareness of a company and its brands. It provides short- and long-term business benefits; smart campaigns that generate sales, and prolonged brand building work that helps build strong relationships or loyalty with customers. Great marketing also builds brand equity, which is the value the brand creates, over and above that provided by the product or service itself.

Customers find it easier to buy from a brand with which they identify and trust, and for us trust is the bedrock of our customer relationship.

Hiscox's aim has been to build a strong brand in all the direct-to-consumer markets in which we operate, and we have succeeded in creating a name for ourselves that is recognised well beyond the financial services industry. It has already yielded results. In the eight years in which Hiscox has advertised in the UK, to build awareness of its direct insurance business, its gross written premium has more than doubled.

In 2013 we spent around £30 million on marketing across the Group; we expect to spend roughly the same amount in 2014. We believe marketing is a science, which can be measured and managed through consistent qualitative and quantitative research. Monitoring our return on investment informs the decisions we take about our future marketing strategy and plans.

The success of our marketing lies not only in the quality of what we are selling, but also in our understanding of our target consumers' needs in each of our local markets. We use this information to create unique and striking campaigns that resonate with our audience. All our advertising communicates Hiscox's core values, but the individual campaigns are tailored to the local market. For example, in Germany last year we launched a magazine advertising campaign, while in America our efforts were focused on building brand awareness in the key cities of Boston, San Diego and Austin.

Reflecting our desire to go to where our customers are, our marketing spend has inevitably taken account of the internet's rapid rise. We are spending proportionally more on digital marketing, so we have invested in new technology to help us measure, and boost, its effectiveness. In 2013, we also entered into a Group-wide deal with Maxymiser, an e-marketing consultancy, which has already had positive results, significantly increasing the proportion of consumers who request quotes from us and who buy our products.

We also conducted our first econometrics study to measure the relative cost/success ratio of each of the main marketing channels: TV, outdoor advertising, press, internet and direct mail. It provided us with valuable information on our return on investment from each channel, which has helped to shape our media strategy.

We set ourselves high benchmarks; we do not measure our work or service against others in our industry, but against the world's leading brands. That we were shortlisted along with household names, John Lewis, British Airways, Help for Heroes and Foster's, for The Marketing Society's 2011 Brand of the Year award, is testament to the success of our marketing strategy.

Our innovative and distinctive campaigns have also helped us to attract high-calibre recruits to our marketing team. We have recently made a number of hires in America who have decades of experience with some of the world's most successful brands. We seek to hire world-class marketers and want them to apply the skills they have learnt in other sectors to our business. Just as our underwriters are encouraged to take calculated risks, so too are our marketers. A stand-out example of this is our award-winning Leap Year campaign, an internet TV series charting the lives of young American entrepreneurs.

The Hiscox brand

Our brand is very important to us because it embodies our promise to our customers. It's as simple as that. Our brand lets them know what they can expect from us. Steve Langan, Managing Director of Hiscox's UK and European operations and Group Marketing Director, says: "I think what really sets us apart from our competitors is how seriously we take our brand."

Robert Hiscox was committed to marketing from the late 1960s and early 1970s. Back then it stemmed from asking himself: "why should the client choose us?" His answer, in the form of a set of core values and commitment to service, still guides the Group today.

When he joined Hiscox in 2005, Steve set about interviewing many of the company's employees to understand what they thought the company stood for. The results surprised him because their responses were so similar. He says: "I told Robert that he had already done the hard part in creating the culture at Hiscox. All our marketing had to do was to tell people about it in an engaging and compelling way."

Steve adds: "We haven't just grafted a brand onto the company that bears little resemblance to its real nature. The people here not only identify with it, they feel a personal responsibility for it."

He concludes: "I truly believe that Hiscox is a 'conviction brand' in an industry that isn't always known for its conviction."

Our brand is very important to us because it embodies our promise to our customers.

Capital

Capital management

Hiscox believes in managing its capital. The Board monitors the capital strength of the Group and ensures its insurance carriers are suitably capitalised for regulatory and ratings purposes, taking into account future needs including growth where opportunities arise. As discussed in the Chairman's statement, once again as a result of our strong performance in 2013, the Board has reviewed the Group's capital level and proposed that a special distribution of 36.0p per share (approximately £128 million), should be made. A further amount of 14.0p per share is proposed instead of payment of a final dividend. This return of capital will align the Group's available capital with the rating agencies' minimum capital requirements to remain in the A range.

The impact of this distribution and how it compares to the Group's capital requirements is presented in the chart on page 21.

Capital requirements

The Group monitors its capital requirements based on both external risk measures, set by regulators and the ratings agencies, and its own internal guidelines of risk appetite. A full description of the requirements set by the regulators for the most significant insurance carriers is included in note 3.3 to the financial statements. A brief explanation of the primary internal and external capital constraints at a Group level is given below.

Management compares the capital requirements of the Group against its available capital. Available capital is defined by the Group as shareholders' equity which was £1,409 million at 31 December 2013 (2012: £1,365 million). Debt or preference shares are not defined as available capital by the Group as they do not absorb losses, should they occur, ahead of or alongside ordinary shareholders.

However, the Group can source additional funding through a revolving credit and Letter of Credit facility. Additional funding from these sources comprised $875 million at 31 December 2013 (2012: $875 million), of which $333 million was drawn at 31 December 2013 (2012: $308 million).

Rating agencies

The ability of the Group to attract business, particularly reinsurance, is dependent upon the maintenance of appropriate financial strength ratings from the leading rating agencies, Standard & Poor's, A.M. Best and Fitch. These ratings are assigned individually to the insurance carriers of the Group, but capital adequacy is also monitored by the rating agencies at the consolidated Group level.

Both A.M. Best and Standard & Poor's have shared their capital models with management. These models calculate a capital adequacy score by measuring available capital, after making various balance sheet adjustments, as a proportion of required capital which incorporates charges for premium, reserve, investment and catastrophe risk. Management's interpretation of A.M. Best's 'Best Capital Adequacy Ratio' (BCAR) model indicates the Group has a healthy surplus above the minimum capital required to maintain the carriers' A ratings. On a similar basis the Standard & Poor's modeled result indicates a surplus in excess of the mid-point of the required A range with additional headroom above the minimum requirement. Projections indicate a reasonable level of flexibility would be maintained following the £128 million special distribution.

The rating agency requirements shown in the chart on page 21 are consistent with assessments of the Group's capital requirements, received in November 2013, forming part of the latest A.M. Best and Standard & Poor's rating processes.

Group regulators

As a Bermudian-registered holding company, the Bermuda Monetary Authority (BMA) has been assessed as the Group's regulator under the Bermuda Group Supervisory Framework. The BMA requires the Group to monitor its Group solvency capital requirement under which the Group provides a solvency return in accordance the Group Solvency Self Assessment framework (GSSA) including an assessment of the Group's Bermuda Solvency Capital Requirement (BSCR).

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

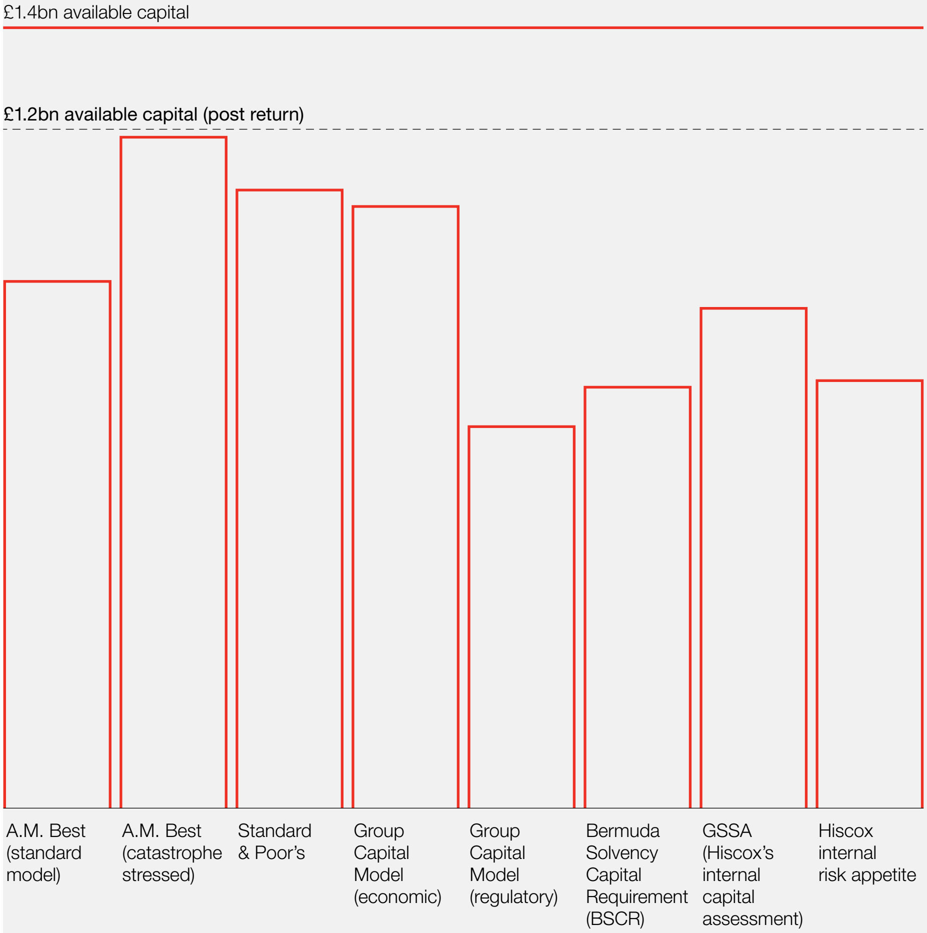
The GSSA is based on Hiscox's own internally assessed capital requirements and is informed by the Group's Capital Model (GCM), which together with the BSCR forms part of the BMA's annual solvency assessment. The GCM provides a holistic view of the Group capital requirements and draws upon the Group's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

The proposed return of capital will leave the Group with a comfortable surplus above Hiscox's internal projections of both the BSCR and GSSA for the 2014 business plan.

Internal capital requirements

The Group manages the underwriting portfolio so that in a 1 in 250 aggregate bad year it would lose no more than 15% of the Group's core capital plus assigned buffer capital (currently

Projected capital requirement



Rating agency requirements are in line with the latest 2014 requirements as defined by the agency capital models. The Hiscox's internal risk appetite reflects Hiscox's goal of maximising its return on capital within accepted levels of risk. 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.

Capital return of 50.0p per share.

£100 million). A market loss at this remote return period would be very big indeed and would certainly bring about positive market changes. The Group would be well positioned in the resulting strong market with capital in the order of £1 billion in addition to its LOC facilities and its now well-developed reinsurance partnerships.

If the return of capital is approved by the shareholders on 18 March, the available capital will reduce to approximately £1,281 million, comfortably meeting the current regulatory, rating agency and internal capital requirements.

The Board believes that this level of capital gives sufficient flexibility to achieve its desired business growth whilst maintaining the Group's current capital strength.

Group financial performance

Profit before tax for the year was £244.5 million (2012: £217.5 million) being the second highest result in the Group's history. This was achieved in part due to the lack of major catastrophe activity only tempered by the decline in the investment return to 1.9% (2012: 3.1%), a respectable achievement given the current investment market. Foreign exchange losses in 2013 were £9.9 million (2012: £20.2 million). The Group recorded a post-tax return on equity of 19.3% (2012: 17.1%) and earnings per share were 66.3p (2012: 53.1p).

Net asset value per share increased by 16.1% to 402.2p (2012: 346.4p). The Group continues to maintain a progressive dividend policy and total dividend per share rose by 16.7% to 21.0p (2012: 18.0p), subject to shareholder approval of the final dividend equivalent. The Group is proposing to once again make a special distribution of 36.0p per share, subject to shareholder approval. Following the distribution, the Group's capital levels will be similar to those of the opening balance sheet, post the 2013 capital return.

Gross premiums written of £1.70 billion were up 8.5% year-on-year. Strong growth in the insurance lines was offset in part by a decline in reinsurance. The Group's combined ratio including foreign exchange was 83.0% (2012: 85.5%). The current investment market is challenging meaning a return of 1.9% (2012: 3.1%) was a good result. All asset classes outstripped their benchmarks.

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

Hiscox London Market

Gross premiums written increased by 4.4% to £668.2 million (2012: £640.0 million) driven by strong growth in the property and specialty divisions. This was offset to some extent by the decline in reinsurance premiums as a result of the challenging rating environment.

Reinsurance purchased was at a similar level to the prior year at 28.9% of gross premiums written (2012: 27.8%). The quota share arrangements with Syndicate 6104 and others remained in place.

Group key performance indicators

	2013					2012 restated*				
	London Market	UK and Europe	International	Corporate Centre	Total	London Market	UK and Europe	International	Corporate Centre	Total
Gross premiums written (£m)	668.2	559.1	472.2	–	1,699.5	640.0	507.5	418.3	–	1,565.8
Net premiums written (£m)	475.0	529.7	366.4	–	1,371.1	462.4	479.9	325.8	–	1,268.1
Net premiums earned (£m)	433.5	508.4	341.4	–	1,283.3	419.0	476.9	302.7	–	1,198.6
Investment result (£m)	8.9	18.2	12.7	20.0	59.8	27.0	17.7	29.2	18.5	92.4
Profit/(loss) before tax (£m)	116.0	56.4	80.9	(8.8)	244.5	121.9	49.1	62.6	(16.1)	217.5
Claims ratio (%)	39.8	43.4	34.3	–	39.8	40.3	47.2	46.0	–	44.1
Expense ratio (%)	34.3	48.5	46.0	–	42.3	32.8	46.9	44.2	–	40.5
Foreign exchange impact (%)	1.3	0.7	0.7	–	0.9	2.4	0.3	(1.0)	–	0.9
Group combined ratio (%)	75.4	92.6	81.0	–	83.0	75.5	94.4	89.2	–	85.5

	2013	2012
Financial assets and cash† (£m)	3,129.5	3,055.8
Other assets (£m)	1,306.1	1,330.5
Total assets (£m)	4,435.6	4,386.3
Net assets (£m)	1,409.5	1,365.4
Net asset value per share (p)	402.2	346.4
Net tangible asset value per share (p)	381.4	328.7
Adjusted number of shares in issue (m)	350.5	394.2

†excluding derivative assets and insurance linked funds.
*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

The net claims ratio was flat in the year at 39.8% (2012: 40.3%), with minimal impact from catastrophes. The combined ratio was also flat at 75.4% (2012: 75.5%). Profit before tax for the year was £116.0 million (2012: £121.9 million), the decline being driven by the lower return from the investment portfolio.

Hiscox UK and Europe

Gross premiums written rose by 10.2% to £559.1 million (2012: £507.5 million). Gross premiums written for the UK increased by 9.9% with growth coming from all lines. Europe achieved double digit growth of 10.9% with gross premiums written reaching £146.7 million (2012: £132.3 million).

The net claims ratio improved to 43.4% (2012: 47.2%) as a result of the benign loss environment, despite the December UK floods. This led to an overall reduction in the combined ratio to 92.6% (2012: 94.4%), allowing UK and Europe to achieve a record profit before tax for the year of £56.4 million (2012: £49.1 million).

Hiscox International

Gross premiums written increased by 12.9% to £472.2 million (2012: £418.3 million), driven by the US business. The US increased premiums by 31.1%, with the specialty lines and the Direct division making the most significant contribution but all lines showed growth. Bermuda had more modest growth of 5.6% with gross premiums written of £211.9 million (2012: £200.7 million) which was achieved in spite of the challenging pricing environment at mid year for catastrophe reinsurance. Growth in healthcare and proportional business contributed to this. Gross premiums written in Guernsey decreased slightly as fewer piracy and multi-year policies were written.

The net claims ratio was particularly low for 2013 at 34.3% (2012: 46.0%) with no major catastrophe losses suffered due to the benign loss year. The impact on the combined ratio was an improvement to 81.0% (2012: 89.2%) resulting in an excellent profit before tax for the segment of £80.9 million (2012: £62.6 million).

Hiscox Corporate Centre

Investments performed well during the year with a return of £20.0 million (2012: £18.5 million). This was offset by operational expenses increasing to £23.6 million (2012: £17.0 million). The loss before tax was £8.8 million (2012: loss £16.2 million), with swings in foreign exchange rates contributing.

Cash and liquidity

The Group's primary source of liquidity is from premium and investment income. These funds are used predominantly to pay claims, expenses, reinsurance costs, dividends and taxes, and to invest in more assets. In addition, during 2013 the Group decided to return excess capital to its shareholders of £150.2 million, which, along with the Group holding a greater proportion of its assets in fixed income securities versus shorter dated cash equivalents at year end, resulted in total net cash outflows for the year of £92.8 million (2012: inflow £150.6 million).

The Group paid £39.7 million of tax during the year compared to rebates of £56.4 million in 2012. The Group generated cash from investing activities of £7.4 million (2012: outflow of £13.7 million), including the sale of a US surplus lines shell company which was not required by the business.

The Group has continued its investment in IT infrastructure during the year, in particular for the UK, as we seek to strengthen our delivery of products to market. Marketing expenses increased to £30.6 million in the year (2012: £26.3 million).

The Group maintains relationships with a limited number of banks, whose credit status and ability to meet day-to-day banking requirements are monitored by the Group. There was no cash drawn down on the banking facility during the year. At 31 December 2013, $333 million (2012: $308 million) had been drawn by way of Letter of Credit against this facility.

There were no impairments recorded against cash or cash equivalents and no issues regarding recoverability have been identified on these assets. The Group had a £3.8 million exposure to Italian sovereign debt, £1.9 million to an Italian bank and £3.7 million to Spanish sovereign and government supported debt at the end of the year, but continued to have none in Portugal, Ireland or Greece.

83.0%
combined ratio.

Group investments

The Group's invested assets at 31 December 2013 totalled £3.13 billion (2012: £3.06 billion). Assets under management grew slightly during the year in which £220 million was returned to shareholders by way of dividend and capital distribution. The investment result, excluding derivatives, amounted to £58.9 million (2012: £92.7 million) equating to a return of 1.9% (2012: 3.1%).

We had budgeted for a more modest return compared to 2012 and it is only in the world of financial repression in which we are investing that 1.9% can qualify as better than expected. Once again the investment markets were dominated for much of the year by the level of Central Bank support that was or was expected to be provided and, more than five years after the depths of the financial crisis, monetary policy in the developed world remained highly stimulative and unrewarding for conservative savers awaiting a return to more normal interest rates. Quantitative easing, in its various forms, was designed amongst other things to boost asset prices and in this it succeeded for much of the first half of the year. However the mere mention, towards the end of May, by Ben Bernanke, Chairman of the Federal Reserve, that he was beginning to think about reducing the level of monthly bond purchases sparked a sell off in all asset classes. After one false start, the reality of tapering was eventually announced in December and bond yields, particularly longer dated ones, finished near their highest levels of the year. Equity investors eventually took the news more calmly, reassured by improving economic data in the developed world and verbal commitments from the main Central Banks that short-terms rates would be kept low for an extended period. Equities rallied further in the second half, and with the notable exception of emerging markets, enjoyed another strongly positive year. Set in the context of what was available and the risks that we are prepared to take, we view the result for 2013 as perfectly satisfactory.

The return from the bond portfolios was much reduced from those achieved in 2012, but this was as forecast. Indeed 2013 has turned out to be one of the more volatile years in fixed income markets, with yields doubling or trebling depending on currency and duration. It has been a challenging time for most fixed income investors. Overall this has been a good year to be short duration and the price of caution has been a low but positive contribution. What little extra return there has been from the bond portfolios has come from the allocation to non-government bonds. They benefited mainly from their positive carry relative to government bond yields as well as a small further narrowing of credit spreads. Relative, and absolute, success in managing the bond portfolios will likely depend to a greater degree on nimble interest rate management in

Group investment performance

		31 December 2013			31 December 2012		
		Asset allocation %	Return %	Return £000	Asset allocation %	Return %	Return £000
Bonds	£	16.3	0.7		13.2	2.2	
	US$	48.5	0.7		49.0	3.2	
	Other	9.9	0.6		9.6	2.2	
Bonds total		74.7	0.7	17,105	71.8	2.8	62,579
Equities		7.1	18.3	39,289	6.2	14.8	26,974
Deposits and cash equivalents		18.2	0.5	2,530	22.0	0.5	3,137
Actual return			1.9	58,924		3.1	92,690
Group invested assets*				£3,129.5m			£3,055.8m

*excludes derivatives and investment in insurance linked funds.

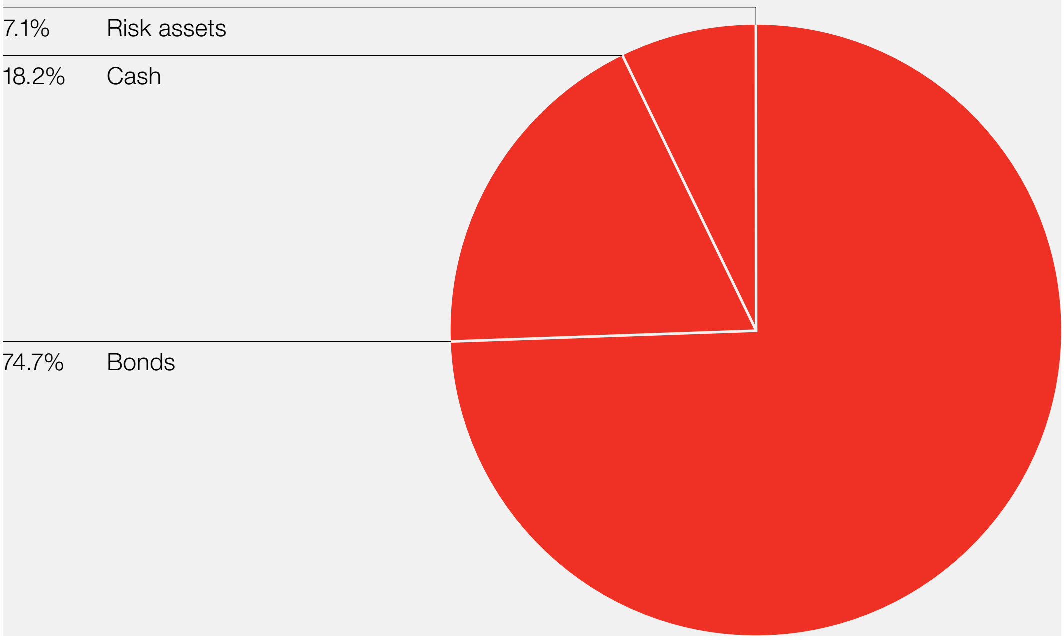
2014. Emerging market bonds suffered the most when threatened with a change in liquidity conditions. Whilst we don't have an allocation to that asset class, other investors found that the exit door was quite narrow during the summer which reinforces our caution to higher yielding, less liquid securities in general.

The exposure to risk assets made a significant contribution to the investment performance this year, gaining 18.3%. A number of our equity funds focusing on the UK market have produced particularly strong returns whilst those with more global orientation lagged their benchmark mainly due to some exposure to emerging markets. Approximately one-third of our risk assets are invested in a small selection of equity-based hedge funds. They are expected to reduce the volatility of the overall portfolio, providing some protection in negative markets and capturing a reasonable proportion of any upside. This worked well in practice in the past year with gains well above the hedge fund benchmark. We started 2013 with a weighting to risk assets of 6.2% and trimmed this slightly after the strong run in May. However, with further progress being made in the second half this has now moved up to 7.1%. In terms of overall asset allocation we therefore have not changed course much during the year. We still expect that our bond managers will outperform cash albeit taking little risk on duration at the moment and being uncompromising on credit quality. Cash levels were built up slightly towards the end of the period and we are happy to have more dry powder ahead of a year where bonds markets are set to be facing headwinds and equities are unlikely to maintain the rate of progress we have seen in the recent past.

The economic outlook in the developed world appears to be on an improving trend with the US and the UK clearly further along the recovery path than much of Europe. It remains to be seen to what extent this can become self sustaining or remain reliant on continuing levels of extraordinary monetary support. There is little certainty as to how this experiment will end and a good degree of scepticism as to how successful Central Banks will be in managing the return to normality.

Whilst longer dated yields have risen, the reaffirmation from many Central Bankers that short-term interest rates were set to stay low for some time has left the yields in our bond portfolios at comparable levels to this time last year. Accordingly, our return expectations from this source are still modest. The level of overall investment income is expected once again to remain highly dependent on the performance of our risk asset portfolio. Although short-dated bonds may be similarly valued to a year ago, the same cannot be said of equities. Current valuations and an uncertain outlook for earnings in the near term warrant continued close monitoring of our exposure. We believe therefore that patience and prudence should still lie at the heart of our investment strategy but with some appetite for risk in asset classes where valuation seems more reasonable.

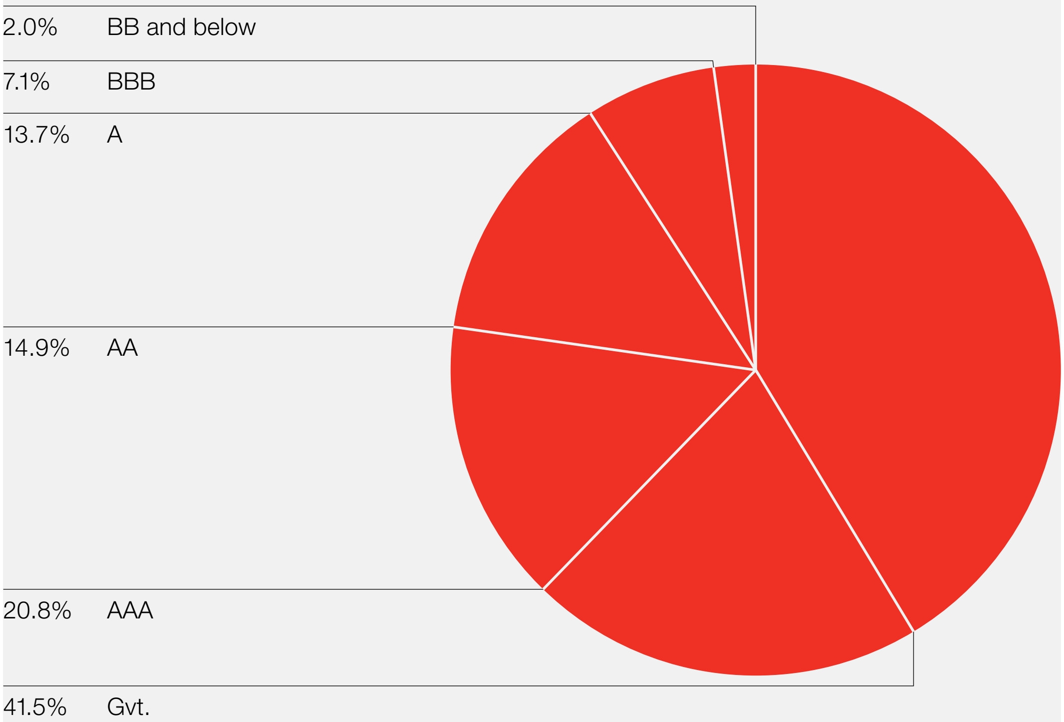
Asset allocation



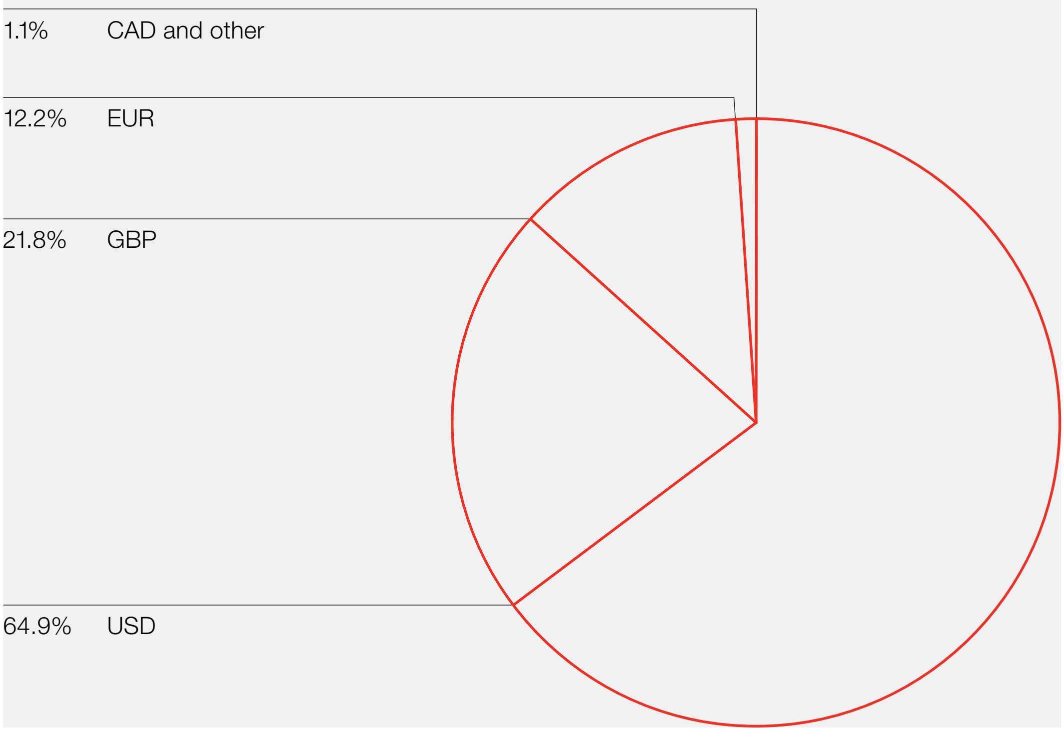
High-quality, conservative portfolio
Investment portfolio: £3.129 billion as at 31 December 2013

Group investments
continued

Bond credit quality



Bond currency split



Risk management

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

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

The Group risk management framework

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

One of our Executive Directors – either the Chief Executive Officer, Chief Financial Officer or Chief Underwriting Officer – chairs each of these forums.

The responsibilities of our senior management are clearly defined, as are our reporting lines, and where responsibilities are delegated the Board and its committees closely monitor their activity, aided by financial and non-financial management information.

This monitoring assesses the level of risk being taken by the Group in pursuing its objectives, and ensures that this level of risk remains within the parameters set by the Board.

A dedicated team reports to the Risk Committee of the Board which monitors and reviews the risk profile and the effectiveness of our risk management activities. This team has a wide range of tools to measure risks and is organised centrally so we can share best practice on managing risks across the Group.

Major risks

The major risks facing the Group are designated as being either of 'principal' or 'secondary' importance. Principal risks are those viewed to be potentially the most damaging for the Group, while secondary risks are not deemed to be critical at this stage. Certain of these risks arise from financial instruments held by the Group and are also discussed in note 3 to the consolidated financial statements.

Principal risks

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 (such as terrorism), which can cause heavy underwriting losses that could have a material impact on the Group's earnings.	Though volatile and potentially costly, this business is compelling for us, as it is capable of earning good margins over the medium- to long-term.	— **Diversified portfolio:** Hiscox has a well-diversified portfolio by product and geography to help balance any catastrophe exposure. — **Risk appetite:** We clearly define our risk appetite for underwriting risk, which dictates our business plan. To ensure that we do not exceed our risk appetite, we monitor our exposures closely and take mitigating actions to maintain business plan. This enables us to maximise the expected risk return profile on the whole portfolio and offset the potential losses on more volatile accounts. — **Underwriting discipline:** Underwriters are incentivised to make sound decisions that are aligned with Group's overall strategic objectives and risk appetite. Clear limits are placed on their underwriting authority. Policy wordings are regularly reviewed in the light of legal developments to ensure the Group's exposure is restricted, as far as possible, to those risks identified in the policy at the time of issue. — **Modeling:** We have tailored our modeling resources to assist insurance and reinsurance plans and ensure that the exposure we write matches expectations. The risk aggregation and modeling resources are shared across the Group to ensure everyone uses the same modeling tools. — **Stress and scenario testing:** We run stress and scenario tests for a range of specific events for each of our business units as well as the Group as a whole, so we can estimate our potential losses from a major catastrophe. — **Reinsurance:** We buy reinsurance for our business carriers and the Group as a whole, to mitigate the effect of catastrophes and unexpected concentrations in risk. The scope and type of protection we buy may change from year-to-year depending on the extent and competitiveness of cover available in the market. The Group is exposed to the risk that the reinsurance protection it has bought is inadequate or inappropriate, but this is monitored and managed using modeling techniques, supervised by a dedicated Reinsurance Purchase Group.
Competition and the insurance cycle Hiscox competes against major international insurance and reinsurance groups. At times, some of these groups may choose to underwrite risks at prices that fall below the 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.	We operate in open, aggressively competitive markets in which barriers to entry for new players are low and where competitors may choose to differentiate themselves by undercutting their rivals. As a result, capacity levels in these markets will rise and fall, causing prices to go up and down, creating volatile market cycles.	— **Pricing discipline:** We are firmly resolved to reject business that is unlikely to generate underwriting profits. Accepting risks below their technical price is detrimental to the industry as it can drive market rates down to a point where underwriting losses mount, insurers' capital is destroyed causing some businesses to fail, customers to receive poor service and the industry to suffer negative publicity. — **Remuneration:** Hiscox incentivises underwriters on return on equity, rewarding staff for profit not revenue. — **Risk appetite:** Our appetite for certain lines of business changes according to market conditions and the risk appetite of the Group. — **Monitoring:** We regularly monitor pricing levels, producing detailed monthly reports grouping current prices with exposure and trends over the past 12 months. This ensures that we quickly identify and control any problems created by adverse changes in market conditions.

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

Principal risks continued

What is the risk?	Why do we have it?	How is it managed?
Liquidity risk We are unable to meet our liabilities to customers or other creditors when they fall due. Also the risk that we incur excessive costs by selling assets or raising finance quickly to meet our obligations.	We provide cover against a range of catastrophes, so if one occurs we may be faced with large, unplanned cash demands. This situation could be exacerbated if we have to fund a large portion of claims pending recovery from our reinsurers.	— **Risk management:** We believe the likelihood that we may be unable to meet our liabilities, or that we incur excessive costs in doing so, is extremely remote, because of our risk management measures. — **Forecasting:** Most of our cash inflows and outflows are routine and can be forecast well in advance. Our primary source of inflows is insurance premiums while our outflows are largely expenses and payments to policyholders through claims. We forecast our cash flow for the week, month, quarter or up to two years ahead, depending on the source. — **Cash:** Available cash is invested according to the Group's investment policy and our cash requirements can normally be met through our regular income streams: premiums, investment income, existing cash balances or by realising investments that have reached maturity. — **Stress tests:** We run tests to estimate the impact of a major catastrophe on our cash position in order to identify potential issues. We also run scenario analysis that considers the impact on our liquidity should a number of adverse events occur simultaneously, such as an economic downturn and declining investment returns combined with unusually high insurance losses. — **Credit:** We maintain extensive borrowing facilities. These arrangements have been made with a range of major international banks to minimise the risk of one or more of the institutions being unable to honour their commitments to us. — **Liquid assets:** Our investment policy recognises the demands created by our underwriting strategy, so that some investments may need to be realised before maturity or at short notice. Hence a high proportion of our investments are in liquid assets, which reduces our risk of making losses because we may have to sell assets quickly.
Regulatory change The insurance industry is undergoing a period of unprecedented regulatory change, which may impact the capital we are required to hold.	Insurance is a regulated industry. While regulations typically evolve on an ongoing basis, there may be times where the regulatory landscape undergoes a significant shift.	— We constantly monitor new regulation and review our internal arrangements operating under the guidance of the Group CFO.

Major risks: secondary

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

Risk management
continued

Major risks: secondary continued

What is the risk?	Why do we have it?	How is it managed?
Strategic risk: Hiscox credit rating The external ratings assigned to the Group and its subsidiaries are essential to our profitability, particularly for our reinsurance business, and to manage our financing costs and access to capital. A reduction in these external ratings may impact the Group's ability to generate business and/or access finance.	The business in which we operate is determined largely by financial strength ratings issued by the major credit rating agencies.	– **Careful management:** We have identified the key aspects of our business that are critical to maintaining our ratings. These are closely managed to minimise the risk of an event, or change in strategy, that might jeopardise our ratings. – **Communication:** Regular and open communication with the major credit rating agencies helps to ensure we continue to meet their expectations.
Operational risk: IT continuity We are unable to transact with intermediaries and customers due to an IT failure.	Like every other business we are reliant on data and computer systems in order to go about our everyday business.	– **Disaster recovery planning:** A formal disaster recovery plan is in place to deal with workspace recovery and the retrieval of communications, IT systems and data should a major problem occur. These procedures would enable us to move the affected operations to alternative facilities quickly. The plan is tested regularly and includes simulation tests.
Emerging risks We are exposed to new and emerging risks, primarily through legal or political decisions. For example, a change in US legislation may result in exposures being included within our coverage that had not been intended by our underwriters, or may require us to cease business in certain US states.	Our business is taking risk, which by its nature is inherently uncertain.	– **Risk assessment:** Identifying, planning for and controlling emerging risks is an important part of our risk management activity across all aspects of our business, including underwriting, operations and strategy. We make a significant effort to identify material emerging threats to the Group. It is a core responsibility of each of our risk committees and we believe we take all reasonable steps to minimise the likelihood and impact of emerging risks and to prepare for them in case they occur.

Corporate responsibility

At Hiscox several core values guide our business. These are: to challenge convention, to have courage, to provide quality products, to excel in the service we provide and be human in our approach. These values underpin a reputation we have earned for integrity and decent behaviour in everything we do, which we firmly believe is good for the morale of staff and for the results of the business.

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

The environment
We believe in identifying, then minimising the environmental impacts of our business activities, including the direct impact of our own business operations. We seek to reduce the amount of waste our activities produce, and the amount of resources we consume. We are committed to reducing our carbon footprint, and for the business to operate more sustainably by: measuring our use of water, energy and other products in order to reduce consumption over time; buying sustainably-sourced or energy-efficient products where we can; and minimising waste by recycling products where we can. We have, as a result, also generated significant cost and energy savings. Our scope 1 & 2 carbon footprint for the UK has reduced, relative to full time equivalent employees (FTE), every year since 2008.

This activity has been extended in 2013 to cover Hiscox Group-wide activities.

The chart below depicts our carbon emissions year-on-year since 2011.

In 2013, Hiscox UK was carbon neutral, for the fourth year in a row. The balance of our UK carbon emissions has been offset through an African Energy Efficient Stove Project in Kenya, whose aim is to replace open fires with energy-efficient stoves, bringing significant social and health benefits to local communities. For more information, including the Hiscox 2013 report, please go to www.hiscoxgroup.com.

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

The Hiscox London office was awarded Platinum (with special commendation), in the Clean City Award scheme, for the second year in a row. Hiscox also remains a member of the Carbon Disclosure Project (CDP) an initiative that provides a global system for companies to measure, disclose, manage and share vital environmental information.

Greenhouse emissions disclosure (tonnes)

	2011[1]	2012[1]	2013[2]
Scope 1 – onsite gas combustion and refrigerant loss[3]	205	204	**484**
Scope 2 – purchased electricity	1,099	969	**1,656**
Total (scope 1 and 2)	1,304	1,173	**2,140**
Total tonnes CO_{2e} per FTE (scope 1 and 2)	1.42	1.20	**1.29**
Scope 3 – air and rail business travel	1,889	2,128	**3,629**
Total (scope 1, 2 and 3)	3,193	3,301	**5,769**
Total tonnes CO_{2e} per FTE (scope 1, 2 and 3)	3.48	3.39	**3.49**

Following Defra's latest environmental reporting guidance, we have updated historical GHG emissions data in order to ensure comparability of year-on-year reporting based on 2013 GHG conversion factors.
[1] Historical emissions data for 2011 and 2012 relate to UK operations only with 2013 figures covering global operations.
[2] Global emissions data have been collated and reported for the first time in line with the requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and UK Government conversion factors for Company Reporting 2013.
[3] Hiscox has a small number of leased fleet vehicles. Fuel use for these vehicles is claimed for via expenses. These, along with other expense-claimed business travel, have been excluded from the scope of reporting.

Corporate responsibility
continued

£0.9m donated to charities

The marketplace

In 2013, Hiscox was presented with the Post Magazine Claims Award for Personal Lines Team of the Year and the UK Claims Excellence Award by the Insurance Times, which also named Bronek Masojada as the Insurance CEOs' CEO. The Hiscox London Market, War, Terrorism and Political Violence team received Underwriting Team of the Year at the Insurance Day London Market Awards.

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

Dealing with investors

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

Dealing with customers

Our ethos of outstanding customer service has earned Hiscox a reputation as an insurer whose word can be trusted, which sets us apart in our industry. Our belief is that insurance is a promise to pay, so should a loss occur, we aim to fully support our customers, and to pay every valid claim as soon as possible. As well as the claims accolades mentioned above, in 2013, for the fifth year in a row, Hiscox UK was awarded 'Best Insurer' at the Start Your Business – Best Service Provider Awards 2013.

The workplace

Culture

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

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

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

Equal opportunities

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

Rewards and benefits

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

Training and development

Hiscox is committed to training and developing our employees to help them maximise their potential. Each permanent member of staff is provided with a tailored personal development

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programme. Their training and development needs are reviewed twice a year, as well as their performance against clearly set objectives.

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

The community
Hiscox Bermuda continues to sponsor the Women's Resource Centre's 24-hour crisis hotline, where woman and children in the community can receive education, counselling and support. Hiscox continues to support the Friends of Agape House Day Hospice programme, a palliative care centre and day hospice. It sponsors Kaleidoscope Arts Centre's Creative Minds Bursary programme for weekly art programmes for students at Elliot Primary school. It has also donated two wheelchairs to the Windreach Adaptive Sports programme, and continues to work with the Centre Against Abuse, the Eliza Dolittle Society, and Big Brothers Big Sister of Bermuda. Together with Hiscox Ltd, it made a substantial donation to the Bermuda Hospitals Charitable Trust, supporting efforts to pay for the new Acute Care wing at the King Edward VII Memorial Hospital.

Hiscox USA staff volunteer for charities that aid and improve education, medical science, advancement of the arts and culture, and provide services to disadvantaged and vulnerable members of society. The San Francisco office volunteered for Mission Graduates to read to inner city kids who are in an early intervention tutoring programme starting their journey toward college. In Chicago, staff competed in the St Jude's Warrior dash. The LA office supported the Lamp Community to combat homelessness. The New York and White Plains office competed at the J.P. Morgan Corporate Challenge in support of the Parris foundation, an organisation dedicated to helping disenfranchised communities by teaching children about science, technology, engineering and maths. Hiscox donated $1 for every US Direct sale to The Word of Honor Fund, which provides money to families of fallen soldiers. In 2013, the Hiscox Foundation USA made donations worth over $27,000.

In London, staff members support pupils at the Elizabeth Selby Infants School in Tower Hamlets through the Reading Partners' Scheme. They also volunteered in the gardens of Richard House Children's Hospice. In Colchester, staff raised £23,000 for Headway and also supported the Essex & Herts Air Ambulance Trust, East Anglia Children's Hospice, MS-UK and Alzheimer's Society. Hiscox UK also supports Action for AT, helping speed the process of identifying cures for Ataxia-Telangiectasia and treatments that delay or prevent the disabling effects of childhood conditions. In July 2013, a team of 34 Hiscox employees and brokers undertook the ambitious task of completing the Hiscox Mont Ventoux challenge in aid of Leukaemia and Lymphoma Research. So far, the team has raised £48,000.

Supporting the arts, science and technology
Hiscox continues to support the arts, science and technology, through its work with the Royal Academy Schools, providing a bursary for two second-year students; sponsorship of the Collections exhibitions at the Whitechapel Gallery and the Chapman Brothers' exhibition at the Serpentine Gallery Pavilion. Hiscox supports the City of London's Sculpture in the City project, designed to transform the local landscape with unique and well-known pieces of modern sculpture. Ten Hiscox employees volunteered to work with students from Skinners Academy in Hackney and six other local schools to bring the sculptures to life. As part of Hiscox's support of the Public Catalogue Foundation (PCF) project, Hiscox insured 'Your paintings: Masterpieces in Schools', an exhibition which allowed thousands of UK schoolchildren to experience masterpieces up close. Hiscox supports the Royal Institution (RI) with a loan and corporate sponsorship The RI is the oldest independent research body in the world, dedicated to connecting people with the world of science for over 200 years.

2013 was the second year of sponsorship of the Sunday Times Hiscox Tech Track 100, charting the fastest growing private technology, telecoms and digital media companies. Hiscox Guernsey supports Art in the Islands, and has assisted, through funding and advice, a team of entrepreneurial artists and art professionals to create a floating museum/art gallery in the Channel Islands.

The Hiscox Foundation
The Hiscox Foundation is a charity, funded by an annual contribution from the Group. It gives priority to any charity in which a member of staff is involved, with the aim of encouraging employees to become involved in charitable work. In 2013, Hiscox supported one employee in raising £60,000 for Cancer Research UK. The Foundation contributed £20,000 in 2013 to the fundraising totals of Hiscox employees and continues to support the Humanitarian Aid Relief Trust (HART). HART helps some of the poorest and most abused people in the world.

For more detail on corporate responsibility see hiscoxgroup.com

Insurance carriers

Syndicate 33

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

The geographical and currency splits are shown on page 37. One of the main advantages of trading through Lloyd's is the considerably lower capital ratios that are available due to the diversification of business written in Syndicate 33 and in Lloyd's as a whole. The size of the Syndicate is increased or reduced according to the strength of the insurance environment in its main classes. At present, Hiscox owns approximately 72.5% of the Syndicate, with the remainder owned by third-party Lloyd's Names. Hiscox receives a fee and a profit commission of approximately 20% of profit on the element it does not own. For the 2014 year of account, Syndicate 33's capacity has increased to £1 billion.

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

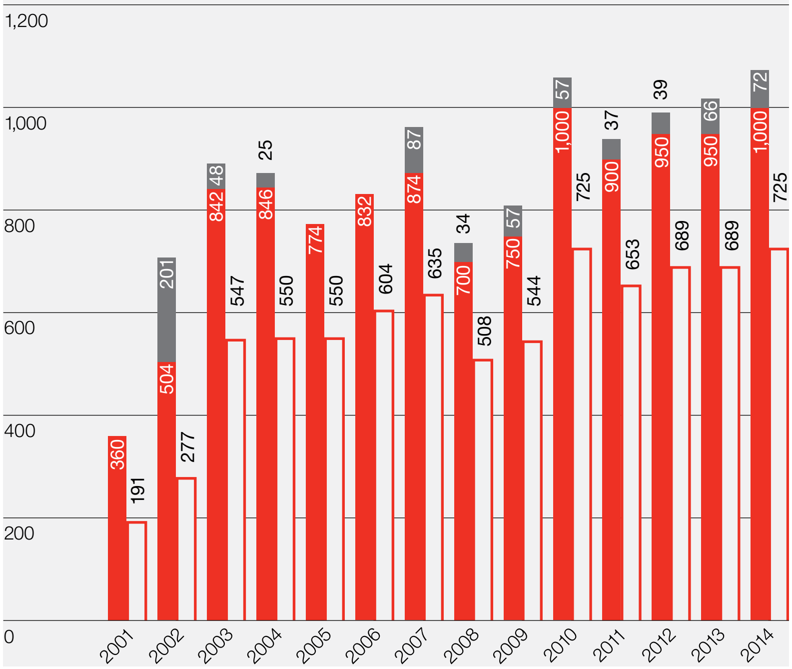
Syndicate 3624

Syndicate 3624 is a wholly-owned Syndicate which began underwriting for the 2009 year of account with an underwriting capacity of £150 million. The Syndicate has a diversified portfolio of worldwide risks including E&O, property, construction, technology and media, healthcare, aviation and events. The diversification of the Syndicate from both an exposure and geographical perspective means the Syndicate is well balanced to grow in a controlled way. The Syndicate is primarily exposed to short-tail liability risks. Total underwriting capacity of Syndicate 3624 has increased to £300 million for the 2014 year of account.

Syndicate 6104

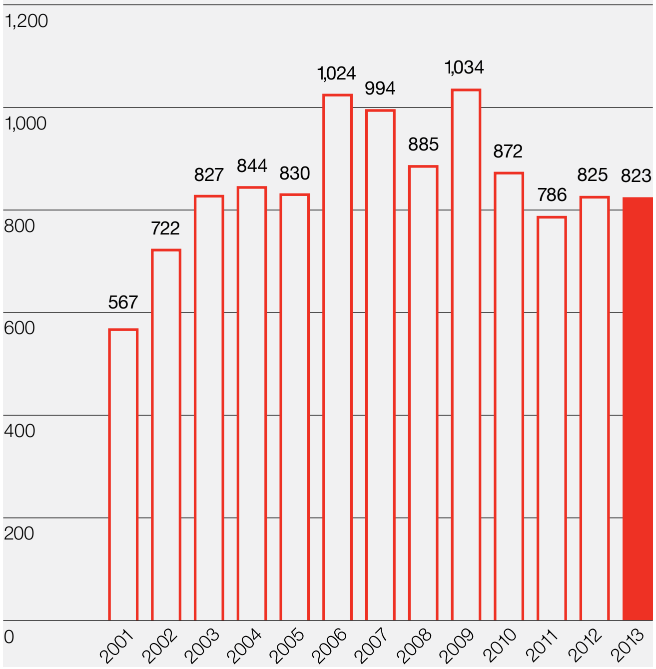
Syndicate 6104 was set up under a limited tenancy agreement for the 2008 year of account with an initial capacity of £34 million. It is wholly backed by external Names and takes a pure year of account quota share of Syndicate 33's international property catastrophe reinsurance account. The arrangement has been extended through to the 2014 year of account and Syndicate 6104's capacity was increased to £72 million, from £66 million. Syndicate 6104 pays an overrider and profit commission to Syndicate 33.

Syndicate 33
Capacity and Hiscox ownership (£m)

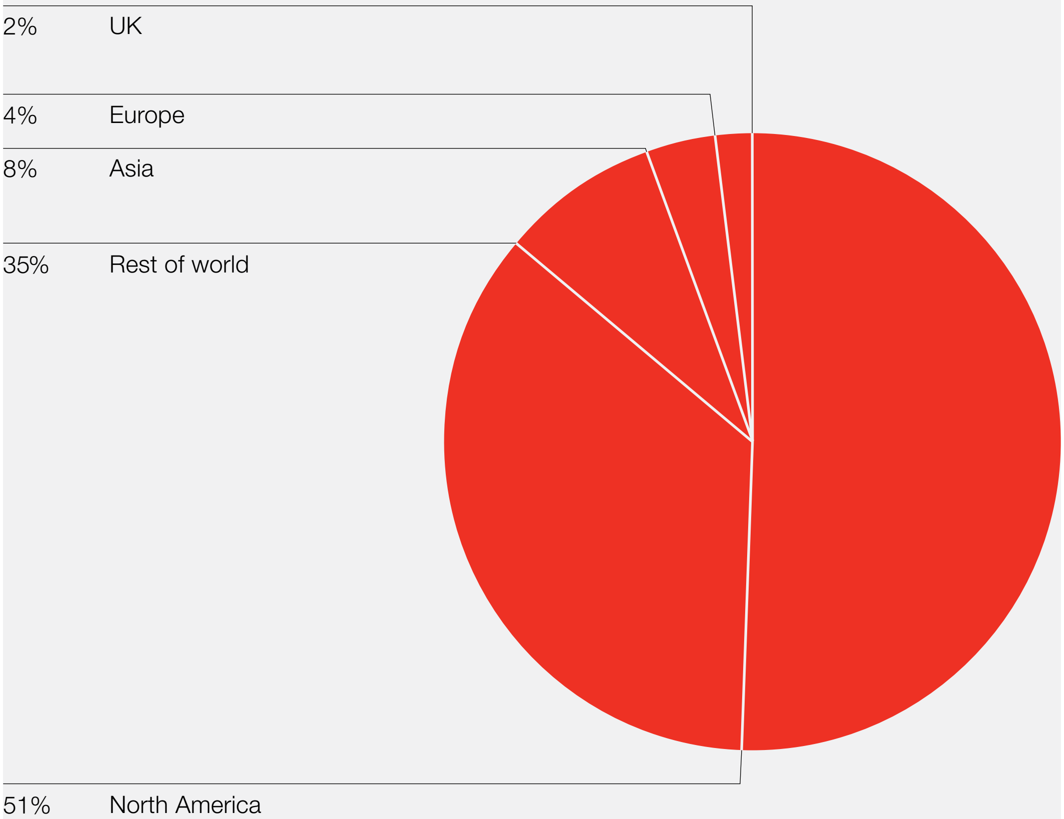


*Quota share reinsurance policies, which Lloyd's allows in certain circumstances, that enable a syndicate to write gross premium in excess of its capacity.

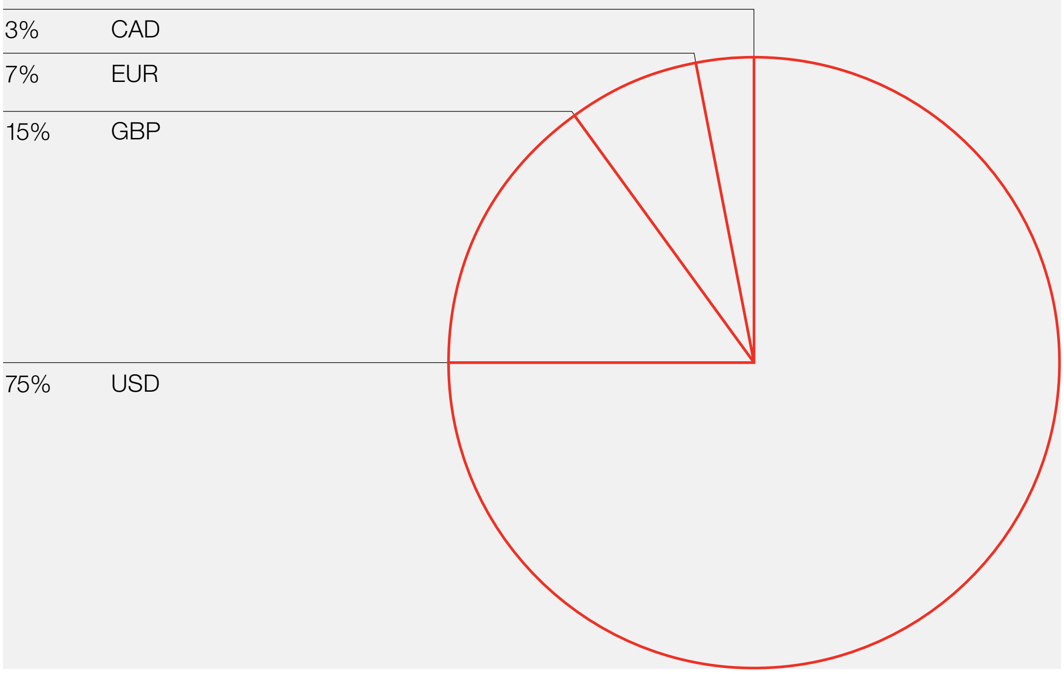
Syndicate 33
Gross premiums written (£m)



Syndicate 33
Gross premiums written geographical split (%)



Syndicate 33
Gross premiums written currency split (%)



Insurance carriers
continued

Hiscox Insurance Company
Hiscox purchased Hiscox Insurance Company Limited in 1996, in keeping with its aim of diversifying its activities outside of Lloyd's and writing a focused book of regional specialist risks. The Group has reshaped the Company's original portfolio to concentrate on high-value household and smaller premium commercial business. Hiscox Insurance Company Limited has licences throughout Europe. It is the primary insurance vehicle used by the UK and mainland Europe offices for their business. The success of the portfolio can be seen in the chart below right. Hiscox Insurance Company Limited has achieved average compound growth in gross premiums written of 12.1% from 1997 to 2013, despite discontinuing almost all of its original business. It has also significantly improved its combined ratio.

Hiscox Insurance Company Limited has an A.M. Best rating of A (Excellent), a Standard & Poor's rating of A (Strong) and an A+ (Strong) rating from Fitch. At the end of 2013, net assets exceeded £249 million (2012: £240 million).

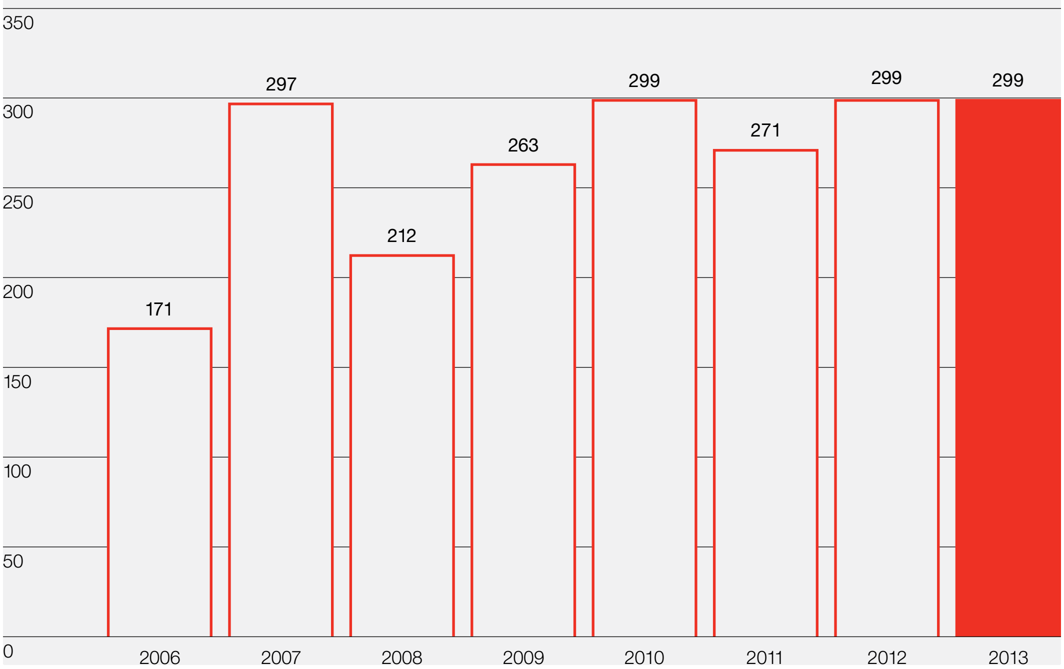
Hiscox Insurance Company (Guernsey)
Formed by Hiscox in 1998, Hiscox Insurance Company (Guernsey) Limited writes mainly kidnap and ransom and fine art insurance. Hiscox Guernsey has an A.M. Best rating of A (Excellent) and an A+ (Strong) rating from Fitch. At the end of 2013, net assets exceeded $10 million (2012: $12 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 2013, net assets exceeded $944 million (2012: $1,019 million).

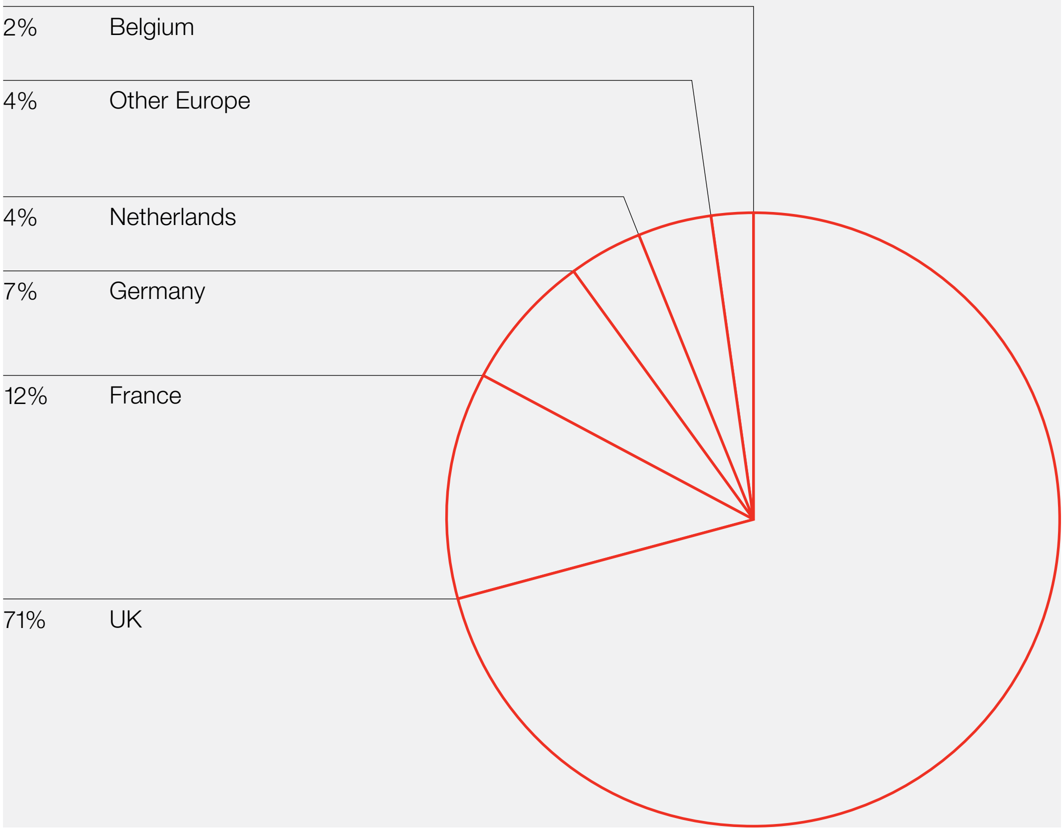
Hiscox Insurance Company Inc.
Hiscox Insurance Company Inc. was acquired by the Group in 2007 through the purchase of the then parent holding company ALTOHA, Inc. Hiscox Insurance Company Inc. is based in Chicago, Illinois and is an admitted insurance company with licences in all 50 US states and the District of Columbia. Its main business is property and liability cover sold through insurance brokers. In November 2010, the Company launched a direct commercial business.

Hiscox Insurance Company Inc. is rated A (Excellent) by A.M. Best. At the end of 2013, net assets exceeded $59 million (2012: $56 million).

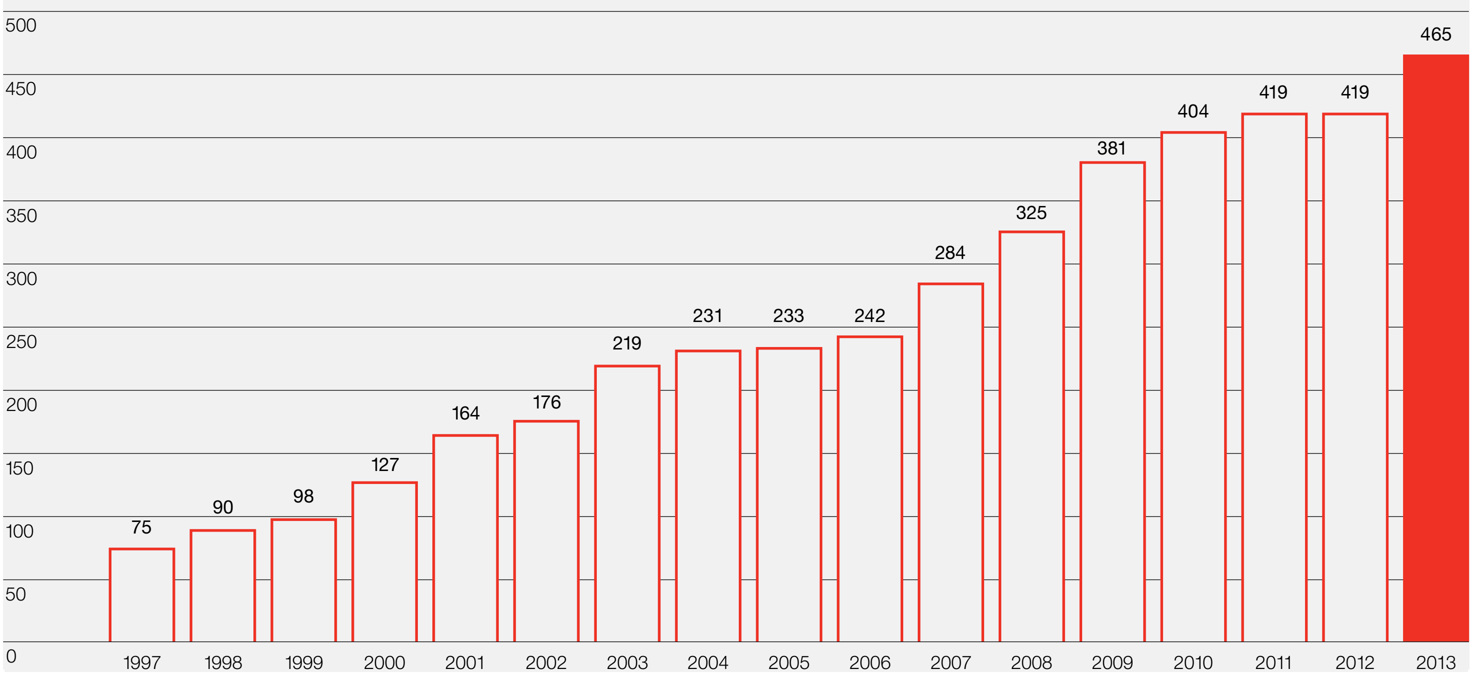
Hiscox Insurance Company (Bermuda) Limited
Gross premiums written ($m) external business



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



Hiscox Insurance Company Limited
Gross premiums written (£m)



Board of Directors

Chairman

Robert Simon Childs
Non Executive Chairman (Aged 62)
*26 February 2013**

⬢

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

Executive Directors

Bronislaw Edmund Masojada
Chief Executive (Aged 52)
*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. He was a Non Executive Director of Ins-sure Holdings Limited from 2002 to 2006 and is a past President of The Insurance Institute of London. He is a member of the Board of the Association of British Insurers and the Master of the Worshipful Company of Insurers. Bronek is Chairman of the Lloyd's Tercentenary Research Foundation, a charity which supports research in areas of interest to the insurance industry.

Stuart John Bridges
Chief Financial Officer (Aged 53)
*12 December 2006**

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

Richard Colin Watson
Chief Underwriting Officer (Aged 50)
*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.

Independent Non Executive Directors

Caroline Foulger
Independent Non Executive Director (Aged 53)
*01 January 2013**

△○□⬡

Caroline Foulger joined Hiscox in January 2013 having retired from a partnership at PwC on December 31, 2012. Until May 2012, Caroline led PwC's insurance and reinsurance practice in Bermuda, and was also Head of the PwC Bermuda government and public sector practice. Caroline is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Institute of Chartered Accountants of Bermuda and a member of the Institute of Directors. Caroline is a Non Executive Director of the Bank of N.T.Butterfield & Son Limited.

Secretary
Jeremy Pinchin

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Registered number
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Hamilton HM 08
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

△ Member of the Audit Committee

○ Member of the Conflicts Committee

□ Member of the Remuneration Committee

⬡ Member of the Nominations Committee

Chairman of Committee is highlighted in solid.

*Effective date of Hiscox Ltd contract

Richard Gillingwater
Senior Independent Director (Aged 57)
*18 November 2010**

△○□⬡

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

Daniel Maurice Healy
Independent Non Executive Director and Chairman of the Audit Committee (Aged 71)
*11 October 2006**

▲○□⬡

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

Ernst Robert Jansen
Independent Non Executive Director (Aged 65)
*20 November 2008**

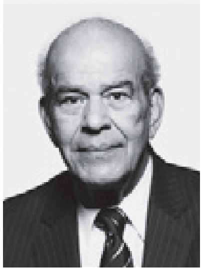
△○□⬡

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 adviser to the Executive Board and is director of two investment vehicles of Achmea.

Dr James Austin Charles King
Independent Non Executive Director and Chairman of the Conflicts Committee (Aged 75)
*11 October 2006**

△●□⬡

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



Robert McMillan
Independent Non Executive Director (Aged 61)
*01 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.

Andrea Sarah Rosen
Independent Non Executive Director and Chairman of the Remuneration Committee (Aged 59)
*11 October 2006**

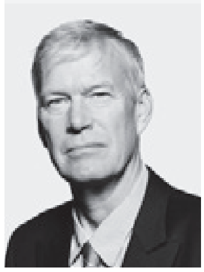
△○■⬡

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

Gunnar Stokholm
Independent Non Executive Director (Aged 64)
*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 Partners

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

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

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

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

Corporate governance

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 companies registered in Bermuda is established by the Company's constitution together with Companies Act legislation. The Listing Rules require the Company to report against the UK Corporate Governance Code published in June 2010 whereas the most recent edition of the Code was published in September 2012. During 2013, and up to the date of this report and accounts, the Group has complied with the provisions of both the 2010 and 2012 editions of the Code in all material respects, subject to one exception.

Robert Childs was appointed as Non Executive Chairman with effect from 26 February 2013. Mr Childs did not meet the independence criteria set out in the Code on appointment. The Company's intention to appoint Mr Childs notwithstanding his non-independence was disclosed in this report last year. The reasons behind the decision are explained again in the Nominations Committee section of the report on page 44.

The Board of Directors

As at the date of this Report, the Board comprises the Non Executive Chairman, three Executive Directors, and eight independent Non Executive Directors, including a Senior Independent Director. Biographical details for each member of the Board are provided on pages 40 to 41. The Nominations Committee monitors the composition of the Board and considers the diversity, balance of skills, experience, independence and knowledge of the Board to ensure that it remains appropriate. The composition of the Board is also reviewed as part of the Board evaluation process as described on page 45. There is a formal induction process for new Directors. The needs of a new Director joining the Board are assessed and appropriate training arranged.

Existing Directors were provided with the opportunity to attend training sessions. Directors received briefings on the new Directors' remuneration regime and other developments in corporate governance during the year. Directors' training requirements were also assessed as part of the Board evaluation described on page 45.

The roles and activities of the Chairman and Chief Executive are distinct and separate. The Chairman is responsible for running an effective Board including oversight of corporate governance and overall strategy and meets periodically with the Senior Independent Director. The Chief Executive has responsibility for running the Group's business.

In accordance with the UK Corporate Governance Code one Director submits himself for appointment, and the remaining Directors submit themselves for re-appointment, at the Annual General Meeting of the Company. The external commitments of the Chairman and the Executive Directors are disclosed in their profiles on page 40. Non Executive Directors are appointed for a specified term. Their terms of appointment state that their continuation in office is contingent upon their satisfactory performance and prescribe the time commitment required of them in order to discharge their duties. The terms also state that appropriate preparation time is required ahead of each meeting. A review of the remuneration of the Non Executive Directors, which does not include performance-related elements, was carried out in respect of the 2013 financial year and no changes were required or anticipated.

The appointment and removal of the Company Secretary is a matter for the Board as a whole. Whilst the Board acknowledges the value that knowledge and experience of the organisation can bring it also recognises the need to progressively refresh its 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. 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 Board meets at least four times a year and operates within established Terms of Reference. It is supplied with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities. The Board of Hiscox Ltd met four times during 2013. The UK Corporate Governance Code does not require the independence or otherwise of a Non Executive Chairman to be considered subsequent to their appointment. The Board considers all other Non Executive Directors to be independent within the meaning of the UK Corporate Governance 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.

Corporate governance
continued

Aside from the opportunity which the Non Executive Directors have to challenge and contribute to the development of strategy in the regular Board meetings, the Non Executive Directors also attended the annual Hiscox Partners' meeting.

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

The Board's Committees

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

The Audit Committee

The Audit Committee of Hiscox Ltd is chaired by Daniel Healy and comprises Caroline Foulger, Richard Gillingwater, Ernst Jansen, Dr James King, Bob McMillan, Andrea Rosen and Gunnar Stokholm. The Chairman of the Committee and Caroline Foulger are considered by the Board to have recent and relevant financial experience. The Committee operates according to Terms of Reference published on the Group's website. The Audit Committee meets at least three times a year to assist the Board on matters of financial reporting, risk management and internal control. The Audit Committee monitors the scope, results and cost effectiveness of the internal and external audit functions, the independence and objectivity of the external auditors, and the nature and extent of non-audit work undertaken by the external auditors together with the level of related fees. The Board has accepted the advice of the Audit Committee with regard to the new requirement for FTSE 350 companies to put the external audit out to tender at least every ten years and details are set out in the Audit Committee report on page 48. The internal and external auditors have unrestricted access to the Audit Committee. All non-audit work undertaken by the Group's external auditors with fees greater than £50,000 must be pre-approved by the Audit Committee. KPMG has confirmed to the Audit Committee that in its opinion it remains independent. The Committee is satisfied that this is the case. In respect of the 2013 financial year the Audit 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 is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's business model and strategy. Further information on the activities of the Audit Committee is included in the Audit Committee report on page 47.

During the year the decision was taken to split the Remuneration and Nominations Committee into two separate committees. Robert Childs was appointed Chairman of the Nominations Committee and Andrea Rosen chairs the Remuneration Committee. The Remuneration Committee and the Nominations Committee met separately for the first time in July 2013.

The Remuneration Committee

The Remuneration Committee comprises Caroline Foulger, Richard Gillingwater, Daniel Healy, Ernst Jansen, Dr James King, Bob McMillan, Andrea Rosen and Gunnar Stokholm. The Committee operates according to Terms of Reference published on the Group's website and generally meets three times a year.

The Committee's role in remuneration is described in the remuneration policy report on page 51.

The Nominations Committee

The Nominations Committee comprises Robert Childs, Caroline Foulger, Richard Gillingwater, Daniel Healy, Ernst Jansen, Dr James King, Bob McMillan, Andrea Rosen and Gunnar 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 Company believes that opportunity should be limited only by an individual's ability and drive. The Nominations 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.

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

Robert Childs was appointed as Non Executive Chairman from 26 February 2013. A job and person specification was prepared for the Chairman's role, and a thorough search of both internal and external candidates was conducted by the search consultancy Egon Zehnder under the direction of the Committee. The successful candidate was already a Director of the Company, having previously held the position of Chief Underwriting Officer. Robert Childs did not meet the independence criteria required by the UK Corporate Governance Code when appointed as Non Executive Chairman. Notwithstanding this it was felt that Robert Childs had the strength of character, the commercial experience and the detailed knowledge of the Group's business to make him an excellent Chairman. The Senior Independent Director represented the Committee throughout the selection process and consulted the Company's major shareholders prior to any decision being made. As well as Egon Zehnder, the Senior Independent Director, the Chairman of the Remuneration and Nominations Committee and the Chief Executive interviewed all shortlisted internal and external candidates. Other than acting as a search consultancy, Egon Zehnder has no connection to the Group.

Richard Watson had previously been identified in succession planning as the most suitable individual to take over the role of Chief Underwriting Officer (the position previously held by Robert Childs). Subsequently, Richard was nominated for appointment to the Board by the Remuneration and Nominations Committee, and was elected as a Director on 16 May 2013.

The Investment Committee
The Investment Committee is chaired by Robert Childs and comprises the independent Non Executive Directors, the Chief Executive and the Chief Financial Officer. The Investment Committee has oversight of the Group's investments.

The Conflicts Committee
The Group has a Conflicts Committee which comprises independent Non Executive Directors and is chaired by Dr James King. 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 Conflicts Committee serves to protect the interests of the third-party Syndicate Names. Should such a potential conflict of interest arise, there is a formal procedure to refer the matter to this Committee.

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 Risk Committee normally meets three times per year. The risk management framework is described in the risk management section on pages 27 to 32.

The Chairman's Advisory Group
A Chairman's Advisory Group was established during the year to provide a regular forum for the exchange of information and discussion between the Executive Directors and the Non Executive Chairman.

Performance evaluation
As in the previous year, an internal board and committee evaluation process was conducted in 2013. The internal evaluation included a review of Board composition and whether there was an appropriate balance of skills, experience, independence and knowledge. It also considered how diversity, including gender diversity, could be improved. Other areas covered were succession planning, how the Board works as a unit, 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. The findings of the evaluation were discussed by the Board as a whole. An external evaluation of the Board and its committees is scheduled to take place in 2014. The last external evaluation was carried out in 2011.

During the year an external evaluation of the performance of the new Chairman was carried out. This included interviews with a selection of Non Executive Directors, the Executive Directors and other Executives. The Senior Independent Director met with the other Non Executives without the Chairman present to appraise the performance of the Chairman. During the year, the Non Executives also periodically met without the Executive Directors to discuss a wide range

Corporate governance
continued

of issues concerning the Company. The Chairman held one-to-one meetings with each of the Non Executive Directors during the year to review their performance including their attendance, contribution and preparation for meetings and to discuss any training and development requirements. No issues arose which would prevent the Chairman from recommending the re-appointment of a Non Executive Director. The Chairman met with the Chief Executive and the Chief Executive met with each of the Executive Directors, to discuss their performance over the year and to set targets for the year ahead.

Shareholder communications

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 2013.

The Company commissions independent research on feedback from shareholders and analysts on a regular basis following the Company's results announcements. This research, together with the analysts' research notes, are copied to the Non Executive Directors in full. The Chairman attends a number of meetings with shareholders as well as speaking at the analysts' presentations. In addition, any specific items covered in letters received from major shareholders are reported to the Board. Major shareholders are invited to request meetings with the Senior Independent Director and/or the other Non Executive Directors. An alert service is available on www.hiscoxgroup.com to notify any stakeholder of new stock exchange announcements.

Accountability and internal control

The Directors are responsible for maintaining a sound system of internal control to safeguard the investment made by shareholders and the Company's assets, and for reviewing its effectiveness.

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

The Board has reviewed the effectiveness of its risk management and internal controls during 2013, including financial, operational and compliance controls. The Board confirms there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which has been in place throughout the year and up to the date of approval of the Annual Report and Accounts and accords with the guidance in the document 'Internal Control: Revised Guidance for Directors on the Combined Code'. The head of each business area is responsible for implementing the risk management programme in their area of operations. The Risk function collates risk management information and works with the risk committees to monitor significant risks and movements, and review the relevant internal controls.

The Group also has an internal audit function which has direct access to the Audit Committee and reports to each meeting.

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

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. The Committee is supportive of KPMG in displaying the necessary professional scepticism their role requires.

The primary areas of judgement considered by the Committee in relation to the 2013 Annual Report and Accounts were:

i) Reserving for insurance losses

As set out in our significant accounting policies on page 82, the reserving for losses, in particular losses incurred but not reported, is the most critical estimate in the Company's Consolidated Balance Sheet. The Chief Actuary presented a Group Reserving Report to the Committee and the Committee reviewed the approach taken by management when making their selection of reserving estimates and is satisfied with the judgements taken and the reporting and disclosure of the estimate.

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

As fully explained in note 29, a deferred tax asset has been established relating to operating losses arising in foreign subsidiaries. The recoverability of this asset is dependent upon the future profitability of these subsidiaries. The Committee has reviewed the methodology used by management to assess the projected profitability and the carrying amount of the deferred tax asset.

iii) The valuation of the investment portfolio

The Group reports its assets at fair value. As discussed in note 2.22, during periods of economic stress, the resulting diminished liquidity means estimating fair value involves a higher level of judgement. The Committee has evaluated the process which management has used to estimate the fair value of the investment portfolio and is satisfied with their conclusions.

iv) Accounting for the defined benefit scheme under the revised accounting standards

During the year, the Group adopted the revised IAS 19 accounting standard for defined benefit schemes. The Audit Committee has reviewed the report of the key judgements in the financial statements from the Chief Financial Officer, and how the revised standard has been adopted and the recognition of a £4.4 million liability at 31 December 2013, and is satisfied with the approach taken.

UK Corporate Governance Code

Following the changes to the UK Corporate Governance Code, which apply to financial years commencing on or after 1 October 2012, the Board requested that the Committee advise on whether it believes the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee has provided such advice to the Board.

External auditor

The external auditors are invited to attend all meetings of the Committee. It is the responsibility of the Committee to monitor the performance, objectivity and independence of the external auditors. The Committee discusses and agrees the scope of the audit plan for the full year and the review plan for the interim statement with the auditors. The Audit Committee receives reports from external auditors at regular intervals during the audit process including in relation to the judgements outlined above.

The external auditors provide reports at each Committee meeting on topics such as the control environment, key accounting matters and mandatory communications. The Committee also received a comprehensive presentation from the auditors demonstrating to its satisfaction how their independence and objectivity is maintained when providing non-audit services. Any contracts with the auditors, KPMG, for non-audit services in excess of £50,000 must be approved by the Committee in advance. Approval will not be given for any contract which may impair the auditors' independence or objectivity. During the year the

Audit Committee report
continued

value of non-audit services provided by KPMG amounted to £88,000 (2012: £21,000). There were no circumstances where KPMG was engaged to provide services which might have led to a conflict of interests, nor does the Audit Committee consider the quantum of the fees impacts the independence of the auditors.

During the year the Non Executive Directors met with the external and internal auditors without the Executive Directors present so as to provide a forum to raise any matters of concern in confidence. The Group intends to comply with the new requirement in the UK Corporate Governance Code for FTSE 350 Companies to put their external audit out to tender at least every ten years. KPMG have been auditors to the Group since it was admitted to the main market of the London Stock Exchange in 1997. The auditors are required to rotate the audit partner responsible for the Group every five years and the rotation cycle of the current partner will end following the conclusion of the 2015 audit. With this in mind it is expected that an audit tender process will be aligned with the rotation of the current audit partner. However, the Audit Committee intends to keep this under review, given the ongoing legal and regulatory developments in this area including the proposed European legislation.

Internal audit

The Group Compliance and Audit Director is invited to attend all meetings of the Committee. It is the responsibility of the Audit Committee to monitor and review the effectiveness of the Group's internal audit function and to consider reports prepared by internal audit on the effectiveness of systems of internal control. An internal Board and Committee evaluation was conducted during the year, the scope of which included the Audit Committee.

Chairman of Audit Committee
Daniel Healy

Meetings and attendance table

Director	Ltd Board Attended	Audit Committee Attended	Remuneration and Nominations Committee Attended	Remuneration Committee Attended	Nominations Committee Attended
RS Childs	4/4	N/A	N/A	N/A	2/2
BE Masojada	4/4	N/A	N/A	N/A	N/A
SJ Bridges	4/4	N/A	N/A	N/A	N/A
RC Watson	2/2	N/A	N/A	N/A	N/A
C Foulger	4/4	3/3	2/2	2/2	2/2
RD Gillingwater	4/4	3/3	2/2	1/2	1/2
DM Healy	4/4	3/3	2/2	2/2	2/2
ER Jansen	4/4	3/3	2/2	2/2	2/2
Dr J King	4/4	3/3	2/2	2/2	2/2
R McMillan	4/4	3/3	2/2	2/2	2/2
AS Rosen	4/4	3/3	2/2	2/2	2/2
G Stokholm	4/4	3/3	2/2	2/2	2/2

Notes
[1] RRS Hiscox stood down as Chairman and Director on 25 February 2013 and did not attend any meetings during the year.
[2] The Remuneration and Nominations Committee was divided into two committees, meeting separately for the first time in July 2013. Consequently the combined committee met twice and the Remuneration Committee and Nominations Committee each met twice during the year.
[3] RS Childs was appointed Chairman of the Nominations Committee at its inception.

Letter to shareholders

Dear Shareholder
The Hiscox remuneration policy report and the 2013 annual remuneration report are presented in the following pages. In this letter, I would like to explain the context in which the Remuneration Committee approaches its responsibilities and which have guided our decisions.

At Hiscox, our objective is to deliver strong shareholder returns across the cycle and consistently grow dividends and net asset value per share. In order to do this we need not only to make profits today but also to invest for growth tomorrow; managing risk effectively and continuing to build our balanced business. Our reward practices for all employees (including Executive Directors) are intended to reflect these imperatives. We aim to keep our reward schemes transparent, simple and consistent.

Linking executive pay with business objectives and shareholder returns
The guiding principle behind our remuneration policies is to align executive incentives with the creation of value for our shareholders. We do this in three ways.

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

Comments on the Hiscox remuneration policy report
Although this is the first time we have reported under the new disclosure regulations, our remuneration policy is largely unchanged from 2012. I would like to highlight a few areas as follows.

- The remuneration policy limits the aggregate size of the bonus pool through measures described in the policy report. While we do not cap the amount of any individual bonus, we have introduced a cap on the proportion of the bonus pool which can be allocated to the Executive Directors. As I have already noted, we have clear policies linking our bonus payments to target returns. In the past 15 years Executive Directors have four times received zero bonuses because the target Hurdle Rate was not met. Conversely, we believe that if Hiscox creates significant returns for shareholders, then Executive Directors should benefit accordingly. We do not, however, believe they should take an excessive proportion of the rewards and thus have introduced the cap noted.
- We are introducing a formal policy on the payments to be made to Executive Directors in the event of loss of office. We have increased the notice the Company is required to give to the Executive Director from six months to 12 months alongside a disclosed approach to calculating severance. The notice the Executive Director is required to give to the Company remains at six months.
- We have included a recruitment policy. Although we have not recruited an Executive Director externally for 15 years, the policy describes how we would intend to approach reward packages in the event we were to hire from outside Hiscox.
- We have introduced a malus clause which will apply to future unvested shares and deferred bonuses.

We are a Bermuda incorporated company therefore not subject to the new UK disclosure regulations. Our intention, however, has always been to provide transparent remuneration disclosure and to engage with shareholders on the topic therefore our 2013 remuneration report is consistent with the new regulations and we will be submitting the policy and remuneration report for an advisory vote at the AGM on 15 May 2014.

Letter to shareholders
continued

Comments on 2013 performance

The 2013 business performance has been extremely strong; a near record underwriting result, strong revenue growth and a credible investment return. Highlights are:

- profit before tax increase of 12.5%;
- gross written premium growth of 8.5%;
- growth in net tangible asset value per share of 16%;
- return on equity (post-tax) increased to 19.3% (from 17.1% in 2012); and
- Earnings per share increase of 24.9%.

Thanks to these strong results, we have announced that for a second consecutive year we will be making an additional return of capital to shareholders.

Comments on 2013 Executive Director remuneration

Payments to the three Executive Directors under the annual incentive scheme reflect the excellent 2013 results. Aggregate bonuses for the 2013 year are 209% of salary.

As we disclosed in the 2012 Directors' remuneration report, Stuart Bridges and Bronek Masojada received salary increases of 14% and 18% respectively, effective 1 April 2013. We confirmed at the time that these were unusual increases which would not set a pattern for the future. The salary increases for the three Executive Directors which will take effect on 1 April 2014 will be consistent with the overall UK-based employee salary increases.

The 2011 PSP is subject to performance conditions for the 2011, 2012 and 2013 financial results. 52.7% of the grant vested, reflecting the combined ROE performance for those three years. Annual grants of just under 180% of salary were made to the three Executive Directors in 2013 which will vest in 2016 subject to the normal performance conditions. In order for these grants to vest in full, Hiscox would have earned in excess of £500 million post-tax profit over the three years.

I am sure that you will agree that in 2013 Hiscox has delivered excellent results and continues to deliver superior shareholder returns. I believe that the rewards to all employees, including Executive Directors, reflect this appropriately.

Andrea Rosen
Chairman of Remuneration Committee

Remuneration policy report

A core function of the Remuneration Committee's role is to determine:
- the overall remuneration strategy, policy and cost for the Group;
- the levels and make-up of remuneration for the Executive Directors;
- the award of sizeable bonuses to individuals other than the Executive Directors; and
- the awards and operation of the Company's share plans, including the Performance Share Plan.

The Company's intended forward-looking remuneration policy for Board members is set out on pages 52 to 58. The remuneration policy set out in this report is intended to take effect from 15 May 2014.

Explanatory context

Hiscox intends to put both the remuneration policy report and the annual report on remuneration to shareholders for approval on an advisory basis at the Annual General Meeting on 15 May 2014.

Future policy table
Executive Director remuneration

Element	Purpose and link to strategy	Operation
Base salary	Base salary, benefits and retirement benefits represent fixed payments for undertaking the role. 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.	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.
Retirement benefits		These vary by local country practice but all open Hiscox retirement schemes are based on defined contributions. This approach will be generally maintained for any new appointments other than in specific scenarios (e.g. local market practice dictates other terms). For current Executive Directors, a cash allowance (which is currently 10% of salary, less an offset for the employer's National Insurance contribution) is provided in lieu of the standard employer pension contribution. Selected 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).
Annual incentive	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.	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 2014, the bonus pool will be funded by a set percentage of profits on achievement of a Hurdle Rate of ROE. The bonus for 2013 was determined on a similar basis. Further detail is set out on page 60. 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 below. Bonus awards are non-pensionable.

Maximum potential value	Performance metrics	Application to broader employee population
The salaries for current Executive Directors are set out on page 59. 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).	Individual and business performance is taken into account when setting salary levels.	Process for review of salaries is consistent for all employees.
Set at an appropriate level by reference to the local market practice.	None.	Executive Directors' benefits are determined on a basis consistent with all employees.
Set at an appropriate level by reference to local market practice and reflecting individual and family circumstances.		
The Company has a robust track record of paying bonuses which are proportionate to financial results, see page 60 of this report for further details. Where performance is deemed to be below a pre-determined hurdle, payouts will be nil. Individual bonus caps are not set – this has been the Company's policy for many years. 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 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.	The operation of the annual incentive is consistent for employees across the Group. Bonuses for more junior employees are calculated using a more formulaic approach. Further details are set out on page 60.

Remuneration policy report
continued

Future policy table continued
Executive Director remuneration continued

<table>
<tr><th>Element</th><th>Purpose and link to strategy</th><th>Operation</th></tr>
<tr><td>Bonus deferral</td><td>Retention of employees.

Facilitate and encourage share ownership in order to align senior employees with Hiscox shareholders.</td><td>Larger bonuses are 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:
<table>
<tr><td>Bonus of £50,000, €75,000, $100,000 and below</td><td>Paid shortly after the end of the financial year in which the bonus was achieved.</td></tr>
<tr><td>Bonus above £50,000 and below £100,000
Bonus above €75,000 and below €150,000
Bonus above $100,000 and below $200,000</td><td>£50,000, €75,000, $100,000 paid shortly after the end of the financial year in which the bonus was achieved.
Balance of bonus split 50% to be paid after year two (i.e. 24 months after the start of the bonus year), and 50% after year three (i.e. 36 months after the start of the bonus year).</td></tr>
<tr><td>Bonus above £100,000, €150,000, $200,000</td><td>50% of bonus paid shortly after the end of the financial year.
Balance of bonus split 50% to be paid after year two, and 50% after year three.</td></tr>
</table>
Participants are able to (subject to any local tax/legal/regulatory restrictions) draw deferred bonuses early for the following reasons:
— payment of the exercise price on the exercise of employee share options;
— payment of tax on share awards (e.g. on exercise of performance shares);
— purchase of shares; and
— payment of debt due on share purchases.
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 a malus provision. Further details on the malus provision are set out on pages 56 to 57 of this report.</td></tr>
<tr><td>Performance Share Plan (PSP)</td><td>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.</td><td>Awards are granted under the Performance Share Plan, originally implemented in 2006. Awards are governed by the rules of this plan.

Share awards (typically structured as either contingent awards or nil cost options) are made to Executive Directors and other senior employees at the discretion of the Remuneration Committee.

Awards normally vest after a three-year period subject to the achievement of performance conditions.

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. Further details on this are set out on page 56. Unvested awards are subject to a malus provision. Further details on the malus provision are set out on pages 56 to 57 of this report. The PSP rules also enable the Company to grant market value options, however there are currently no plans to use this for regular awards.</td></tr>
<tr><td>Shareholding guidelines</td><td>To ensure Executive Directors are aligned with shareholder interests.</td><td>Within five years of becoming an Executive Director, individuals will normally be expected to own Hiscox shares valued at 150% of salary.</td></tr>
</table>

Maximum potential value	Performance metrics	Application to broader employee population
N/A	N/A	Approach is consistent for all employees across the Group who are awarded a sizeable bonus.
Maximum annual grant of up to 200% of salary in respect of any one financial year.	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 2014 are set out on page 61. 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. Under the plan rules the Committee is able to modify performance criteria for outstanding awards on the occurrence of certain events (e.g. major disposal), provided that such adjustment is fair and reasonable and the adjusted condition is no more difficult to satisfy.	Participation in this plan is restricted to Executive Directors and other senior individuals. The approach is consistent for all participants under the plan.
N/A	N/A	Executive Directors are required to hold more shares than other senior managers.

Remuneration policy report
continued

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

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

The current fees payable to Non Executive Directors are set out on page 62.

Notes to the policy table

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

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

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

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

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

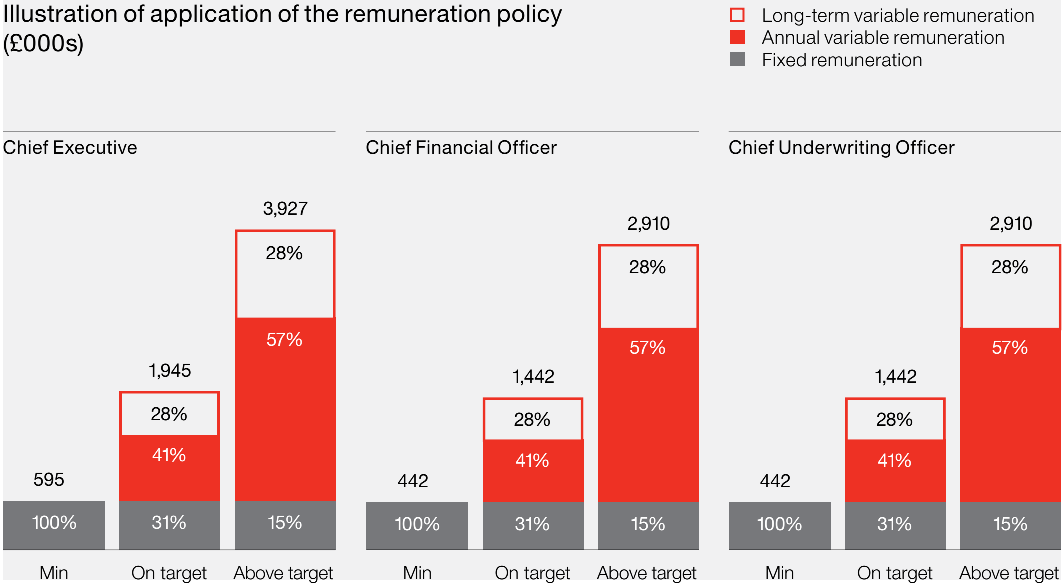
Legacy arrangements
The Committee may continue to satisfy remuneration payments and payments for loss of office (including the exercise of any discretions available to the Committee in connection with such payments) where the terms of the payment were agreed before the policy came into effect or at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, such payments include the Committee satisfying awards of variable remuneration.

Malus provision
In respect of unvested compensation, specifically

deferred bonuses and unvested performance share awards, granted following the introduction of this policy report, the Committee may, in its absolute discretion, determine at any time prior to the vesting of an award to reduce, cancel or impose further conditions in the following circumstances:
- a retrospective material restatement of the audited financial results of the Group for a prior period error in accordance with IAS 8;
- actions of gross misconduct, including fraud, by the participant or their team leading to the Company suffering significant reputational or financial damage.

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

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



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 2013 — Benefits as received during 2013, as disclosed in the Executive Director remuneration table on page 59. — Retirement benefit is shown as 10% of salary (i.e. the cash allowance provided to current Executive Directors).
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. — **PSP:** scenario analysis assumes awards are granted at the maximum level set out in the policy table above. In practice, award levels are determined annually and are not necessarily granted at the plan maximum every year.

Performance scenarios

Below target performance	Fixed reward only
On target performance	Fixed reward *plus* variable pay for the purpose of illustration as follows. — **Annual incentive:** assume a bonus equivalent to 150% of salary. — **PSP:** assume vesting of 50% of the maximum award.
Above target performance	Fixed reward *plus* variable pay for the purpose of illustration as follows. — **Annual incentive:** assume a bonus equivalent to 417% of salary. This is broadly the highest payout level to an Executive Director over the past ten years. — **PSP:** assumes vesting of 100% of the maximum award.

Recruitment policy

A new hire will ordinarily be remunerated in accordance with the policy described in the table on the previous pages. In order to define the remuneration for an incoming Executive Director, the Committee will take account of:
- prevailing competitive pay levels for the role;
- experience and skills of the candidate;
- awards (shares or earned bonuses) and other elements which will be forfeited by the candidate;
- transition implications on initial appointment.

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

A 'buy-out' payment/award may be necessary in respect of arrangements forfeited on joining the Company. The size and structure of any such buy-out arrangement will take account of relevant factors in respect of the forfeited terms including potential value, time horizons and any performance conditions which apply. Where relevant, the Committee will review the likelihood of achievement of performance conditions based on the track record of payments and relevant performance of the candidate's current employer within the testing period. The objective of the Committee will be to suitably limit any buy-out to the commercial value forfeited by the individual.

On initial appointment (including interim Director appointments) the Committee recognises that there may be a need to offer more bespoke arrangements in order to facilitate recruitment. In such circumstances, the Committee may opt to vary the approach set out in the policy table above as it considers appropriate and necessary at the time. The exact structure of any such awards, including the mode of delivery (e.g. cash or shares), the timeframe for payment or vesting, and the detail of performance measures and targets (if any) would be tailored as appropriate but would remain consistent with the overall Hiscox approach to pay. In all circumstances, any movement from the ongoing policy would only be considered where there is a strong commercial rationale to do so and where the Committee felt this was in the best interests of the Company and shareholders. The Company would seek to clearly disclose and explain any such arrangements to shareholders as appropriate.

On the appointment of a new Chairman or Non Executive Director, the fees will normally be consistent with the policy set out above. 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. Following the agreement of updated employment terms, this will apply to all current Executive Directors with effect from 15 May 2014 and would generally be applied to future appointments.

Non Executive Directors are appointed for a three-year term, which is renewable, with three months' notice on either side, no contractual termination payments being due and subject to retirement pursuant to the Bye-laws at the Annual General Meeting. The contract for the Chairman is subject to a six-month notice provision on either side.

Policy on payment for loss of office

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

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

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

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

4. Unvested Performance Share Plan (PSP) awards
Treatment would be in accordance with the plan rules and relevant grant documentation. The intended approach is summarised below:
- awards will vest in line with the normal scheme vesting date (unless the Committee determines otherwise). Awards vest to the extent that the relevant performance target is considered to have been met;
- the award will normally be pro-rated to reflect the period which has elapsed from the commencement of the award to the date of termination unless the Committee determines otherwise.

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

Consideration of shareholder views

Hiscox regularly discusses remuneration policy matters with a selection of shareholders.

In compiling this 2013/14 policy report, a draft version was sent to major shareholders plus the ABI and ISS for comments. These comments were discussed at the Remuneration Committee meeting prior to finalising the document.

Annual report on remuneration 2013

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

Executive Director remuneration

The table below sets out the remuneration received by current and former Executive Directors for the financial years ending 31 December 2013 and 31 December 2012.

	Year	Salary £	Benefits £[1]	Bonus £[2]	Long-term incentives £[3]	Retirement benefits £	Total remuneration £
SJ Bridges	**2013**	**387,500**	**6,818**	**850,000**	**476,605**	**35,116**	**1,756,039**
Chief Financial Officer	2012	344,375	6,037	700,000	352,517	31,720	1,434,649
RS Childs[4]	**2013**	**57,534**	**1,282**	**–**	**476,605**	**–**	**535,421**
Former Chief Underwriting Officer	2012	370,625	6,279	750,000	411,270	–	1,538,174
RRS Hiscox[5]	**2013**	**48,329**	**577**	**–**	**285,963**	**–**	**334,869**
Former Chairman	2012	311,250	1,868	400,000	176,258	–	889,376
BE Masojada	**2013**	**519,375**	**8,046**	**1,100,000**	**667,246**	**47,070**	**2,341,737**
Chief Executive	2012	452,500	7,034	850,000	587,528	41,697	1,938,759
RC Watson[6]	**2013**	**252,055**	**4,481**	**850,000**	**476,605**	**22,792**	**1,605,933**
Chief Underwriting Officer	2012	–	–	–	–	–	–

[1] 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.
[2] A proportion of the bonus amount is deferred as set out on page 54 of the policy report.
[3] 2013 long-term incentives relate to performance share awards granted in 2011 where the performance period ends on 31 December 2013. The award is due to vest on 7 April 2014. The amount also includes dividend equivalents accrued on this award. For the purpose of this table the performance share award has been valued based on the average share price during the three-month period to 31 December 2013 of 670.00p. The 2012 long-term incentive award relates to performance share awards granted in 2010 where the performance period ended on 31 December 2012. The award vested on 7 April 2013. The amount also includes dividend equivalents accrued on this award. For the purpose of this table the performance share award has been valued on the actual share price on the date of vest which was 542.00p.
[4] RS Childs' employment with Hiscox and his appointment as an Executive Director ceased on 25 February 2013 and the amounts shown above are on a pro-rata basis with the exception of the long-term incentive which is shown in full. His appointment as Non Executive Chairman commenced on 26 February 2013 and his remuneration for this role is shown in the Non Executive Director table on page 62.
[5] RRS Hiscox ceased to be an Executive Director on 25 February 2013 and the amounts shown above are on a pro-rata basis with the exception of the long-term incentive which is shown in full. He now has the role of Honorary President with the Company.
[6] RC Watson's appointment as Executive Director commenced on 16 May 2013. The amounts shown are pro-rata based on qualifying services with the exception of bonus and long-term incentive which are shown in full.

Additional notes to the Executive Director remuneration table

Salary

The current salaries for the Executive Directors are as follows:

	£
SJ Bridges	400,000
BE Masojada	540,000
RC Watson	400,000

As disclosed in last year's Directors' remuneration report, SJ Bridges and BE Masojada received exceptional salary increases of 14% and 18% respectively as part of the April 2013 salary review. These one-off adjustments were made to address a range of factors including changes in the role and increases in the scale and complexity of the Company. The basis and rationale for these increases were set out in further detail in last year's Directors' remuneration report. The Remuneration Committee acknowledged at the time that these were unusual and significant increases which did not reflect past increases and were not intended to form a pattern for future increases. Executive Director salaries will next be reviewed as part of the annual April 2014 review and will be consistent with the overall UK-based employee salary increases.

Bonus

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

In line with the remuneration policy, the Executive Directors, along with other employees across the Group, participated in the 2013 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 in excess 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 1-3 year gilt and treasury yields, cash returns and the general investment environment. The return on equity Hurdle Rate for the 2013 financial year was set at 7%, which was 5% above the investment benchmark rate.

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

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

In 2013, the Group achieved a pre-tax profit of £244.5 million compared with £217.5 million in 2012. This resulted in a pre-tax return on equity of 19.9% and as such the bonuses awarded to the Executive Directors reflect an above-target performance and an increase over 2012 bonuses awarded.

The following table shows the average Executive Director bonus as percentage of salary versus return on equity performance and demonstrates how we have applied our policy of paying bonuses which are proportionate to results. As can be seen from the table, the bonuses vary significantly with performance from year-to-year.

Executive Directors' cash incentives and ROE

	Pre-tax return on equity %	Average bonus as a percentage of salary %
2004	28	173
2005	19	54
2006	35	274
2007	36	372
2008	14	53
2009	34	287
2010	19	108
2011	1	0
2012	18	183
2013	20	209

In line with the remuneration policy, 50% of the 2013 bonus will be deferred over a period of two years. Receipt of these deferred amounts is normally subject to continued service.

Bonus awards for the 2014 financial year

The bonus return on equity Hurdle Rate has been reviewed as described above and will remain unchanged for the 2014 financial year at 7%.

Long-term incentives

Performance Share Plan (PSP) awards where the performance period ends with the 2013 financial year

Executive Directors were granted awards under the PSP in 2011 for the three-year performance period 1 January 2011 to 31 December 2013. The performance conditions for this award were set at the start of the performance period and are as follows:

	Required average post-tax ROE over the three-year performance period %	Proportion of PSP vesting %
Minimum threshold vesting	10	25
Maximum vesting	17.5	100
Straight-line vesting between these points		

Based on the three-year average return on equity of 12.8%, the awards ending with the 2013 performance year, will vest at 52.7% on 7 April 2014. 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 59.

PSP awards granted during the 2013 financial year
On 2 April 2013 the Executive Directors were granted awards under the PSP as follows:

	Number of awards granted	Market price at date of grant £	Market value at date of grant £
SJ Bridges	125,000	5.68	710,000
BE Masojada	175,000	5.68	994,000
RC Watson	125,000	5.68	710,000

The performance period for this award is 1 January 2013 to 31 December 2015. As disclosed in last year's Directors' Remuneration report, the Committee made the decision to align the approach to setting the PSP performance conditions with the method of setting the Bonus Hurdle. As such the performance conditions for this award are as follows:

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

PSP awards to be granted during 2014
In the coming year, the Committee intends to grant awards to Executive Directors and the performance conditions and targets will be unchanged from the 2013 awards.

Details of pension entitlements
All open Hiscox retirement schemes are based on defined contributions.

SJ Bridges, BE Masojada and RC Watson hold lifetime allowance protection certificates and have therefore opted out of the Company pension scheme. They receive a 10% cash allowance (less an offset for the employer's UK National Insurance liability) in lieu of the standard employer pension contribution. The value of this benefit is shown in the Executive Director remuneration table on page 59.

The table below details the legacy entitlements from the Defined Benefit Pension Plan. There are no further accruals under this plan. RS Childs and RRS Hiscox are in receipt of pensions from the closed defined benefit scheme and are entitled to no further pension provision.

Pensions

	Normal retirement age	Increase in accrued pension during the year £000	Transfer accrued annual pension at 31 Dec 13 £000	Transfer value of increase in accrued pension £000	Transfer value of accrued pension at 1 Jan 13 £000	Transfer value of accrued pension at 31 Dec 13 £000	Increase/(decrease) in transfer value of accrued benefit during the year £000
RS Childs	60	12	269	–	6,799	6,685	(114)
SJ Bridges	60	1	35	–	736	754	18
RRS Hiscox	60	13	275	–	5,582	5,455	(127)
BE Masojada	60	2	47	–	1,166	1,139	(27)
RC Watson	60	6	142	–	3,541	3,503	(38)

Non Executive Director remuneration

The table below sets out the remuneration received by the Non Executive Directors for the financial years ending 31 December 2013 and 31 December 2012.

	2013					2012				
	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[1,2]	116,404	–	116,404	2,459	235,267	–	–	–	–	–
RD Gillingwater	51,875	29,375	–	–	81,250	51,875	29,375	–	–	81,250
C Foulger	51,875	20,000	46,144	–	118,019	–	–	–	–	–
DM Healy	51,875	26,250	–	–	78,125	51,875	26,250	–	–	78,125
ER Jansen	51,875	20,000	–	–	71,875	51,875	20,000	–	–	71,875
Dr J King	51,875	23,125	39,375	–	114,375	51,875	23,125	39,375	–	114,375
R McMillan	51,875	20,000	48,750	–	120,625	51,875	20,000	48,750	–	120,625
AS Rosen	51,875	25,938	–	–	77,813	51,875	25,938	–	–	77,813
G Stokholm	51,875	24,375	45,000	–	121,250	51,875	22,500	45,000	–	121,250

Any fees that are paid in US Dollars have been converted to Great British Pounds using an exchange rate of 1.60.
[1]RS Childs was appointed Non Executive Chairman of Hiscox Ltd, Hiscox Syndicates Ltd and Hiscox Insurance Company Ltd on 26 February 2013. The amounts shown relate to remuneration paid for qualifying services in these roles.
[2]RS Childs remains covered under the Company healthcare and life insurance schemes.

Non Executive Directors receive an annual fee in respect of their Hiscox Ltd and subsidiary board appointments. Fees were reviewed for the 2013 financial year but were not increased. Having recently conducted a review of fees, we do not anticipate any fee increases for the 2014 financial year. Non Executive Director fees will next be reviewed in January 2015.

Payments for loss of office and payments to past Directors

As detailed in last year's Directors' remuneration report, on assuming the role of Non Executive Chairman, RS Childs will no longer be entitled to participate in the annual bonus or long-term incentive scheme. His outstanding performance share awards from 2011 and 2012 will vest in line with the scheme rules following the end of the three-year performance period ending 2013 and 2014 respectively. Mr Childs received no payment for loss of office when transitioning from his previous role as Chief Underwriting Officer.

Payments made to RRS Hiscox for his Executive Director role during 2013 are covered under the single figure of remuneration table. There were no payments for loss of office on stepping down from the Board. After 48 years with the Company, RRS Hiscox was also presented with a gift of artwork to the value of £128,000 when he stepped down as Chairman in February 2013.

Directors' shareholding and share interests

We strongly believe that senior managers within Hiscox should be aligned with Hiscox shareholders by owning a minimum number of Hiscox shares. Formal shareholding guidelines are in place which mean that within five years of becoming an Executive Director, the Director will be expected to own Hiscox shares valued at 150% of salary. The holdings of our Executive Directors far exceed the shareholding guidelines.

Directors' interests

	31 December 2013 5 55/89p* Ordinary Shares number of shares beneficial	31 December 2012 5p Ordinary Shares number of shares beneficial
Executive Directors		
BE Masojada	3,329,160	3,505,527
SJ Bridges	1,045,765	1,157,508
RC Watson	842,876	N/A
Non Executive Directors		
RS Childs	1,930,375	2,165,357
C Foulger	10,000	N/A
R Gillingwater	5,000	–
D Healy	89,000	100,000
ER Jansen	77,019	72,188
Dr J King	–	–
R McMillan	–	–
A Rosen	67,699	61,454
G Stokholm	–	–

*Following the share capital consolidation on 2 April 2013, the nominal value of the Ordinary Shares changed from 5p to 5 55/89p.
RRS Hiscox held 5,135,534 Ordinary Shares of 5p each when he stood down as Chairman and Director on 25 February 2013.

Share options

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

	Number of options at 1 January 2013	Number of options granted	Number of options lapsed	Number of options exercised	Number of options at 31 December 2013	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
SJ Bridges	154,578	–	–	(154,578)	–	1.465	5.100	02-Apr-06	01-Apr-13
	154,578	–	–	(154,578)	–	1.514	6.694	13-Jul-07	12-Jul-14
	154,578	–	–	–	154,578	1.499	–	06-Apr-08	05-Apr-15
	463,734	–	–	(309,156)	154,578				
RS Childs	206,104	–	–	(206,104)	–	1.465	5.100	02-Apr-06	01-Apr-13
	206,103	–	–	(206,103)	–	1.514	6.663	13-Jul-07	12-Jul-14
	206,104	–	–	(206,104)	–	1.499	6.497	06-Apr-08	05-Apr-15
	618,311	–	–	(618,311)	–				
BE Masojada	206,104	–	–	(206,104)	–	1.465	5.110	02-Apr-06	01-Apr-13
	206,104	–	–	(206,104)	–	1.514	5.581	13-Jul-07	12-Jul-14
	206,104	–	–	(206,104)	–	1.499	6.776	06-Apr-08	05-Apr-15
	618,312	–	–	(618,312)	–				
RC Watson	128,815	–	–	(128,815)	–	1.465	5.100	02-Apr-06	01-Apr-13
	125,933	–	–	(125,933)	–	1.514	6.682	13-Jul-07	12-Jul-14
	128,815	–	–	–	128,815	1.499	–	06-Apr-08	05-Apr-15
	383,563	–	–	(254,748)	128,815				
Total	2,083,920	–	–	(1,800,527)	283,393				

Annual report on remuneration 2013
continued

Share options

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

	Number of options at 1 January 2013	Number of options granted	Number of options lapsed	Number of options exercised	Number of options at 31 December 2013	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
SJ Bridges	3,210	–	–	(3,210)	–	2.826	5.610	01-May-13	31-Oct-13
	–	2,017	–	–	2,017	4.460	–	01-May-16	31-Oct-16
RRS Hiscox	2,764	–	–	–	2,764	3.255	–	01-May-15	31-Oct-15
RS Childs	3,210	–	–	(3,210)	–	2.826	5.610	01-May-13	31-Oct-13
BE Masojada	3,107	–	–	(3,107)	–	2.896	6.550	01-Dec-13	31-May-14
	–	1,744	–	–	1,744	5.160	–	01-Dec-16	31-May-17
RC Watson	2,933	–	–	–	2,933	3.077	–	01-May-14	31-Oct-14
Total	15,224	3,761	–	(9,527)	9,458				

Performance Share Plan

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

	Number of awards at 1 January 2013	Number of awards granted	Number of awards adjusted	Number of awards lapsed	Number of awards exercised	Number of awards at 31 December 2013	Market price at date of exercise £	Date from which released
SJ Bridges	121,934	–	–	–	–	121,934	–	07-Apr-11
	188,709	–	–	–	–	188,709	–	02-Apr-12
	150,000	6,090	–	(91,050)	–	65,040	–	07-Apr-13
	125,000	–	–	–	–	125,000	–	07-Apr-14
	125,000	–	–	–	–	125,000	–	19-Mar-15
	–	125,000	–	–	–	125,000	–	02-Apr-16
RS Childs	212,298	–	–	–	–	212,298	–	02-Apr-12
	175,000	7,105	–	(106,225)	–	75,880	–	07-Apr-13
	125,000	–	–	–	–	125,000	–	07-Apr-14
	125,000	–	–	–	–	125,000	–	19-Mar-15
RRS Hiscox	90,588	–	–	–	–	90,588	–	26-Mar-10
	83,137	–	–	–	–	83,137	–	07-Apr-11
	47,177	–	–	–	–	47,177	–	02-Apr-12
	76,260	3,045	–	(45,525)	–	33,780	–	07-Apr-13
	75,000	–	–	–	–	75,000	–	07-Apr-14
	75,000	–	–	–	–	75,000	–	19-Mar-15
BE Masojada	193,986	–	–	–	–	193,986	–	07-Apr-11
	259,475	–	–	–	–	259,475	–	02-Apr-12
	250,000	10,150	–	(151,750)	–	108,400	–	07-Apr-13
	175,000	–	–	–	–	175,000	–	07-Apr-14
	175,000	–	–	–	–	175,000	–	19-Mar-15
	–	175,000	–	–	–	175,000	–	02-Apr-16
RC Watson	221,047	–	–	–	–	221,047	–	12-Jan-09
	150,000	6,090	–	(91,050)	(65,040)	–	5.397	07-Apr-13
	125,000	–	–	–	–	125,000	–	07-Apr-14
	125,000	–	–	–	–	125,000	–	19-Mar-15
	–	125,000	–	–	–	125,000	–	02-Apr-16
Total	3,469,611	457,480	–	(485,600)	(65,040)	3,376,451		

External Non Executive Directorships

No external appointments may be accepted by an Executive Director where such appointment may give rise to a conflict of interest. The consent of the Chairman is required in any event. During the year BE Masojada held directorships on the Board of the Association of British Insurers, Bajka Investments (Pty) Ltd and Heptagon Assets Ltd. He was not remunerated for his services. SJ Bridges held directorships on the Board of Caledonia Investments plc and does not retain the annual fee of £41,350 for his services. He also sits on the Audit Committee of the Institute of Chartered Accountants in England and Wales and is not remunerated for his services. RC Watson did not hold any Non Executive Directorships during the year.

Performance graph and table

The graph below shows the total shareholder return of the Group against the FTSE All Share and FTSE Non Life Insurance indices. These reference points have been shown to assess performance against reference points from the general market and industry peers.

Total shareholder return (%)

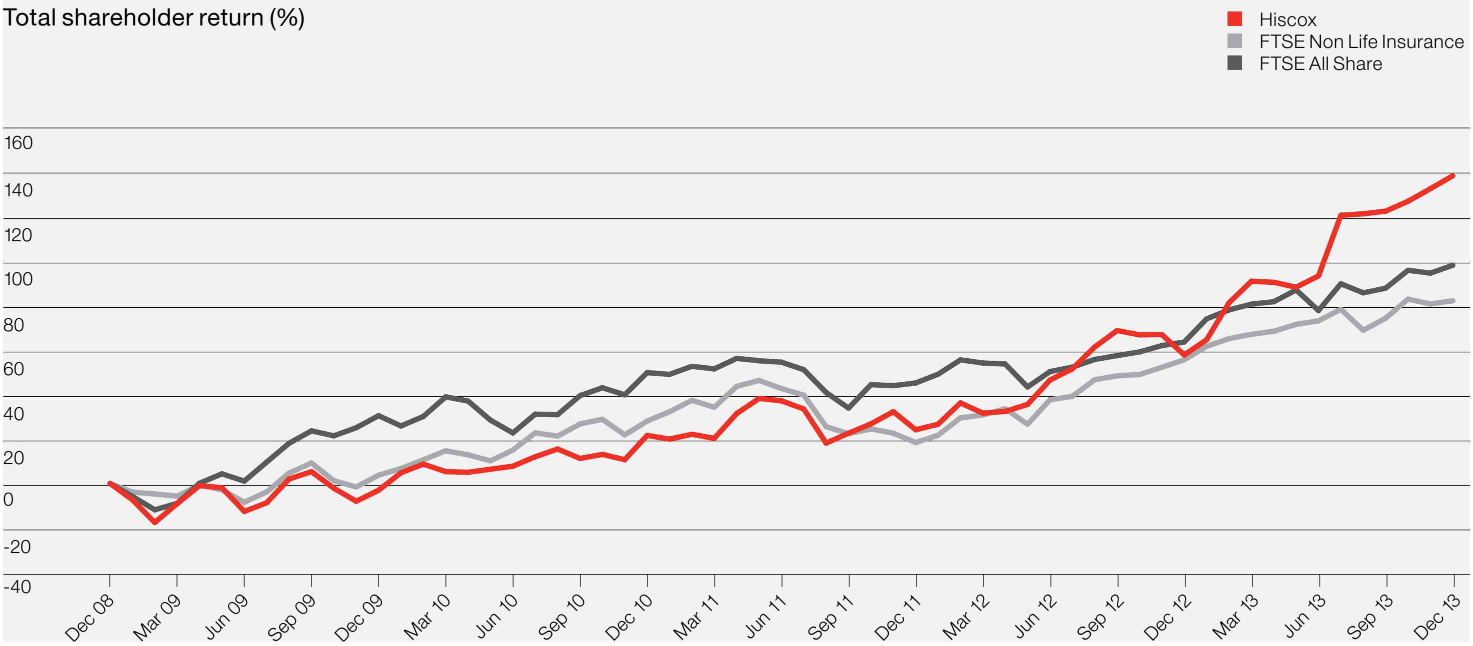


Table of historic data

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

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

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

The table below shows the percentage change in base salary, benefits, pension and annual bonus of the Chief Executive between 2010 and 2013 financial years compared with the average UK-based employee. We have chosen UK-based employees rather than Group-wide employees as the comparator group as this is where the Chief Executive is based and this allows for the closest comparison in terms of salary increases which take into account country inflation and the benefits package provided. The change is based on UK employees who were employed and eligible for a salary review and bonus in all financial years.

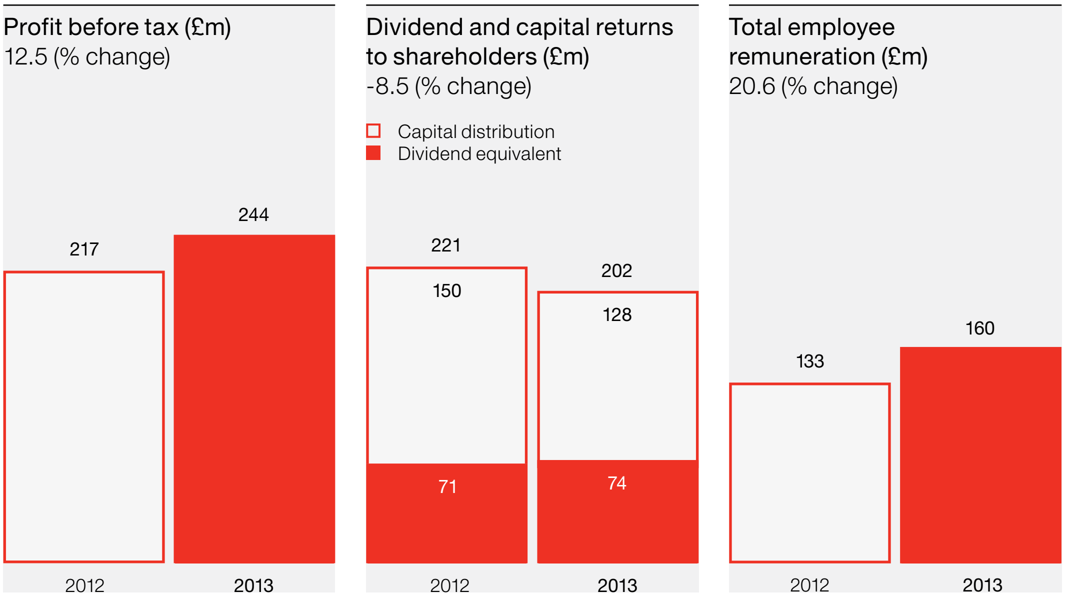
	% Change 2010 to 2011		% Change 2011 to 2012		**% Change 2012 to 2013**	
	CEO	Employee	CEO	Employee	CEO	**Employee**
Base salary	0	3	3	4	18	**5**
Benefits (including retirement benefits)	(2)	(1)	4	5	18	**7**
Bonus	(100)*	(42)	–*	144	29	**12**

*The Chief Executive did not receive a bonus for the 2011 financial year as performance was below the return on equity hurdle. In contrast, his 2012 bonus increased from zero to £850,000 which reflected the strong performance of the 2012 financial year. Based on profit performance, an award of £1,100,000 has been made for the 2013 financial year. Further disclosure on the CEO salary increase between the 2012 and 2013 year is covered in the salary section of this report.

Annual report on remuneration 2013
continued

Relative importance of the spend on pay

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



Membership of the Remuneration Committee

The Committee members for 2013 were RS Childs, C Foulger, R Gillingwater, DM Healy, ER Jansen, Dr J King, R McMillan, AS Rosen (Chairman) and G Stokholm.

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

External advisors

The Committee received independent advice from Deloitte, an independent firm of remuneration consultants appointed by the Committee. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under its code of conduct in relation to executive remuneration consulting in the UK. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance and institutional investor views and in the development of the Company's incentive arrangements. Total fees for advice provided to the Committee during the year were £21,450. 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' remuneration report received the following votes from shareholders:

For	251,481,978
%	91.62
Against	22,998,338
%	8.38
Withheld	14,350,573
Total votes cast	274,480,316

Directors' report

The Directors have pleasure in submitting their Annual Report and consolidated financial statements for the year ended 31 December 2013.

The Company is a holding company for subsidiaries involved in the business of insurance in Bermuda, the US, the UK, Guernsey and Europe. An analysis of the development and performance of the business during the financial year, its position at the end of the year, any important events since the end of the year and the likely future development can be found within the Chief Executive's report on pages 6 to 11. The Chief Executive's report also describes the main trends and factors likely to affect the future development, performance and position of the Company's business and includes a description of the Company's strategy and business model. The Company's strategy is also described on page 1. A description of the principal risks and uncertainties can be found in the risk management section on pages 27 to 32. In addition, note 3 to the consolidated financial statements provides a detailed explanation of the principal risks which are inherent to the Group's business and how those risks are managed. Details of the key financial performance indicators are given on page 2.

Information on environmental, employee and community issues including details of the Company's policies are set out in the corporate responsibility statement on pages 33 to 35. This also includes disclosure of greenhouse gas emissions. The information that fulfils the requirements of the corporate governance statement as referred to in Disclosure and Transparency Rule 7.2 can be found on pages 43 to 46 and in this report.

Diversity

The composition of the Board and the Senior Executive structure are described on pages 14, 15, 40 and 41. The role of a Hiscox Partner is described on page 42. The percentage of persons of each gender who were (i) Hiscox Partners and (ii) employees of the Hiscox Group, excluding the Board, are set out below:

	Male %	Female %
Hiscox Partners	84	16
Employees	52.5	47.5

The information that fulfils the requirements of the management report as referred to in Disclosure and Transparency Rule 4 can be found on pages 6 to 11 and 27 to 32.

Financial results

The Group achieved a pre-tax profit for the year of £244.5 million (2012: £217.5 million). Detailed results for the year are shown in the consolidated income statement on page 71, and also within the Group financial performance section on pages 22 and 23.

Going concern

A review of the financial performance of the Group is set out on pages 22 and 23. The financial position of the Group, its cash flows and borrowing facilities are included therein. The Group has considerable financial resources and a well-balanced book of business.

After making enquiries, the Directors have an expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements.

Dividends

An interim dividend of 7p (net) per ordinary 5 55/89p share (2012: 6p, per ordinary 5p share (net)) was paid on 18 September 2013 in respect of the year ended 31 December 2013. The Directors are recommending the return of capital to shareholders through an issue of C/D shares and this will be considered at an Extraordinary General Meeting to be held on 18 March 2014. It is proposed that in place of a final dividend a sum equal to 14.0p per ordinary share will be payable to shareholders as part of the return of capital. An amount equivalent to 12.0p per ordinary share was paid in lieu of a final dividend as part of the previous return of capital, the details of which were set out in the circular to shareholders issued on 26 February 2013.

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.

Directors

The names and details of the individuals who served as Directors of the Company during the year are set out on pages 40 to 41. In addition, Robert Hiscox served as Chairman and Director until 25 February 2013. Robert Childs, who was already a Director, was appointed Chairman with effect from 26 February 2013. Details of the Chairman's professional commitments are included in his biography on page 40 and there were no changes during the year. The Bye-laws of the Company govern the appointment

Directors' report
continued

and replacement of Directors. Richard Watson will submit himself for appointment at the Annual General Meeting and, in accordance with the UK Corporate Governance Code, all other Directors will submit themselves for re-appointment. The Bye-laws may only be amended with the approval of shareholders in general meeting in accordance with relevant legislation.

Political and charitable contributions

The Group made no political contributions during the year (2012: £nil). Information concerning the Group's charitable activities is contained in the report on corporate responsibility on page 35.

Major interests in shares

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

	Number† of shares	% of issued share capital as at 31 December* 2013
Invesco Limited[1]	48,087,640	13.54
Massachusetts Financial Services Company[1]	35,422,130	9.98

*Per RNS announcement there were 355,069,601 shares in issue (excluding Treasury shares) as at 31 December 2013.
†Adjusted for consolidation on 2 April 2013.
[1]Indirect holdings.

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

A copy of the Company's Bye-laws is available for inspection at the Company's registered office. The powers given to the Directors are contained in the Company's Bye-laws and are subject to relevant legislation and, in certain circumstance (including in relation to the issuing and buying back by the Company of its shares), approval by shareholders in a general meeting. At the Annual General Meeting in 2013 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 2014.

Annual General Meeting

The notice of the Annual General Meeting, to be held on 15 May 2014, will be contained in a separate circular to be sent to shareholders. This will be despatched following the Extraordinary General Meeting to be held on 18 March 2014.

By order of the Board
Jeremy Pinchin, Secretary,
Wessex House, 45 Reid Street,
Hamilton HM12, Bermuda
24 February 2014

Directors' responsibilities statement

The Board is responsible for ensuring the maintenance of proper accounting records which disclose with reasonable accuracy the financial position of the Company. It is required to ensure that the financial statements present a fair view for each financial period.

We confirm that to the best of our knowledge:

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

The Directors responsible for authorising the responsibility statement on behalf of the Board are the Chairman and the Chief Financial Officer. The statements were approved for issue on 24 February 2014.

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

Financial summary

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

We have audited the accompanying consolidated financial statements of Hiscox Ltd ('the Company') on pages 71 to 123 which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In addition to our audit of the consolidated financial statements, the Directors have engaged us to audit the information in the annual report on remuneration 2013 that is described as having been audited, which the Directors have decided to prepare (in addition to that required to be prepared) as if the Company were required to comply with the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and, under the terms of our engagement letter, to audit the part of the annual report on remuneration 2013 that is described as having been audited.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and the part of the annual report on remuneration 2013 to be audited are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the part of the annual report on remuneration 2013 to be audited. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the part of the annual report on remuneration 2013 to be audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements and the part of the annual report on remuneration 2013 to be audited in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the part of the annual report on remuneration 2013 to be audited.

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

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review by those rules, and we report if it does not. We are not required by the terms of our engagement to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Opinion

In our opinion:

- the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the part of the annual report on remuneration 2013 which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006 as if those requirements were to apply to the Company.

KPMG Audit Limited
Hamilton, Bermuda
24 February 2014

Consolidated income statement
For the year ended 31 December 2013

	Note	2013 Total £000	2012 Total restated* £000
Income			
Gross premiums written	4	1,699,478	1,565,819
Outward reinsurance premiums		(328,364)	(297,679)
Net premiums written	4	1,371,114	1,268,140
Gross premiums earned		1,598,879	1,487,859
Premiums ceded to reinsurers		(315,568)	(289,238)
Net premiums earned	4	1,283,311	1,198,621
Investment result	7	59,809	92,424
Other revenues	9	20,905	13,930
Revenue		1,364,025	1,304,975
Expenses			
Claims and claim adjustment expenses	26.2	(572,440)	(719,792)
Reinsurance recoveries	26.2	53,161	180,966
Claims and claim adjustment expenses, net of reinsurance	26.2	(519,279)	(538,826)
Expenses for the acquisition of insurance contracts	17	(305,777)	(283,615)
Operational expenses	9	(276,965)	(235,872)
Foreign exchange losses	12	(9,890)	(20,173)
Total expenses		(1,111,911)	(1,078,486)
Results of operating activities		252,114	226,489
Finance costs	10	(7,176)	(8,605)
Share of loss from associates after tax	16	(400)	(430)
Profit before tax		244,538	217,454
Tax expense	28	(6,780)	(9,428)
Profit for the year (all attributable to owners of the Company)		237,758	208,026
Earnings per share on profit attributable to owners of the Company			
Basic	31	66.3p	53.1p
Diluted	31	63.5p	51.0p

Consolidated statement of comprehensive income
For the year ended 31 December 2013, after tax

	2013 Total £000	2012 Total restated* £000
Profit for the year	237,758	208,026
Other comprehensive income		
Items never reclassified to profit or loss:		
Remeasurements of the net defined benefit liability	9,775	(2,069)
Income tax relating to components of other comprehensive income	(2,865)	173
	6,910	(1,896)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(2,030)	(35,806)
Income tax relating to components of other comprehensive income	–	–
	(2,030)	(35,806)
Other comprehensive income/(loss) net of tax	4,880	(37,702)
Total comprehensive income for the year (all attributable to owners of the Company)	242,638	170,324

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

The notes on pages 75 to 123 are an integral part of these consolidated financial statements.

Consolidated balance sheet
At 31 December 2013

	Note	2013 £000	2012 restated* £000
Assets			
Intangible assets	14	72,720	69,617
Property, plant and equipment	15	20,219	18,055
Investments in associates	16	7,754	9,054
Deferred tax	29	32,123	25,608
Deferred acquisition costs	17	197,628	166,041
Financial assets carried at fair value	19	2,585,054	2,406,269
Reinsurance assets	18, 26	458,822	540,389
Loans and receivables including insurance receivables	20	493,419	492,064
Current tax asset		3,530	1,513
Cash and cash equivalents	23	564,375	657,662
Total assets		4,435,644	4,386,272
Equity and liabilities			
Shareholders' equity			
Share capital	24	20,854	20,703
Share premium	24	4,953	41,313
Contributed surplus	24	89,864	245,005
Currency translation reserve	25	22,681	24,711
Retained earnings	25	1,271,109	1,033,634
Total equity (all attributable to owners of the Company)		1,409,461	1,365,366
Employee retirement benefit obligations	30	4,366	16,907
Deferred tax	29	75,946	134,473
Insurance liabilities	26	2,609,121	2,596,612
Financial liabilities	19	229	301
Current tax		32,383	6,998
Trade and other payables	27	304,138	265,615
Total liabilities		3,026,183	3,020,906
Total equity and liabilities		4,435,644	4,386,272

*The comparative information has been restated for the adoption of IAS 19 (2011) See note 2.2 for details.

The notes on pages 75 to 123 are an integral part of these consolidated financial statements.

The consolidated Group financial statements were approved by the Board of Directors on 24 February 2014 and signed on its behalf by:

Robert Childs

RS Childs
Chairman

Stuart Bridges

SJ Bridges
Chief Financial Officer

Consolidated statement of changes in equity

	Note	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2012, as previously reported		20,563	32,086	245,005	60,517	897,728	1,255,899
Impact of changes in accounting policy		–	–	–	–	(11,376)	(11,376)
Restated balance at 1 January 2012*		20,563	32,086	245,005	60,517	886,352	1,244,523
Total recognised comprehensive income/(expense) for the period (all attributable to owners of the Company), as restated		–	–	–	(35,806)	206,130	170,324
Employee share options:							
Equity settled share-based payments		–	–	–	–	6,135	6,135
Proceeds from shares issued	24	52	1,649	–	–	–	1,701
Deferred and current tax on employee share options	29	–	–	–	–	5,190	5,190
Shares issued in relation to Scrip Dividend	24, 32	88	7,578	–	–	–	7,666
Dividends paid to owners of the Company	32	–	–	–	–	(70,173)	(70,173)
Restated balance at 31 December 2012*		20,703	41,313	245,005	24,711	1,033,634	1,365,366
Total recognised comprehensive income for the year (all attributable to owners of the Company)		–	–	–	(2,030)	244,668	242,638
Employee share options:							
Equity settled share-based payments		–	–	–	–	12,523	12,523
Proceeds from shares issued	24	133	3,990	–	–	–	4,123
Deferred and current tax on employee share options	29	–	–	–	–	5,030	5,030
B Share Scheme:							
Return of capital, special distribution	32	–	(42,453)	(107,718)	–	–	(150,171)
Final dividend equivalent	32	–	–	(47,423)	–	–	(47,423)
Shares issued in relation to Scrip Dividend	24, 32	18	2,103	–	–	–	2,121
Dividends paid to owners of the Company	32	–	–	–	–	(24,746)	(24,746)
Balance at 31 December 2013		**20,854**	**4,953**	**89,864**	**22,681**	**1,271,109**	**1,409,461**

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

The notes on pages 75 to 123 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2013

	Note	2013 £000	2012 restated* £000
Profit before tax		244,538	217,454
Adjustments for:			
Interest and equity dividend income		(42,571)	(45,699)
Interest expense		7,176	8,605
Net fair value gains on financial assets		(14,847)	(37,654)
Depreciation, amortisation and impairment	14, 15	9,650	7,833
Charges in respect of share based payments	9, 24	12,523	6,135
Profit from sale of subsidiaries		(1,536)	–
Other non-cash movements		925	1,963
Effect of exchange rate fluctuations on cash presented separately		491	9,481
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		70,576	(8,245)
Financial assets carried at fair value		(170,817)	(49,377)
Financial liabilities carried at fair value		(72)	301
Other assets and liabilities		4,321	13,596
Cash flows from operations		120,357	124,393
Cash paid to the defined benefit pension scheme		(1,800)	(1,800)
Interest received		41,494	51,743
Equity dividends received		789	1,631
Interest paid		(5,229)	(7,256)
Current tax (paid)/received		(39,712)	56,403
Net cash flows from operating activities		115,899	225,114
Cash flows from the sale of a subsidiary		20,940	–
Cash flows from the sale and purchase of associates	34	600	(3,104)
Cash flows from the purchase of property, plant and equipment		(4,545)	(3,103)
Cash flows from the purchase of intangible assets		(9,594)	(7,505)
Net cash flows from investing activities		7,401	(13,712)
Proceeds from the issue of ordinary shares	24	4,123	1,701
Distributions made to owners of the Company	24, 32	(220,219)	(62,507)
Net cash flows from financing activities		(216,096)	(60,806)
Net (decrease)/increase in cash and cash equivalents		(92,796)	150,596
Cash and cash equivalents at 1 January		657,662	516,547
Net (decrease)/increase in cash and cash equivalents		(92,796)	150,596
Effect of exchange rate fluctuations on cash and cash equivalents		(491)	(9,481)
Cash and cash equivalents at 31 December	23	564,375	657,662

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

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

Included within cash and cash equivalents held by the Group are balances totaling £113,312,000 (2012: £86,168,000) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held.

The notes on pages 75 to 123 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, and the US with over 1,600 staff.

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

The consolidated financial statements for the year ended 31 December 2013 include all of the Group's subsidiary companies and the Group's interest in associates. All amounts relate to continuing operations.

The financial statements were approved for issue by the Board of Directors on 24 February 2014.

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

2.1 Statement of compliance
The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union and in accordance with the provisions of the Bermuda Companies Act 1981.

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

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

In July 2013, the IASB issued their second exposure draft for Phase II of the insurance contracts project. The exposure draft in its current form will require a number of significant changes to the measurement of insurance contracts and as such adoption of a final standard in a form similar to the exposure draft will likely have a significant impact on the results of the Group. In addition, the IASB has stated they will allow approximately three full years from the date of any final standard to actual implementation, therefore 2018 is likely to be the earliest date for the adoption of a new standard.

We continue to monitor the progress of the project.

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

The accounting policies have been applied consistently by all Group entities, to all periods presented, solely for the purpose of producing the consolidated Group financial statements.

The Group has financial assets and cash of over £3.1 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 22 to 23. The financial position of the Group, its cash flows and borrowing facilities are included therein. In addition, note 3 to the financial statements provides a detailed discussion on the risks which are inherent to the Group's business and how those risks are managed.

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

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

A number of new standards, amendments to standards and interpretations, as adopted by the European Union, are effective for annual periods beginning on or after 1 January 2013, and have been applied in preparing these consolidated financial statements.

Changes in accounting policies
(a) Defined benefit plans
As a result of the adoption of IAS 19 (2011), the Group has changed its accounting policy with respect to the recognition of defined benefit obligations on the balance sheet and the basis for determining the income or expense relating to it.

Under IAS 19 (2011), the option to apply the corridor method has been removed and the Group must recognise the full unfunded obligation/(surplus scheme assets) on the balance sheet. In addition, the Group is now required to calculate the net interest expense/(income) for the period on the net defined benefit liability/(asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period. Previously the Group determined interest income on plan assets

Notes to the consolidated financial statements continued

2 **Significant accounting policies** continued
2.2 **Basis of preparation** continued
(a) Defined benefit plans continued

based on their long-term rate of expected return.

The impact of the change is shown in the table below.

(b) Fair value measurements
IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities.

(c) Presentation of items of other comprehensive income
As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be.

Exchange differences on translating foreign operations have been classified as an item that may be subsequently reclassified. This reclassification would arise if the operation was sold, although this does not necessarily reflect management's current intention. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

(d) Subsidiaries
As a result of the adoption of IFRS 10, the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

The Group reassessed the control conclusion for its investees at 1 January 2013 and no changes in control conclusions were made.

(e) Joint arrangements
As a result of the adoption of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operating or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances. Previously the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its involvement in the only arrangement which could be considered joint, the participation in Syndicate 33, and concluded that it is outside the scope of both IFRS 10 and IFRS 11. The Group will therefore continue to only consolidate its 72.5% share of Syndicate 33.

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2014 and have not been applied in preparing these financial statements.

IFRS 9: Financial Instruments (2009) and Financial Instruments (2010) have been issued but are currently not subject to a mandatory effective date. IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The adoption of IFRS 9 will have an effect on the classification of the Group's financial assets.

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

Impact to the current and previously reported financial statements arising from the adoption of IAS 19 (2011)

Balance sheet	31 December 2013 Pre-accounting policy change £000	31 December 2013 Adjustment £000	31 December 2013 As reported £000	31 December 2012 Previously reported £000	31 December 2012 Adjustment £000	31 December 2012 Restated £000	31 December 2011 Previously reported £000	31 December 2011 Adjustment £000	31 December 2011 Restated £000
Total assets	4,435,644	–	4,435,644	4,386,272	–	4,386,272	4,222,741	–	4,222,741
Total liabilities	(3,022,877)	(3,306)	(3,026,183)	(3,007,888)	(13,018)	(3,020,906)	(2,966,842)	(11,376)	(2,978,218)
Total equity	1,412,767	(3,306)	1,409,461	1,378,384	(13,018)	1,365,366	1,255,899	(11,376)	1,244,523

Total comprehensive income	Year to 31 December 2013 Pre-accounting policy change £000	Year to 31 December 2013 Adjustment £000	Year to 31 December 2013 As reported £000	Year to 31 December 2012 Previously reported £000	Year to 31 December 2012 Adjustment £000	Year to 31 December 2012 Restated £000
Profit before tax	241,772	2,766	244,538	217,124	330	217,454
Tax (expense)/credit	(6,816)	36	(6,780)	(9,352)	(76)	(9,428)
Profit for the period	234,956	2,802	237,758	207,772	254	208,026
Other comprehensive income	(2,030)	6,910	4,880	(35,806)	(1,896)	(37,702)
Total comprehensive income	232,926	9,712	242,638	171,966	(1,642)	170,324
Earnings per share – basic	65.5p	0.8p	66.3p	53.1p	–	53.1p
Earnings per share – diluted	62.8p	0.7p	63.5p	50.9p	0.1p	51.0p

2 **Significant accounting policies** continued
2.2 **Basis of preparation** continued
(e) Joint arrangements continued

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

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 2013, HDCM owned 72.5% of Syndicate 33 (2012: 72.5%). In view of the several but not joint liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, the Group's attributable share of the transactions, assets and liabilities of these Syndicates has been included in the financial statements.

The Group manages the underwriting of, but does not participate as a member of, Syndicate 6104 at Lloyd's which provides reinsurance to Syndicate 33 on a normal commercial basis. Consequently, aside from the receipt of managing agency fees, defined profit commissions as appropriate and interest arising on effective assets included within the experience account, the Group has no share in the assets, liabilities or transactions of Syndicate 6104, nor is it controlled. The position and performance of that Syndicate is therefore not included in the Group's financial statements.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. At the date of acquisition, the Group recognises the identifiable assets acquired and liabilities assumed as part of the overall business combination transaction at their acquisition date fair value. Recognition of these items is subject to the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements. The Group may also recognise intangible items not previously recognised by the acquired entity such as customer relationships.

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

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

2.4 Foreign currency translation
(a) Functional currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of all individual entities in the Group is deemed to be Sterling with the exception of the entities operating in France, Germany, the Netherlands, Spain, Portugal, Ireland and Belgium whose functional currency is Euros, those subsidiary entities operating from the US and Bermuda whose functional currency is US Dollars, Hiscox Insurance Company (Guernsey) Limited and Syndicate 3624 whose functional currency is also US Dollars.

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

(c) Group companies
The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

2.5 Property, plant and equipment
Property, plant and equipment are stated at historical cost less depreciation and any

Notes to the consolidated financial statements continued

2 Significant accounting policies continued
2.5 Property, plant and equipment continued

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

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

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

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

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

2.6 Intangible assets

(a) Goodwill

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

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

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

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

(b) Syndicate capacity

The cost of purchasing the Group's participation in the Lloyd's insurance syndicates is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. Having considered the future prospects of the London insurance market, the Board believes that the Group's ownership of syndicate capacity will provide economic benefits over an indefinite number of future periods. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life.

(c) US state authorisation licences

State authorisation licences acquired in business combinations are recognised initially at their fair value. The asset is not amortised, as the Board considers that economic benefits will accrue to the Group over an indefinite number of future periods due to the stability of the US insurance market. The licences are tested annually for impairment, and any accumulated impairment losses recognised are deducted from the historical cost amount to produce the net balance sheet carrying amount. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life.

(d) Rights to customer contractual relationships

Costs directly attributable to securing the intangible rights to customer contractual relationships are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered by directly related future profits. These costs are amortised on a straight-line basis over the useful economic life which is deemed to be 20 years and are carried at cost less accumulated amortisation and impairment losses.

(e) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over the expected useful life of the software of between three and ten years on a straight-line basis.

Internally developed computer software is only capitalised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Amortisation of internally developed computer software begins when the software is available for use and is allocated on a straight-line basis over the expected useful life of the asset. The useful life of the asset is reviewed annually and, if different from previous estimates, is changed accordingly with the change being accounted for as a change in accounting estimates in accordance with IAS 8.

2.7 Financial assets including loans and receivables

The Group has classified financial assets as a) financial assets designated at fair value through profit or loss, and b) loans and receivables. Management determines the classification of its financial investments at initial recognition. The decision by the Group to designate all financial investments, comprising debt and fixed income securities, equities and shares in unit trusts and deposits with credit institutions, at fair value through profit or loss reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair value basis. Regular way purchases and sales of investments are accounted for at the date of trade.

Financial assets are initially recognised at fair value. Subsequent to initial recognition financial assets are measured as described below.

Financial assets are de-recognised 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

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

within the investment result line in the income statement. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 22.

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

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

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

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

(a) Non-financial assets
Objective factors that are considered when determining whether a non-financial asset (such as goodwill, an intangible asset or item of property, plant and equipment) or group of non-financial assets may be impaired include, but are not limited to, the following:
- adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability;
- the likelihood of accelerated obsolescence arising from the development of new technologies and products; and
- the disintegration of the active market(s) to which the asset is related.

(b) Financial assets
Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:
- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

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

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

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

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

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

2.12 Revenue
Revenue comprises insurance and reinsurance premiums earned on the rendering of insurance protection, net of reinsurance, together with profit commission, investment returns, agency fees and other income inclusive of fair value movements on derivative instruments not formally designated for hedge accounting treatment. The Group's share of the results of associates is reported separately. The accounting policies for insurance premiums are outlined below. Profit commission, investment income and other sources of income are recognised on an accruals basis net of any discounts and amounts such as sales-based taxes collected on behalf of third-parties. Profit commission is calculated and accrued based on the results of the managed syndicate.

2.13 Insurance contracts
(a) Classification
The Group issues short-term casualty and property insurance contracts that transfer significant insurance risk. Such contracts may also transfer a limited level of financial risk.

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

2 Significant accounting policies continued
2.13 Insurance contracts continued
(b) Recognition and measurement continued

Claims and associated expenses are charged to profit or loss as incurred, based on the estimated liability for compensation owed to contract holders or third-parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, and an estimate of the expected ultimate cost of more complex claims that may be affected by external factors e.g. court decisions.

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

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

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

The benefits to which the Group is entitled under outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

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

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

(f) Receivables and payables related to insurance contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss.

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

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

2.15 Employee benefits
(a) Pension obligations
The Group operated both defined contribution and defined benefit pension schemes during the year under review. The defined benefit scheme closed to future accrual with effect from 31 December 2006 and active members were offered membership of the defined contribution scheme from 1 January 2007.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity and has no further obligation beyond the agreed contribution rate. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

The amount recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. Plan assets exclude any insurance contracts issued by the Group.

2 Significant accounting policies continued
2.15 Employee benefits continued
(a) Pension obligations continued

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, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

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

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

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

(c) Share-based compensation
The Group operates a number of equity settled share-based employee compensation plans. These include both the approved and unapproved share option schemes, and the Group's performance share plans, outlined in the Directors' remuneration report together with the Group's Save as You Earn (SAYE) schemes.

The fair value of the employee services received, measured at grant date, in exchange for the grant of the awards is recognised as an expense, with the corresponding credit being recorded in retained earnings within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted, excluding the impact of any non-market vesting conditions (e.g. profitability or net asset growth targets). Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of awards that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity, over the remaining vesting period.

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

In accordance with the transitional arrangements of IFRS 2, only share-based awards granted or modified after 7 November 2002, but not yet vested at the date of adoption of IFRS, are included in the calculations.

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

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

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

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

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

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

2.19 Provisions
The Group is subject to various insurance-related assessments and guarantee fund levies. Provisions are recognised where there is a present obligation (legal or constructive) as a result of a past event that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle that obligation.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

2.20 Leases

(a) Hiscox as lessee

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

(b) Hiscox as lessor

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

2.21 Dividend distribution

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

2.22 Use of critical estimates, judgements and assumptions

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

The most critical estimate included within the Group's balance sheet is the estimate for losses incurred but not reported. The total estimate as at 31 December 2013 is £1,024 million (2012: £1,000 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. 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. For example, if official UK interest rates are replicated with lower yields emerging in UK corporate bond indices, a significant uplift may occur in the reported net scheme deficit through the reduced effect of discounting outweighing any expected appreciation in asset values. A sensitivity analysis is given at note 30.

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

2.23 Reporting of additional performance measures

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

3 Management of risk

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

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

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

3.1 Insurance risk

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

i) Underwriting risk

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

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

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

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

The Board requires all underwriters to operate within an overall Group appetite for individual events. This defines the maximum exposure that the Group is prepared to retain on its own account for any one potential catastrophe event or disaster. The Group's underwriting risk appetite seeks to ensure that it should not lose more than one year's profit plus 15% of core capital as a result of a 1 in 250 bad underwriting year.

The Group compiles estimates of losses arising from realistic disaster events using statistical models alongside input from its underwriters. These require significant management judgement. Realistic disaster scenarios, shown on page 15, 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 as yet untested, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodeled risks. This means that should a realistic disaster actually eventuate, the Group's final ultimate losses could materially differ from those estimates modeled by management.

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

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

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

Estimated concentration of gross and net insurance liabilities on balance sheet by territory coverage of premium written 31 December 2013		Types of insurance risk in the Group						
		Reinsurance inwards £000	Property – marine and major assets £000	Property – other assets £000	Casualty – professional indemnity £000	Casualty – other risks £000	Other* £000	Total £000
UK and Ireland	Gross	1,679	13,223	154,126	343,210	6,460	22,413	541,111
	Net	1,235	7,516	114,104	338,088	6,408	15,186	482,537
Europe	Gross	3,638	14,200	62,036	142,713	16,141	36,270	274,998
	Net	2,138	10,753	60,749	141,142	14,021	28,692	257,495
United States	Gross	165,428	84,443	139,710	290,165	45,374	36,434	761,554
	Net	101,493	40,009	87,314	276,044	38,460	32,383	575,703
Other territories	Gross	88,241	22,282	34,703	48,728	8,760	77,531	280,245
	Net	78,758	17,751	31,156	48,227	8,666	53,167	237,725
Multiple territory coverage	Gross	315,511	191,673	63,849	1,169	110,563	68,448	751,213
	Net	239,631	154,024	55,929	1,111	89,441	56,703	596,839
Total	**Gross**	**574,497**	**325,821**	**454,424**	**825,985**	**187,298**	**241,096**	**2,609,121**
	Net	**423,255**	**230,053**	**349,252**	**804,612**	**156,996**	**186,131**	**2,150,299**

Estimated concentration of gross and net insurance liabilities on balance sheet by territory coverage of premium written 31 December 2012		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	2,222	11,098	142,799	316,820	7,167	23,427	503,533
	Net	1,700	4,939	124,722	283,463	7,092	13,868	435,784
Europe	Gross	4,567	20,995	70,753	130,375	16,837	34,073	277,600
	Net	4,220	14,739	61,637	111,989	14,615	27,878	235,078
United States	Gross	286,305	88,501	131,387	291,391	34,715	20,602	852,901
	Net	141,113	46,615	76,376	270,016	30,428	17,767	582,315
Other territories	Gross	107,676	11,716	38,838	29,665	22,695	77,960	288,550
	Net	94,429	8,604	34,904	29,188	17,531	60,544	245,200
Multiple territory coverage	Gross	292,506	181,389	33,223	–	102,296	64,614	674,028
	Net	238,366	161,215	26,545	–	82,429	49,291	557,846
Total	Gross	693,276	313,699	417,000	768,251	183,710	220,676	2,596,612
	Net	479,828	236,112	324,184	694,656	152,095	169,348	2,056,223

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

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

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

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.

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

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 is related not only to the number of significant insured events that occur but also to their individual magnitude. If numerous catastrophes occurred in any one year, but the cedant's individual loss on each was below the minimum stated, then the Group would have no liability under such contracts. Maximum gross line sizes and aggregate exposures are set for each type of programme.

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

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

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

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

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

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

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

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

Casualty insurance risks
The casualty underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of potential hazard, industry and geography. However, the Group's exposure is more focused towards marine and professional and technological liability risks rather than human bodily injury risks, which are only accepted under limited circumstances. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence and specific losses suffered as a result of electronic or technological failure of software products and websites.

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

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

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 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.

Notes to the consolidated financial statements continued

3 Management of risk continued
3.1 Insurance risk continued
ii) Reserving risk continued

Certain marine and property insurance contracts, such as those relating to subsea and other energy assets and the related business interruption risks, can also take longer than normal to settle. This is because of the length of time required for detailed subsea surveys to be carried out and damage assessments agreed together with difficulties in predicting when the assets can be brought back into full production.

For the inwards reinsurance lines, there is often a time lag between the establishment and re-estimate of case reserves and reporting to the Group. The Group works closely with the reinsured to ensure timely reporting and also centrally analyses industry loss data to verify the reported reserves.

3.2 Financial risk

Overview
The Group is exposed to financial risk through its ownership of financial instruments including financial liabilities. These items collectively represent a significant element of the Group's net shareholder funds. The Group invests in financial assets in order to fund obligations arising from its insurance contracts and financial liabilities.

The key financial risk for the Group is that the proceeds from its financial assets and investment result generated thereon are not sufficient to fund the obligations. The most important entity and economic variables that could result in such an outcome relate to the reliability of fair value measures, equity price risk, interest rate risk, credit risk, liquidity risk and currency risk. The Group's policies and procedures for managing exposure to these specific categories of risk are detailed below.

(a) Reliability of fair values
The Group has elected to carry all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy. With the exception of unquoted equity investments and the insurance linked fund, all of the financial investments held by the Group are available to trade in markets and the Group therefore seeks to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade. The fair value of financial assets is measured primarily with reference to their closing bid market prices at the balance sheet date. The ability to obtain quoted bid market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Group. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely related instruments occurring before the balance sheet date but updated for relevant perceived changes in market conditions.

At 31 December 2013, 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 has no direct exposure to sovereign debt in Portugal, Ireland or Greece. Note 3.2(d) shows the Group's positions at 31 December 2013 for government issued, government supported and bank debt exposures. The Group did not experience any material defaults on debt securities during the year.

Valuation of these securities will continue to be impacted by external market factors including default rates, rating agency actions, and liquidity. The Group will make adjustments to the investment portfolio as appropriate as part of its overall portfolio strategy, but its ability to mitigate its risk by selling or hedging its exposures may be limited by the market environment. The Group's future results may be impacted, both positively and negatively, by the valuation adjustments applied to these securities.

Note 22 provides an analysis of the measurement attributes of the Group's financial instruments.

(b) Equity price risk
The Group is exposed to equity price risk through its holdings of equity and unit trust investments. This is limited to a small and controlled proportion of the overall investment portfolio and the equity and unit trust holdings involved are well diversified over a number of companies and industries. The fair value of equity assets in the Group's balance sheet at 31 December 2013 was £223 million (2012: £190 million). These may be analysed as follows:

Nature of equity and unit trust holdings	2013 % weighting	2012 % weighting
Directly held equity securities	4	4
Units held in funds – traditional long only	62	69
Units held in funds – long and short and special strategies	34	27
Geographic focus		
Specific UK mandates	42	44
Global mandates	58	56

The allocation of equity risk is not heavily confined to any one market index so as to reduce the Group's exposure to individual sensitivities. A 10% downward correction in equity prices at 31 December 2013 would have been expected to reduce Group equity and profit after tax for the year by approximately £19.9 million (2012: £16.7 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 minimise the interest rate risk on specific longer duration portfolios. The fair value of debt and fixed income

3 Management of risk continued
3.2 Financial risk continued
(c) Interest rate risk continued

assets in the Group's balance sheet at 31 December 2013 was £2,336 million (2012: £2,195 million). These may be analysed as follows:

Nature of debt and fixed income holdings	2013 % weighting	2012 % weighting
Government issued bonds and instruments	41	34
Agency and government supported debt	9	12
Asset-backed securities	10	10
Mortgage-backed instruments – agency	5	7
Mortgage-backed instruments – non-agency	3	3
Mortgage-backed instruments – commercial	3	3
Corporate bonds	26	27
Lloyd's deposits and bond funds	3	4

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 £31 million (2012: £33 million) assuming that the only balance sheet area impacted was debt and fixed income financial assets.

Duration is the weighted average length of time required for an instrument's cash flow stream to be recovered, where the weightings involved are based on the discounted present values of each cash flow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity. Convexity measures the sensitivity of modified duration to changes in the yield to maturity.

Using these three concepts, scenario modeling derives the above estimated impact on instruments' fair values for a 100 basis point change in the term structure of market interest rates.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. The Group's debt and fixed income assets are further detailed at note 19.

At 31 December 2013, no amounts were outstanding on the Group's borrowing facility (2012: £nil). The Group has no other significant borrowings or other assets or liabilities carrying interest rate risk, other than the facilities and Letters of Credit outlined in note 35.

(d) Credit risk
The Group has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in perceived financial strength or be unable to pay amounts in full when due.

The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Group interacts with a number of counterparties who are engaged in similar activities with similar customer profiles, and often in the same geographical areas and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the Group's agreed contractual terms and obligations.

Key areas of exposure to credit risk include:
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- counterparty risk with respect to cash and cash equivalents, and investments including deposits, derivative transactions and catastrophe bonds.

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

The Group Reinsurance Security Committee assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance. The financial analysis of reinsurers produces an assessment categorised by Standard & Poor's (S&P) rating (or equivalent when not available from S&P).

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

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

Notes to the consolidated financial statements
continued

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

The Group also mitigates counterparty credit risk by concentrating debt and fixed income investments in highly liquid instruments, including a particular emphasis on government bonds issued mainly by North American countries and the European Union, excluding those from Portugal, Ireland or Greece.

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

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

As at 31 December 2012	Note	AAA £000	AA £000	A £000	Other/ non-rated £000	Total £000
Debt and fixed income securities	19	816,153	834,671	369,528	174,514	2,194,866
Deposits with credit institutions	19	900	–	12,303	–	13,203
Reinsurance assets	18	16,714	153,440	340,711	29,524	540,389
Cash and cash equivalents	23	149,291	77,090	429,949	1,332	657,662
Total		983,058	1,065,201	1,152,491	205,370	3,406,120
Amounts attributable to largest single counterparty		209,847	489,070	106,502	5,398	

The largest counterparty exposure within the AAA rating at 31 December 2013 is the German Government and at 31 December 2012 it was with the UK Treasury. For the AA rating it is with the US Treasury at both 31 December 2013 and 2012. A significant proportion of other/non-rated assets are rated BBB and BB at both 31 December 2013 and 2012.

At 31 December 2013 and 2012 the Group held no material debt or fixed income assets that were past due or impaired beyond their reported fair values, either for the current period under review or on a cumulative basis. For the current period and prior period, the Group did not experience any material defaults on debt securities.

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

The Group's AAA rated reinsurance assets include fully collateralised positions at 31 December 2013 and 2012.

An analysis of the Group's positions in respect of government issued and supported debt are shown in the table below. The Group has no direct government exposure to Portugal, Ireland or Greece.

	31 December 2013			31 December 2012		
	Government issued £000	Government supported £000	Total £000	Government issued £000	Government supported £000	Total £000
United States of America	499,409	97,797	597,206	489,070	120,991	610,061
United Kingdom	290,332	5,911	296,243	209,847	23,083	232,930
Australia	–	1,976	1,976	–	8,921	8,921
Austria	1,420	–	1,420	–	–	–
Belgium	2,333	–	2,333	–	–	–
Canada	1,236	41,473	42,709	17,297	31,373	48,670
Denmark	–	265	265	–	4,384	4,384
Finland	10,170	–	10,170	7,003	2,197	9,200
France	941	2,232	3,173	6,551	1,531	8,082
Germany	84,905	29,441	114,346	109,871	51,806	161,677
Italy	3,818	–	3,818	–	–	–
Netherlands	60,962	3,690	64,652	–	12,329	12,329
Norway	–	462	462	3,118	–	3,118
Supranationals	–	33,453	33,453	–	25,645	25,645
South Korea	–	–	–	2,614	209	2,823
Spain	2,499	1,271	3,770	–	–	–
Sweden	1,691	421	2,112	2,191	1,133	3,324
Other	2,500	1,161	3,661	1,474	–	1,474
Total	962,216	219,553	1,181,769	849,036	283,602	1,132,638

Included above are £1,180 million (2012: £1,012 million) in relation to holdings in debt securities, none (2012: £10 million) are held as deposits with credit institutions and £2 million (2012: £111 million) held as cash equivalents, having a maturity of less than three months at the time of purchase. Of the amount held as cash equivalents, £1 million (2012: £75 million) is held with the US Treasury, £1 million (2012: £nil) is held with the French Government and there is no holding (2012: £35 million) with the UK Government.

Additionally, the geographical location and credit quality of individual bank borrowers are closely monitored. An analysis of the Group's exposure to bank counterparties by country and credit rating is detailed below. Bank debt held by the Group is mostly senior unsecured and covered bonds. The subordinated bonds are all classed as Lower Tier 2 capital.

	Senior					Subordinated				
31 December 2013	AAA £000	AA £000	A £000	BBB £000	Sub-total £000	A £000	BBB £000	B £000	Sub-total £000	Total £000
United States of America	–	1,942	70,392	3,451	75,785	314	2,506	–	2,820	78,605
United Kingdom	6,605	3,654	12,473	2,367	25,099	–	1,312	–	1,312	26,411
Australia	2,373	12,395	1,720	–	16,488	–	–	–	–	16,488
Canada	9,022	8,085	11,933	146	29,186	208	–	–	208	29,394
Denmark	720	–	–	–	720	–	–	–	–	720
France	634	–	18,788	–	19,422	–	–	–	–	19,422
Germany	732	–	1,025	–	1,757	–	–	–	–	1,757
Italy	–	–	–	1,925	1,925	–	–	–	–	1,925
Japan	–	–	2,071	–	2,071	–	–	–	–	2,071
Netherlands	2,938	11,026	3,299	–	17,263	–	803	–	803	18,066
New Zealand	662	1,660	–	–	2,322	–	–	–	–	2,322
Norway	1,695	–	–	–	1,695	–	–	–	–	1,695
Sweden	1,860	5,958	5,699	–	13,517	–	–	–	–	13,517
Switzerland	1,203	1,200	3,400	–	5,803	–	–	–	–	5,803
Other	–	186	–	340	526	–	–	–	–	526
Total	28,444	46,106	130,800	8,229	213,579	522	4,621	–	5,143	218,722

Included in the bank debt table above, is £213 million in relation to holdings in debt securities and £6 million held as deposits with credit institutions.

Notes to the consolidated financial statements continued

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

31 December 2012	Senior AAA £000	Senior AA £000	Senior A £000	Senior BBB £000	Senior Sub-total £000	Subordinated A £000	Subordinated BBB £000	Subordinated B £000	Subordinated Sub-total £000	Total £000
United States of America	–	–	65,651	1,311	66,962	603	–	–	603	67,565
United Kingdom	10,632	4,375	12,948	–	27,955	303	894	1,394	2,591	30,546
Australia	1,102	7,829	–	–	8,931	–	–	–	–	8,931
Canada	12,066	4,973	15,090	–	32,129	1,828	823	–	2,651	34,780
Denmark	349	–	537	–	886	–	–	–	–	886
France	1,364	292	8,373	–	10,029	–	–	–	–	10,029
Germany	–	–	1,712	–	1,712	–	–	–	–	1,712
Netherlands	1,893	3,516	4,751	–	10,160	–	765	–	765	10,925
New Zealand	662	637	–	–	1,299	–	–	–	–	1,299
Norway	1,704	–	1,059	–	2,763	–	–	–	–	2,763
Spain	–	–	–	614	614	–	–	–	–	614
Sweden	1,853	6,723	6,432	–	15,008	–	–	–	–	15,008
Switzerland	–	–	8,833	–	8,833	–	–	–	–	8,833
Other	–	190	304	495	989	–	–	–	–	989
Total	31,625	28,535	125,690	2,420	188,270	2,734	2,482	1,394	6,610	194,880

Included in the table above, is £192 million in relation to holdings in debt securities and £3 million held as cash equivalents.

(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	**2013 Total £000**	2012 Total £000
Less than one year	561,656	3,871	564,375	**1,129,902**	1,168,277
Between one and two years	515,116	1,948	–	**517,064**	468,475
Between two and five years	846,162	421	–	**846,583**	808,791
Over five years	332,822	–	–	**332,822**	349,761
Sub-total	2,255,756	6,240	564,375	**2,826,371**	2,795,304
Lloyd's deposits	80,073	–	–	**80,073**	70,427
Total	2,335,829	6,240	564,375	**2,906,444**	2,865,731

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 timeframe within one year of the balance sheet date.

3 Management of risk continued
3.2 Financial risk continued
(e) Liquidity risk continued

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	2013 Years	2012 Years
Pound Sterling	**2.35**	1.58
US Dollar	**5.86**	5.97
Euro	**2.25**	2.08
Canadian Dollar	**1.79**	2.13

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

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

Liquidity requirements to settle estimated profile of net claim liabilities on balance sheet	Within one year £000	Between one and two years £000	Between two and five years £000	Over five years £000	2012 Total £000
Reinsurance inwards	194,812	98,970	67,604	32,860	394,246
Property – marine and major assets	86,882	41,829	34,942	5,242	168,895
Property – other assets	99,599	26,896	18,414	1,052	145,961
Casualty – professional indemnity	160,302	124,411	256,700	17,838	559,251
Casualty – other risks	59,053	30,705	34,988	2,365	127,111
Other*	50,443	14,129	14,906	4,523	84,001
Total	651,091	336,940	427,554	63,880	1,479,465

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

Details of the payment profile of the Group's borrowings, derivative instruments and other liabilities are given in notes 19 and 27.

(f) Currency risk
The Group operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar, Pound Sterling and the Euro. These exposures may be classified in two main categories:

1) Structural foreign exchange risk through consolidation of net investments in subsidiaries with different functional currencies within the Group results; and
2) Operational foreign exchange risk through routinely entering into insurance, investment and operational contracts, as a Group of international insurance entities serving international communities, where rights and obligations are denominated in currencies other than each respective entity's functional currency.

The Group's exposure to structural foreign exchange risk primarily relates to the US Dollar net investments made in its domestic operation in Bermuda and its overseas operation in Guernsey and the US. Other structural exposures also arise on a smaller scale in relation to net investments made in European operations. The Group's risk appetite permits the acceptance of structural foreign exchange movements within defined aggregate limits and exchange rate parameters which are monitored centrally. Exchange rate derivatives are used when appropriate to shield the Group against significant movements outside of a defined range.

Notes to the consolidated financial statements
continued

3 **Management of risk** continued
3.2 **Financial risk** continued
(f) Currency risk continued

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, producing 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 £196 million (2012: £181 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 statements. 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 2013	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	66,412	6,308	–	–	72,720
Property, plant and equipment	15,198	4,023	998	–	20,219
Investments in associates	7,648	–	106	–	7,754
Deferred tax	–	30,526	1,597	–	32,123
Deferred acquisition costs	59,263	106,386	27,168	4,811	197,628
Financial assets carried at fair value	633,631	1,638,455	273,732	39,236	2,585,054
Reinsurance assets	58,885	348,888	39,149	11,900	458,822
Loans and receivables including insurance receivables	157,583	256,103	57,427	22,306	493,419
Current tax asset	–	–	3,530	–	3,530
Cash and cash equivalents	162,746	250,121	103,539	47,969	564,375
Total assets	1,161,366	2,640,810	507,246	126,222	4,435,644

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

3 Management of risk continued
3.2 Financial risk continued
(f) Currency risk continued

As at 31 December 2012 (restated*)	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Intangible assets	63,309	6,308	–	–	69,617
Property, plant and equipment	10,372	6,537	1,146	–	18,055
Investments in associates	8,754	–	300	–	9,054
Deferred tax	–	23,809	1,799	–	25,608
Deferred acquisition costs	53,314	83,584	24,416	4,727	166,041
Financial assets carried at fair value	523,212	1,587,848	253,677	41,532	2,406,269
Reinsurance assets	67,136	410,944	52,038	10,271	540,389
Loans and receivables including insurance receivables	77,951	304,258	91,375	18,480	492,064
Current tax asset	–	107	1,406	–	1,513
Cash and cash equivalents	231,463	254,002	103,522	68,675	657,662
Total assets	1,035,511	2,677,397	529,679	143,685	4,386,272

	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Employee retirement benefit obligations	16,907	–	–	–	16,907
Deferred tax	134,473	–	–	–	134,473
Insurance liabilities	641,484	1,493,727	348,878	112,523	2,596,612
Financial liabilities	75	–	226	–	301
Current tax	6,615	–	383	–	6,998
Trade and other payables	71,794	156,618	31,765	5,438	265,615
Total liabilities	871,348	1,650,345	381,252	117,961	3,020,906

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

Sensitivity analysis

As at 31 December 2013, the Group used closing rates of exchange of £1:€1.20 and £1:$1.65 (2012: £1:€1.23 and £1:$1.63). 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 2013	Effect on equity after tax £m	Effect on profit before tax £m
Strengthening of US Dollar	112.0	45.5
Weakening of US Dollar	(93.0)	(38.7)
Strengthening of Euro	10.4	11.0
Weakening of Euro	(8.5)	(9.0)

Notes to the consolidated financial statements continued

3 Management of risk continued
3.2 Financial risk continued

(g) Limitations of sensitivity analysis
The sensitivity information given in notes (a) to (f) above demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The same limitations exist in respect to the retirement benefit scheme sensitivities presented at note 30 to these financial statements. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk-free interest rates fall towards zero.

The sensitivity analysis do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

3.3 Capital risk management
The Group's primary objectives when managing its capital position are:
- to safeguard its ability to continue as a going concern, so that it can continue to provide long-term growth and progressive dividend returns for shareholders;
- to provide an adequate return to the Group's shareholders by pricing its insurance products and services commensurately with the level of risk;
- to maintain an efficient cost of capital;
- to comply with all regulatory requirements by a significant margin; and
- to maintain financial strength ratings of A in each of its insurance entities.

The Group sets the amount of capital required in its funding structure in proportion to risk. The Group then manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to obtain or maintain an optimal capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, assume debt, or sell assets to reduce debt.

The Group's activities are funded by a mixture of capital sources including issued equity share capital, retained earnings, Letters of Credit, bank debt and other third-party insurance capital.

The Board ensures that the use and allocation of capital are given a primary focus in all significant operational actions. With that in mind, the Group has developed and embedded sophisticated capital modeling tools within its business. These join together short-term and long-term business plans and link divisional aspirations with the Group's overall strategy. The models provide the basis of the allocation of capital to different businesses and business lines, as well as the regulatory and rating agency capital processes.

During the year the Group was in compliance with capital requirements imposed by regulators in each jurisdiction where the Group operates.

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

Gearing
The Group currently utilises short- to medium-term gearing as an additional source of funds to maximise the opportunities from strong markets and to reduce the risk profile of the business when the rating environment shows a weaker model for the more volatile business. The Group's gearing is obtained from a number of sources, including:
- Letter of Credit and revolving credit facility – the Group's main facility of $875 million may be drawn as cash (under a revolving credit facility), Letter of Credit or a combination thereof, providing that the cash portion does not exceed $400 million. This facility was secured during 2012 by the Company's subsidiary Hiscox plc. The Letter of Credit availability period ends on 31 December 2013. This enables the Group to utilise the Letter of Credit as Funds at Lloyd's to support underwriting on the 2012, 2013 and 2014 years of account. The revolving credit facility has a maximum three-year contractual period for repayment. At 31 December 2013 US$333 million was drawn by way of Letter of Credit to support the Funds at Lloyd's requirement and there were no cash drawings (2012: $308 million and £nil million respectively) to support general trading activities;
- external Names – 27.5% of Syndicate 33's capacity is capitalised by third-parties paying a profit share of approximately 20%;
- Syndicate 6104 at Lloyd's – with a capacity of £66 million for the 2013 year of account (2012 year of account: £39 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 in hard markets.

The funds raised through Letters of Credit and loan facilities have been applied to support both the 2013 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 insurance company subsidiaries are outlined below:

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

Syndicate 33 benefits from an A.M. Best rating of A (Excellent). In addition, the Syndicate also benefits from the Lloyd's ratings of A (Excellent) from A.M. Best and A+ (Strong) from Standard & Poor's.

Capital performance
The Group's main capital performance measure is the achieved return on equity (ROE). This marker best aligns the aspirations of employees and shareholders. As variable remuneration, the vesting of options and longer-term investment plans all relate directly to ROE, this concept is embedded in the workings and culture

of the Group. The Group maintains its cost of capital levels and its debt to overall equity ratios in line with others in the non-life insurance industry.

Capital modeling and regulation
The capital requirements of an insurance group are determined by its exposure to risk and the solvency criteria established by management and statutory regulations.

The Group's capital requirements are managed both centrally and at a regulated entity level. The assessed capital requirement for the business placed through Hiscox Insurance Company Limited, Hiscox Insurance Company (Bermuda) Limited, Hiscox Insurance Company (Guernsey) Limited and Hiscox Insurance Company Inc. is driven by the level of resources necessary to maintain both regulatory requirements and the capital necessary to maintain financial strength of an A rating.

The Group's regulatory capital is supervised by the Bermuda Monetary Authority (BMA). The BMA's new regulatory capital requirements became effective on 1 January 2013. The Group had sufficient capital to meet requirements.

The current capital regime in the UK requires insurance companies to calculate their own capital requirements through Individual Capital Assessments (ICA). Hiscox Insurance Company Limited and Hiscox's Lloyd's operations maintain ICA models in accordance with this regime. The models are concentrated specifically on the particular product lines, market conditions and risk appetite of each entity. The Group uses its own integrated modeling expertise to produce the ICA calculations. The results mirrored those driving the existing internal capital setting process.

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

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

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

In the Group's other geographical territories, including the US, its subsidiaries underwriting insurance business are required to operate within broadly similar risk-based externally imposed capital requirements when accepting business.

4 Operating segments
The Group's operating segments consist of four segments which recognise the differences between products and services, customer groupings and geographical areas. Financial information is used in this format by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The format is representative of the management structure of the segments.

The Group's four operating segments are:

- London Market comprises the results of Syndicate 33, excluding the results of the fine art and non-US household business which is included within the results of UK and Europe. It also includes the auto physical damage and warranty and aviation businesses from Syndicate 3624. In addition, it excludes an element of kidnap and ransom and terrorism included in UK and Europe.
- UK and Europe comprises the results of Hiscox Insurance Company Limited, the results of Syndicate 33's fine art and non-US household business, together with the income and expenses arising from the Group's retail agency activities in the UK and in continental Europe. In addition, it includes the European errors and omissions business and specialty UK from Syndicate 3624. It also includes an element of kidnap and ransom and terrorism written in Syndicate 33.
- International comprises the results of Hiscox Insurance Company (Guernsey) Limited, Hiscox Insurance Company (Bermuda) Limited, Hiscox Inc., Hiscox Insurance Company Inc. and Syndicate 3624 excluding the European errors and omissions, aviation business, auto physical damage and warranty and specialty UK businesses.
- 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 which are given at note 13. Corporate Centre forms a reportable segment due to its investment activities which earn significant external coupon revenues.

All amounts reported on the following page 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.

4 Operating segments continued

(a) Profit before tax by segment

	Year to 31 December 2013					Year to 31 December 2012 restated*				
	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	668,240	559,089	472,149	–	1,699,478	640,042	507,522	418,255	–	1,565,819
Net premiums written	474,990	529,719	366,405	–	1,371,114	462,397	479,861	325,882	–	1,268,140
Net premiums earned	433,497	508,438	341,376	–	1,283,311	419,026	476,945	302,650	–	1,198,621
Investment result	8,873	18,227	12,677	20,032	59,809	26,973	17,754	29,202	18,495	92,424
Other revenues	10,063	3,191	6,498	1,153	20,905	7,115	2,136	3,992	687	13,930
Revenue	452,433	529,856	360,551	21,185	1,364,025	453,114	496,835	335,844	19,182	1,304,975
Claims and claim adjustment expenses, net of reinsurance	(178,304)	(223,196)	(117,779)	–	(519,279)	(176,253)	(222,562)	(140,011)	–	(538,826)
Expenses for the acquisition of insurance contracts	(105,207)	(121,525)	(79,045)	–	(305,777)	(97,853)	(112,487)	(73,275)	–	(283,615)
Operational expenses	(48,670)	(124,954)	(79,732)	(23,609)	(276,965)	(45,606)	(111,074)	(62,233)	(16,959)	(235,872)
Foreign exchange (losses)/gains	(3,123)	(3,408)	(2,561)	(798)	(9,890)	(10,187)	(1,647)	3,113	(11,452)	(20,173)
Total expenses	(335,304)	(473,083)	(279,117)	(24,407)	(1,111,911)	(329,899)	(447,770)	(272,406)	(28,411)	(1,078,486)
Results of operating activities	117,129	56,773	81,434	(3,222)	252,114	123,215	49,065	63,438	(9,229)	226,489
Finance costs	(1,083)	–	(525)	(5,568)	(7,176)	(1,319)	–	(697)	(6,589)	(8,605)
Share of (loss)/profit of associates after tax	–	(423)	–	23	(400)	–	–	(64)	(366)	(430)
Profit before tax	116,046	56,350	80,909	(8,767)	244,538	121,896	49,065	62,677	(16,184)	217,454

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

The following charges are included within the consolidated income statement:

	Year to 31 December 2013					Year to 31 December 2012				
	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Depreciation	644	766	1,156	85	2,651	720	442	1,012	83	2,257
Amortisation of intangible assets	2,638	2,439	1,793	64	6,934	1,532	1,896	1,527	30	4,985

4 Operating segments continued
(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 2013					Year to 31 December 2012 restated*				
100% ratio analysis	London Market	UK and Europe	International	Corporate Centre	Total	London Market	UK and Europe	International	Corporate Centre	Total
Claims ratio (%)	39.8	43.4	34.3	–	39.8	40.3	47.2	46.0	–	44.1
Expense ratio (%)	34.3	48.5	46.0	–	42.3	32.8	46.9	44.2	–	40.5
Combined ratio excluding foreign exchange impact (%)	74.1	91.9	80.3	–	82.1	73.1	94.1	90.2	–	84.6
Foreign exchange impact (%)	1.3	0.7	0.7	–	0.9	2.4	0.3	(1.0)	–	0.9
Combined ratio (%)	75.4	92.6	81.0	–	83.0	75.5	94.4	89.2	–	85.5
Combined ratio excluding non-monetary foreign exchange impact (%)	74.9	92.7	81.0	–	82.8	74.6	94.7	89.2	–	85.1

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts, and operational expenses, including profit-related pay, as a proportion of net premiums earned. The foreign exchange impact ratio is calculated as the foreign exchange gains or losses as a proportion of net premiums earned. The combined ratio is the total of the claims, expenses and foreign exchange impact ratios. The combined ratio excluding non-monetary foreign exchange impact is calculated by adjusting the net premiums earned and the expenses for the acquisition of insurance contracts by the movement arising from retranslating net unearned premiums and net deferred acquisition costs at year end rates of exchange. All ratios are calculated using the 100% results.

Costs allocated to the Corporate Centre are non-underwriting related costs and are not included within the combined ratio. The impact on profit before tax of a 1% change in each component of the segmental combined ratios is:

	Year to 31 December 2013				Year to 31 December 2012			
	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	London Market £000	UK and Europe £000	International £000	Corporate Centre £000
At 100% level (note 4b) 1% change in claims or expense ratio	5,683	5,203	3,467	–	5,496	4,895	3,072	–
At Group level 1% change in claims or expense ratio	4,335	5,084	3,414	–	4,190	4,769	3,027	–

(b) 100% operating result by segment

	Year to 31 December 2013					Year to 31 December 2012 restated*				
	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
Gross premiums written	870,936	574,034	479,151	–	1,924,121	844,330	523,405	424,189	–	1,791,924
Net premiums written	606,288	541,298	372,271	–	1,519,857	601,736	491,992	330,941	–	1,424,669
Net premiums earned	568,269	520,321	346,724	–	1,435,314	549,603	489,453	307,206	–	1,346,262
Investment result	12,035	18,276	12,734	20,032	63,077	36,842	18,283	29,590	18,495	103,210
Other revenues	–	2,703	4,547	1,153	8,403	–	2,097	2,453	687	5,237
Claims and claim adjustment expenses, net of reinsurance	(226,175)	(225,700)	(118,820)	–	(570,695)	(221,637)	(230,740)	(141,154)	–	(593,531)
Expenses for the acquisition of insurance contracts	(135,760)	(126,234)	(79,581)	–	(341,575)	(125,810)	(117,955)	(74,751)	–	(318,516)
Operational expenses	(58,947)	(126,254)	(79,792)	(23,609)	(288,602)	(54,091)	(111,810)	(61,162)	(16,543)	(243,606)
Foreign exchange (losses)/gains	(7,330)	(3,549)	(2,546)	(798)	(14,223)	(13,372)	(1,711)	3,138	(11,452)	(23,397)
Results of operating activities	152,092	59,563	83,266	(3,222)	291,699	171,535	47,617	65,320	(8,813)	275,659

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

Segment results at the 100% level presented above differ from those presented at the Group's share at note 4(a) solely as a result of the Group not owning 100% of the capacity of Syndicate 33 at Lloyd's.

4 Operating segments continued

(c) Segmental analysis of assets and liabilities

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

	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Intragroup items and eliminations £000	Total £000
						As at 31 December 2013
Intangible assets	32,140	15,464	15,228	9,888	–	72,720
Deferred acquisition costs	77,809	58,905	57,601	–	3,313	197,628
Financial assets	917,353	523,010	915,174	74,807	162,464	2,592,808
Reinsurance assets	800,169	289,701	82,484	–	(713,532)	458,822
Other assets	412,364	236,501	548,383	1,159,063	(1,242,645)	1,113,666
Total assets	2,239,835	1,123,581	1,618,870	1,243,758	(1,790,400)	4,435,644
Insurance liabilities	1,319,009	713,465	769,200	–	(192,553)	2,609,121
Other liabilities	907,907	184,755	181,114	193,601	(1,050,315)	417,602
Total liabilities	2,226,916	898,220	950,314	193,601	(1,242,868)	3,026,183
Capital expenditure	3,996	7,749	2,777	2,860	–	17,382

	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Intragroup items and eliminations £000	Total £000
						As at 31 December 2012 restated*
Intangible assets	33,215	10,469	15,779	10,154	–	69,617
Deferred acquisition costs	50,862	45,023	68,391	–	1,765	166,041
Financial assets	826,094	428,107	870,731	73,424	216,967	2,415,323
Reinsurance assets	886,937	230,013	275,825	–	(852,386)	540,389
Other assets	426,004	264,231	606,413	1,074,731	(1,176,477)	1,194,902
Total assets	2,223,112	977,843	1,837,139	1,158,309	(1,810,131)	4,386,272
Insurance liabilities	1,267,797	566,218	914,223	–	(151,626)	2,596,612
Other liabilities	934,637	227,023	72,923	193,542	(1,003,831)	424,294
Total liabilities	2,202,434	793,241	987,146	193,542	(1,155,457)	3,020,906
Capital expenditure	4,262	3,743	1,776	585	–	10,366

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

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

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

(d) Geographical information

The Group's operational segments underwrite business domestically in Bermuda and from locations in the UK and Ireland, the US, Guernsey, France, Germany, Belgium, the Netherlands, Spain and Portugal.

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 2013					Year to 31 December 2012				
Gross premium revenues earned from external parties	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000	London Market £000	UK and Europe £000	International £000	Corporate Centre £000	Total £000
UK and Ireland	9,938	309,074	12,290	–	331,302	19,774	287,673	12,431	–	319,878
Europe	20,085	174,746	21,514	–	216,345	6,922	167,970	22,828	–	197,720
United States	302,206	3,193	291,367	–	596,766	339,991	1,068	245,074	–	586,133
Rest of World	288,437	49,592	116,437	–	454,466	225,560	48,861	109,707	–	384,128
	620,666	536,605	441,608	–	1,598,879	592,247	505,572	390,040	–	1,487,859

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.

4 Operating segments continued
(d) Geographical information continued

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

5 Net asset value per share

	2013		2012	
	Net asset value (total equity) £000	**Net asset value per share pence**	Net asset value (total equity) restated* £000	Net asset value per share restated* pence
Net asset value	**1,409,461**	**402.2**	1,365,366	346.4
Net tangible asset value	**1,336,741**	**381.4**	1,295,749	328.7

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

The net asset value per share is based on 350,460,458 shares (2012: 394,200,249 shares), being the adjusted number of shares in issue at 31 December.

Net tangible assets comprise total equity excluding intangible assets.

6 Return on equity

	2013 £000	2012 restated* £000
Profit for the year (all attributable to owners of the Company)	**237,758**	208,026
Opening shareholders' equity	**1,365,366**	1,244,523
Adjusted for the time-weighted impact of capital distributions and issuance of shares	**(134,580)**	(28,095)
Adjusted opening shareholders' equity	**1,230,786**	1,216,428
Annualised return on equity (%)	**19.3**	17.1

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

7 Investment result
The total result for the Group before taxation comprises:

	Note	**2013 £000**	2012 £000
Investment income including interest receivable		**42,571**	45,699
Net realised gains on financial investments at fair value through profit or loss		**2,391**	9,071
Net fair value gains on financial investments at fair value through profit or loss		**13,962**	37,920
Investment result – financial assets	8	**58,924**	92,690
Fair value gains/(losses) on derivative financial instruments	21	**885**	(266)
Total result		**59,809**	92,424

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:

	2013 %	2012 %
Sterling	**3.4**	3.6
US Dollar	**1.5**	3.2
Other	**0.7**	1.8

(b) Investment return

	London Market		UK and Europe		International		Corporate Centre		2013 Total	
	£000	%	£000	%	£000	%	£000	%	£000	%
Debt and fixed income securities	8,326	0.9	3,192	0.7	2,748	0.3	2,839	1.3	17,105	0.7
Equities and shares in unit trusts	–	–	14,246	20.9	7,882	10.9	17,161	23.2	39,289	18.3
Deposits with credit institutions/ cash and cash equivalents	330	0.7	806	0.7	1,148	0.5	246	0.2	2,530	0.5
	8,656	0.9	18,244	2.8	11,778	1.0	20,246	4.7	58,924	1.9

Notes to the consolidated financial statements
continued

8 Analysis of return on financial investments continued
(b) Investment return continued

	London Market		UK and Europe		International		Corporate Centre		2012 Total	
	£000	%	£000	%	£000	%	£000	%	£000	%
Debt and fixed income securities	26,813	3.5	8,585	1.9	19,191	2.5	7,990	3.9	62,579	2.8
Equities and shares in unit trusts	–	–	8,288	13.8	8,580	14.0	10,106	16.6	26,974	14.8
Deposits with credit institutions/ cash and cash equivalents	242	0.2	796	0.7	1,700	0.6	399	0.4	3,137	0.5
	27,055	3.1	17,669	2.8	29,471	2.7	18,495	5.1	92,690	3.1

9 Other revenues and operational expenses

	2013 £000	2012 restated* £000
Agency-related income	7,100	5,866
Profit commission	9,161	5,532
Other underwriting income – insurance linked fund	1,832	1,123
Other income	2,812	1,409
Other revenues	20,905	13,930
Wages and salaries	101,780	88,294
Social security cost	20,498	15,299
Pension cost – defined contribution	6,593	6,117
Pension cost – defined benefit	1,000	1,054
Share-based payments	12,523	6,135
Marketing expenses	30,550	26,251
Investment expenses	3,833	3,543
Depreciation, amortisation and impairment	9,650	7,833
Other expenses	90,538	81,346
Operational expenses	276,965	235,872

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

10 Finance costs

	Note	2013 £000	2012 £000
Interest and expenses associated with bank borrowings		2,457	2,703
Interest and charges associated with Letters of Credit	35	4,050	5,032
Interest charges on experience account		669	870
		7,176	8,605

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

Group	2013 £000	2012 £000
Amounts receivable by the auditor and associates in respect of:		
The auditing of the accounts of any associate of the Group	966	911
All audit-related assurance services	80	129
Taxation compliance services	–	–
All non-audit-related assurance services	88	21
	1,134	1,061

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

12 Net foreign exchange losses

The net foreign exchange gains for the year include the following amounts:

	2013 £000	2012 £000
Exchange losses recognised in the consolidated income statement	(9,890)	(20,173)
Exchange losses classified as a separate component of equity	(2,030)	(35,806)
Overall impact of foreign exchange-related items on net assets	(11,920)	(55,979)

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 whereby resulting claims are retranslated at the end of each period. The impact of this mismatch on the income statement is shown below.

	2013 £000	2012 £000
Opening balance sheet impact of non-retranslation of non-monetary items	(2,674)	2,144
Loss included within profit representing the non-retranslation of non-monetary items	(2,116)	(4,818)
Closing balance sheet impact of non-retranslation of non-monetary items	(4,790)	(2,674)

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

Impact as at 31 December 2012	Consolidated income statement 2012 £000	Consolidated other comprehensive income 2012 £000	Total impact on equity 2012 £000
Unrealised translation (losses)/gains on intragroup borrowings	891	(891)	–
Total (losses)/gains recognised	891	(891)	–

14 Intangible assets

	Goodwill £000	Syndicate capacity £000	State authorisation licences £000	Software and development costs £000	Other £000	Total £000
At 1 January 2012						
Cost	10,405	24,505	6,308	26,936	9,982	78,136
Accumulated amortisation and impairment	(2,430)	–	–	(6,491)	(1,663)	(10,584)
Net book amount	7,975	24,505	6,308	20,445	8,319	67,552
Year ended 31 December 2012						
Opening net book amount	7,975	24,505	6,308	20,445	8,319	67,552
Other additions	–	–	–	7,150	–	7,150
Amortisation charges	–	–	–	(4,302)	(683)	(4,985)
Impairment	(100)	–	–	–	–	(100)
Closing net book amount	7,875	24,505	6,308	23,293	7,636	69,617
At 31 December 2012						
Cost	10,405	24,505	6,308	34,086	9,982	85,286
Accumulated amortisation and impairment	(2,530)	–	–	(10,793)	(2,346)	(15,669)
Net book amount	7,875	24,505	6,308	23,293	7,636	69,617
Year ended 31 December 2013						
Opening net book amount	**7,875**	**24,505**	**6,308**	**23,293**	**7,636**	**69,617**
Other additions	**–**	**–**	**–**	**10,102**	**–**	**10,102**
Amortisation charges	**–**	**–**	**–**	**(6,434)**	**(500)**	**(6,934)**
Impairment	**(65)**	**–**	**–**	**–**	**–**	**(65)**
Closing net book amount	**7,810**	**24,505**	**6,308**	**26,961**	**7,136**	**72,720**
At 31 December 2013						
Cost	**10,405**	**24,505**	**6,308**	**44,188**	**9,982**	**95,388**
Accumulated amortisation and impairment	**(2,595)**	**–**	**–**	**(17,227)**	**(2,846)**	**(22,668)**
Net book amount	**7,810**	**24,505**	**6,308**	**26,961**	**7,136**	**72,720**

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to country of operation and business segment. Goodwill is considered to have an indefinite life and as such is tested annually for impairment based on the recoverable amount which is considered to be the higher of the fair value or value in use.

Value in use is considered to be the best indication of the recoverable amount for goodwill. Value in use calculations are performed using cash flow projections based on financial forecasts covering a five-year period. A discount factor of 6.8% (2012: 6.7%) 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.

The £65,000 impairment recognised in the year for goodwill is included in operational expenses in the consolidated income statement (2012: £100,000).

The Group's intangible asset relating to Syndicate capacity has been allocated, for impairment testing purposes, to one individual CGU, being the active Lloyd's corporate member entity. The asset is tested annually for impairment based on its recoverable amount which is considered to be the higher of the asset's fair value or its value in use. The fair value of Syndicate capacity can be determined from the Lloyd's of London Syndicate capacity auctions. Based on the average open market price witnessed in the recent autumn 2013 auction, the carrying value of Syndicate capacity recognised on the balance sheet is significantly below the market price.

As part of a business combination in 2007, the Group acquired insurance authorisation licences for 50 US states. This intangible asset has been allocated for impairment testing purposes to one individual CGU, being the Group's North American underwriting businesses. The carrying value of this asset is tested for impairment based on its value in use to the Group's US insurer. The value in use is calculated using a discounted projected cash flow based on business plans approved by management, and discounted at an appropriate 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, with additions in the current and prior year relating to software licence and development costs. These intangible assets are amortised on a straight-line basis over their useful economic life.

14 Intangible assets continued

The carrying value of customer contractual relationships is tested annually for impairment based on the recoverable amount which is considered to be the higher of the fair value or value in use. The asset's value in use is considered to be the best indication of its recoverable amount. Value in use is calculated for customer contractual relationships in the same manner as described above for goodwill and the same discount rate used. The results of this testing show that no impairment is due.

Capitalised software and development costs are amortised when the assets become available for use on a straight-line basis over the expected useful life of the asset. The carrying value of software and development costs is reviewed for impairment on an ongoing basis by reference to the stage and expectation of a project. No impairment is due as at 31 December 2013.

The amortisation charge for the year includes £6,434,000 (2012: £4,302,000) relating to capitalised internally generated software costs and is included in operational expenses in the consolidated income statement.

The net book value of capitalised internally generated software costs at 31 December 2013 was £26,961,000 (2012: £23,293,000). There are no charges for impairment during the current or prior financial year.

At 31 December 2013 there were £9,647,000 of assets under development on which no amortisation has been charged (2012: £13,505,000).

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 2012					
Cost	6,164	3,765	142	45,560	55,631
Accumulated depreciation	(422)	(1,278)	(92)	(35,684)	(37,476)
Net book amount	5,742	2,487	50	9,876	18,155
Year ended 31 December 2012					
Opening net book amount	5,742	2,487	50	9,876	18,155
Additions	–	260	80	2,876	3,216
Disposals	–	–	(27)	(90)	(117)
Depreciation charge	(77)	(391)	(33)	(1,756)	(2,257)
Impairment	(491)	–	–	–	(491)
Foreign exchange movements	(170)	(138)	–	(143)	(451)
Closing net book amount	5,004	2,218	70	10,763	18,055
At 31 December 2012					
Cost	5,498	3,816	114	43,743	53,171
Accumulated depreciation	(494)	(1,598)	(44)	(32,980)	(35,116)
Net book amount	5,004	2,218	70	10,763	18,055
Year ended 31 December 2013					
Opening net book amount	**5,004**	**2,218**	**70**	**10,763**	**18,055**
Additions	**848**	**1,064**	**83**	**5,285**	**7,280**
Disposals	**(2,471)**	**–**	**(77)**	**(6)**	**(2,554)**
Depreciation charge	**(50)**	**(685)**	**(15)**	**(1,901)**	**(2,651)**
Impairment	**–**	**–**	**–**	**–**	**–**
Foreign exchange movements	**103**	**(15)**	**–**	**1**	**89**
Closing net book amount	**3,434**	**2,582**	**61**	**14,142**	**20,219**
At 31 December 2013					
Cost	**3,834**	**4,820**	**120**	**40,253**	**49,027**
Accumulated depreciation	**(400)**	**(2,238)**	**(59)**	**(26,111)**	**(28,808)**
Net book amount	**3,434**	**2,582**	**61**	**14,142**	**20,219**

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

There was no impairment charge during the year (2012: £491,000).

Assets with a net book value of £nil were held under finance leases (2012: £nil).

During the year £848,000 was recognised in the carrying value of property that is under the course of construction (2012: £nil).

16 Investments in associates

Year ended 31 December	2013 £000	2012 £000
At beginning of year	9,054	6,380
Additions during the year	–	3,104
Disposals during the year	(900)	–
Net loss from investments in associates	(400)	(430)
At end of year	7,754	9,054

The Group's interests in its principal associates, all of which are unlisted, were as follows:

	% interest held at 31 December	100% results Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
2013					
Associates incorporated in the UK	from 25% to 35%	67,657	48,671	28,540	2,589
Associates incorporated in Europe	from 25% to 49%	1,935	1,114	2,625	257
Total at the end of 2013		69,592	49,785	31,165	2,846

	% interest held at 31 December	100% results Assets £000	Liabilities £000	Revenues £000	Profit after tax £000
2012					
Associates incorporated in the UK	from 25% to 35%	67,773	52,720	14,987	661
Associates incorporated in Europe	from 25% to 49%	1,806	1,097	2,523	254
Total at the end of 2012		69,579	53,817	17,510	915

During 2012, the Group acquired a 25% holding in Lark (2012) Ltd, for total consideration of £3,104,000 as referred to in note 33.

During 2013, the Group disposed of its holding in Senior Wright Indemnity Ltd. During 2012 the Group sold its holding in InsuranceBee, Inc.. There were no acquisitions during the current year.

As at 31 December 2013, the Group had an amount receivable from Lark Ltd of £6,896,000 (2012: £6,896,000).

The equity interests held by the Group in respect of associates do not have quoted market prices and are not traded regularly in any active recognised market. The associates concerned have no material impact on the results or assets of the Group.

17 Deferred acquisition costs

	2013 Gross £000	2013 Reinsurance £000	2013 Net £000	2012 Gross £000	2012 Reinsurance £000	2012 Net £000
Balance deferred at 1 January	166,041	(18,340)	147,701	150,050	(15,641)	134,409
Acquisition costs incurred in relation to insurance contracts written	405,504	(71,401)	334,103	353,193	(53,077)	300,116
Acquisition costs expensed to the income statement	(371,663)	65,886	(305,777)	(333,758)	50,143	(283,615)
Foreign exchange adjustment	(2,254)	376	(1,878)	(3,444)	235	(3,209)
Balance deferred at 31 December	197,628	(23,479)	174,149	166,041	(18,340)	147,701

The deferred amount of insurance contract acquisition costs attributable to reinsurers of £23,479,000 (2012: £18,340,000) 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:

	2013 £000	2012 £000
Within one year	153,286	137,754
After one year	20,863	9,947
	174,149	147,701

18 Reinsurance assets

	Note	2013 £000	2012 £000
Reinsurers' share of insurance liabilities		459,603	541,387
Provision for non-recovery and impairment		(781)	(998)
Reinsurance assets	26	458,822	540,389

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

Within one year	229,060	286,532
After one year	229,762	253,857
	458,822	540,389

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 £217,000 (2012: loss of £91,000) in respect of previously impaired balances.

19 Financial assets and liabilities

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

	Note	2013 Fair value £000	2012 Fair value £000
Debt and fixed income securities		2,335,829	2,194,866
Equities and shares in unit trusts		223,024	190,029
Deposits with credit institutions		6,240	13,203
Total investments		2,565,093	2,398,098
Insurance linked fund		19,917	8,098
Derivative financial instruments	21	44	73
Total financial assets carried at fair value		2,585,054	2,406,269

	Note	2013 Fair value £000	2012 Fair value £000
Derivative financial instruments	21	229	301
Total financial liabilities		229	301

An analysis of the credit risk and contractual maturity profiles of the Group's financial instruments is given in notes 3.2(d) and 3.2(e).

The Group has made a total investment of $30.0 million into the Third Point Reinsurance Opportunities Fund ('the Fund'), $13.2 million in 2012 and an additional $16.8 million in 2013. During the year the Fund made a gain of $2.9 million. The Fund is subject to a one year lock up from the balance sheet date. The Fund specialises in catastrophe reinsurance opportunities and is classified by the Group as an insurance linked fund.

The Group participates in a quota share arrangement with Third Point Re Cat Ltd, a wholly-owned reinsurance entity of the Fund. During the year contracts with a premium of $3.3 million were ceded to the entity.

19 Financial assets and liabilities continued

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

	2013 £000	2012 £000
Debt and fixed income securities		
Sterling	510,769	404,769
US Dollars	1,512,992	1,496,748
Euro and other currencies	312,068	293,349
	2,335,829	2,194,866
Equities and shares in unit trusts		
Sterling	118,991	105,486
US Dollars	104,033	82,683
Euro and other currencies	–	1,860
	223,024	190,029
Deposits with credit institutions		
Sterling	3,871	12,957
US Dollars	1,469	246
Euro and other currencies	900	–
	6,240	13,203
Total investments	2,565,093	2,398,098

20 Loans and receivables including insurance receivables

	2013 £000	2012 £000
Gross receivables arising from insurance and reinsurance contracts	422,405	425,720
Provision for impairment	(1,282)	(986)
Net receivables arising from insurance and reinsurance contracts	421,123	424,734
Due from contract holders, brokers, agents and intermediaries	302,820	295,892
Due from reinsurance operations	118,303	128,842
	421,123	424,734
Prepayments and accrued income	6,754	10,345
Other loans and receivables:		
Net profit commission receivable	18,905	7,295
Accrued interest	9,463	9,120
Share of Syndicates' other debtors' balances	12,192	13,138
Other debtors including related party amounts	24,982	27,432
Total loans and receivables including insurance receivables	493,419	492,064

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

Within one year	474,316	476,930
After one year	19,103	15,134
	493,419	492,064

There is no significant concentration of credit risk with respect to loans and receivables as the Group has a large number of internationally dispersed debtors. The Group has recognised a loss of £296,000 (2012: loss of £30,000) for the impairment of receivables during the year ended 31 December 2013.

21 Derivative financial instruments

The Group entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2013. 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 2013 all mature within one year of the balance sheet date and are detailed below:

31 December 2013 Derivative financial instrument 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	26,793	44	229	(185)
Interest rate futures contracts	37,083	–	–	–

31 December 2012 Derivative financial instrument assets 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	17,755	73	301	(228)
Interest rate futures contracts	36,655	–	–	–

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

Foreign exchange forward contracts
During the current and prior year the Group entered into a series of conventional over-the-counter forward contracts in order to secure translation gains made on Euro, US Dollar and other non-Pound Sterling denominated monetary assets. The contracts require the Group to forward sell a fixed amount of the relevant currency for Pound Sterling at pre-agreed future exchange rates. The Group made a loss on these forward contracts of £77,000 (2012: gain of £71,000) as included in note 7. The opposite exchange gain is included within financial investments.

There was no initial purchase cost associated with these instruments.

Interest rate futures contracts
During the year the Group continued short selling a number of government bond futures and sovereign futures denominated in a range of currencies to informally hedge substantially all of the interest rate risk on specific long portfolios of the matching currencies denominated corporate bonds. All contracts are exchange traded and the Group made a gain on these futures contracts of £1,175,000 (2012: loss of £337,000) as included in note 7.

Equity index options
During the year the Group purchased and disposed of an equity index option to protect against a decline in equity prices. The Group made a loss of £213,000 on this contract. No such instruments were purchased in 2012.

22 Fair value measurements

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

As at 31 December 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	875,882	1,459,947	–	2,335,829
Equities and shares in unit trusts	–	208,960	14,064	223,024
Deposits with credit institutions	6,240	–	–	6,240
Insurance linked fund	–	–	19,917	19,917
Derivative instrument assets	–	44	–	44
Total	882,122	1,668,951	33,981	2,585,054
Financial liabilities				
Derivative financial instruments	–	229	–	229

As at 31 December 2012	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Debt and fixed income securities	718,393	1,476,473	–	2,194,866
Equities and shares in unit trusts	–	176,494	13,535	190,029
Deposits with credit institutions	13,203	–	–	13,203
Insurance linked fund	–	–	8,098	8,098
Derivative instrument assets	–	73	–	73
Total	731,596	1,653,040	21,633	2,406,269
Financial liabilities				
Derivative financial instruments	–	301	–	301

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 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 Government bonds, Treasury bills and exchange-traded equities which are measured based on quoted prices.

Level 2 of the hierarchy contains 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.

22 Fair value measurements continued

Level 3 contains investments in a limited partnership, unquoted equity securities and an insurance linked fund which have limited observable inputs on which to measure fair value. Unquoted equities are carried at cost, which is deemed to be comparable to fair value. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant and no further analysis has been performed. The Group invested into the insurance linked fund in December 2012, which is subject to a two-year initial lock-up period. The fund specialises in catastrophe reinsurance opportunities. The fair value of the fund is estimated to be the net asset value reported by the fund administrator at the balance sheet date. This net asset value is based on the fair value of the underlying insurance contracts in the fund which are sensitive to estimates of insurance losses that have occurred. A change in these loss estimates could have a material impact on the valuation of the fund.

In certain cases, the inputs used to measure the fair value of a financial instrument may fall into more than one level within the fair value hierarchy. In this instance, the fair value of the instrument in its entirety is classified based on the lowest level of input that is significant to the fair value measurement.

During the year, there were no transfers made between Level 1 and Level 2 of the fair value hierarchy.

The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy:

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

*Fair value gains/(losses) are included within the investment result in the income statement.

31 December 2012	Equities and shares in unit trusts £000	Insurance linked fund £000	Total £000
Balance at 1 January	10,626	–	10,626
Fair value gains or losses through profit or loss*	2,707	–	2,707
Foreign exchange losses	(120)	–	(120)
Purchases	322	8,098	8,420
Settlements	–	–	–
Closing balance	13,535	8,098	21,633
Unrealised gains and losses in the year on securities held at the end of the year	2,587	–	2,587

*Fair value gains/(losses) are included within the investment result in the income statement.

23 Cash and cash equivalents

	2013 £000	2012 £000
Cash at bank and in hand	389,773	428,454
Short-term deposits	174,602	229,208
	564,375	657,662

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

	31 December 2013		31 December 2012	
Group	Share capital £000	Number of shares	Share capital £000	Number of shares
Authorised	40,000	712,000,000	40,000	800,000,000
Issued share capital	20,854	371,215,489	20,703	414,069,422

The amounts presented in the equity structure of the Group above relate to Hiscox Ltd, the legal Parent Company.

24 Share capital continued

Changes in Group share capital and contributed surplus	Note	Ordinary share capital £000	Share premium £000	Contributed surplus £000	B Shares £000
At 1 January 2012		20,563	32,086	245,005	–
Employee share option scheme – proceeds from shares issued		52	1,649	–	–
Scrip dividends to owners of the Company	32	88	7,578	–	–
At 31 December 2012		20,703	41,313	245,005	–
Employee share option scheme – proceeds from shares issued		133	3,990	–	–
Issue of B Shares		–	(42,453)	(155,141)	197,594
Redemption of B Shares		–	–	–	(197,594)
Scrip dividends to owners of the Company	32	18	2,103	–	–
At 31 December 2013		**20,854**	**4,953**	**89,864**	**–**

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

On 25 February 2013, the Group announced its intention to return approximately £200 million of capital, which included a final dividend equivalent for the year ended 31 December 2012 of 12.0p per share, being £47,423,000 to shareholders, by way of a B Share issue. This was also combined with a consolidation of Hiscox's existing shares on the basis of 89 new ordinary shares of 5 55/89p each for 100 existing ordinary shares of 5p each. This was subsequently approved by the shareholders at an Extraordinary General Meeting held on 28 March 2013.

B Shares were issued on 2 April 2013 to existing shareholders on the basis of one B Share for each ordinary share held on 28 March 2013. Each B Share enabled the shareholder to redeem the share at 50p per share at either 4 April 2013 or 12 April 2013. Alternatively the B Share holder could elect to receive a B Share dividend on 12 April 2013 of 50p per share. Following such dividend receipt, the relevant B Shares were converted into deferred shares which were themselves redeemed on 16 May 2013 for a total redemption value of one pence in total. There were no B Shares outstanding at 31 December 2013 as all shares have been redeemed or cancelled.

Total capital of £197,594,000 has been returned to shareholders, of which £42,453,000 has been charged against share premium and the remaining £155,141,000 has been charged against contributed surplus.

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.

Equity structure of Hiscox Ltd	Note	Number of ordinary shares in issue (thousands) 2013	Number of ordinary shares in issue (thousands) 2012
At 1 January		**414,069**	411,257
Employee share option scheme – ordinary shares issued		**2,458**	1,054
Scrip dividends to owners of the Company	32	**324**	1,758
Share consolidation as a result of the special capital distribution		**(45,636)**	–
At 31 December		**371,215**	414,069

Up until 2 April 2013, the Group issued 5p ordinary shares. From this date, new ordinary shares of 5 55/89p each exist. All issued shares are fully paid.

Share options and performance share plan awards
Performance share plan awards are granted to Directors and to senior employees. Up until 2005, share options were also granted. The exercise price of the granted options is equal to the closing mid-market price of the shares on the day before the date of the grant. No exercise price is attached to performance plan awards, although their attainment is conditional on the employee completing three years' service (the vesting period) and the Group achieving targeted levels of returns on equity. Share options are also conditional on the employees completing three years' service (the vesting period) or less under exceptional circumstances (death, disability, retirement or redundancy). The options are exercisable starting three years from the grant date only if the Group achieves its targets of return on equity; the options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

In accordance with IFRS 2 the Group recognises an expense for the fair value of share option and performance share plan award instruments issued to employees, over their vesting period through the income statement. The expense recognised in the consolidated income statement during the year was £12,523,000 (2012: £6,135,000). This comprises charges of £12,158,000 (2012: £5,793,000) in respect of performance share plan awards and £365,000 (2012: £342,000) in respect of share option awards. The Group has applied the principles outlined in the Black-Scholes option pricing model when determining the fair value of each share option instrument, and discounted cash flow methodology in respect of performance share plan awards.

24 Share capital continued

Share options and performance share plan awards continued

The range of principal Group assumptions applied in determining the fair value of share-based payment instruments granted during the year under review are:

Assumptions affecting inputs to fair value models	2013	2012
Annual risk-free rates of return and discount rates (%)	**0.32-0.78**	0.27-0.55
Long-term dividend yield (%)	**4.67**	3.95-4.31
Expected life of options (years)	**3.25**	3.25
Implied volatility of share price (%)	**27**	28
Weighted average share price (p)	**570.5**	416.0

The weighted average fair value of each share option granted during the year was 112.9p (2012: 93.4p). The weighted average fair value of each performance share plan award granted during the year was 568.0p (2012: 414.0p).

Movements in the number of share options during the year and details of the balances outstanding at 31 December 2013 are shown in the Directors' remuneration report.

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

	2013 £000	2012 restated* £000
Currency translation reserve at 31 December	**22,681**	24,711
Retained earnings at 31 December	**1,271,109**	1,033,634

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

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.

There were no transactions by the Company in its own shares during the year.

At 31 December 2013 Hiscox Ltd held 16,145,888 shares in Treasury (2012: 19,682,214). Additional details are shown in note 37 to these financial statements in respect of additional Hiscox Ltd shares held by subsidiaries.

26 Insurance liabilities and reinsurance assets

	Note	2013 £000	2012 £000
Gross			
Claims reported and claim adjustment expenses		**829,548**	932,604
Claims incurred but not reported		**1,023,514**	1,000,300
Unearned premiums		**756,059**	663,708
Total insurance liabilities, gross		**2,609,121**	2,596,612
Recoverable from reinsurers			
Claims reported and claim adjustment expenses		**146,946**	192,311
Claims incurred but not reported		**213,000**	261,128
Unearned premiums		**98,876**	86,950
Total reinsurers' share of insurance liabilities	18	**458,822**	540,389
Net			
Claims reported and claim adjustment expenses		**682,602**	740,293
Claims incurred but not reported		**810,514**	739,172
Unearned premiums		**657,183**	576,758
Total insurance liabilities, net		**2,150,299**	2,056,223

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

	2013	2012
Within one year	**1,123,849**	1,190,613
After one year	**1,026,450**	865,610
	2,150,299	2,056,223

26 Insurance liabilities and reinsurance assets continued

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 2013 and 2012 are not material.

26.1 Insurance contracts assumptions

(a) Process used to decide on assumptions

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

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

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

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

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

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

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

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

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. This often means that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business. Estimates of ultimate claims are adjusted each reporting period to reflect emerging claims experience. Changes in expected claims may result in a reduction or an increase in the ultimate claim costs and a release or an increase in reserves in the period in which the change occurs.

(b) Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The Group analyses actual claims development compared with previous estimates on an accident year basis. This exercise is performed to include the liabilities of Syndicate 33 at the 100% level regardless of the Group's actual level of ownership, which has increased significantly over the last nine years. Analysis at the 100% level is required in order to avoid distortions arising from reinsurance to close arrangements which subsequently increase the Group's share of ultimate claims for each accident year, three years after the end of that accident year.

The top half of each table, on the following pages, illustrates how estimates of ultimate claim costs for each accident year have changed at successive year ends. The bottom half reconciles cumulative claim costs to the amounts still recognised as liabilities. A reconciliation of the liability at the 100% level to the Group's share, as included in the Group balance sheet, is also shown.

26 Insurance liabilities and reinsurance assets continued
26.1 Insurance contracts assumptions continued
(b) Claims development tables continued
Insurance claims and claim adjustment expenses reserves – gross at 100%

Accident year	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	**2013 £000**	**Total £000**
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year	669,683	1,115,254	579,792	777,725	1,075,246	821,808	993,242	1,272,160	1,057,677	**860,336**	**9,222,923**
one year later	741,762	1,233,202	554,120	692,889	911,663	684,966	854,945	1,163,253	956,751	**–**	**7,793,551**
two years later	707,882	1,235,091	533,799	657,347	889,343	628,608	802,475	1,113,121	–	**–**	**6,567,666**
three years later	669,729	1,217,671	504,109	670,383	852,447	622,191	788,438	–	–	**–**	**5,324,968**
four years later	672,545	1,212,057	514,148	663,326	817,827	619,368	–	–	–	**–**	**4,499,271**
five years later	655,268	1,213,309	504,085	634,675	786,340	–	–	–	–	**–**	**3,793,677**
six years later	658,520	1,170,751	491,353	619,324	–	–	–	–	–	**–**	**2,939,948**
seven years later	640,592	1,163,901	486,178	–	–	–	–	–	–	**–**	**2,290,671**
eight years later	630,910	1,164,824	–	–	–	–	–	–	–	**–**	**1,795,734**
nine years later	623,578	–	–	–	–	–	–	–	–	**–**	**623,578**
Current estimate of cumulative claims	623,578	1,164,824	486,178	619,324	786,340	619,368	788,438	1,113,121	956,751	**860,336**	**8,018,258**
Cumulative payments to date	(581,083)	(1,128,863)	(461,655)	(556,886)	(714,632)	(516,440)	(554,758)	(787,871)	(455,925)	**(158,503)**	**(5,916,616)**
Liability recognised at 100% level	42,495	35,961	24,523	62,438	71,708	102,928	233,680	325,250	500,826	**701,833**	**2,101,642**
Liability recognised in respect of prior accident years at 100% level											**93,803**
Total gross liability to external parties at 100% level											**2,195,445**

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2013.

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

Accident year	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	**2013 £000**	**Total £000**
Current estimate of cumulative claims	623,578	1,164,824	486,178	619,324	786,340	619,368	788,438	1,113,121	956,751	**860,336**	**8,018,258**
Less: attributable to external Names	(145,499)	(292,189)	(100,864)	(119,230)	(148,068)	(103,053)	(120,013)	(158,108)	(131,968)	**(104,918)**	**(1,423,910)**
Group's share of current ultimate claims estimate	478,079	872,635	385,314	500,094	638,272	516,315	668,425	955,013	824,783	**755,418**	**6,594,348**
Cumulative payments to date	(581,083)	(1,128,863)	(461,655)	(556,886)	(714,632)	(516,440)	(554,758)	(787,871)	(455,925)	**(158,503)**	**(5,916,616)**
Less: attributable to external Names	134,229	283,690	95,160	106,356	133,828	86,459	78,328	112,633	58,277	**14,448**	**1,103,408**
Group's share of cumulative payments	(446,854)	(845,173)	(366,495)	(450,530)	(580,804)	(429,981)	(476,430)	(675,238)	(397,648)	**(144,055)**	**(4,813,208)**
Liability for 2004 to 2013 accident years recognised on Group's balance sheet	31,225	27,462	18,819	49,564	57,468	86,334	191,995	279,775	427,135	**611,363**	**1,781,140**
Liability for accident years before 2004 recognised on Group's balance sheet											**71,922**
Total Group liability to external parties included in balance sheet – gross**											**1,853,062**

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

26 Insurance liabilities and reinsurance assets continued

26.1 Insurance contracts assumptions continued

(b) Claims development tables continued

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

Accident year	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	**2013 £000**	Total £000
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year	559,842	660,040	517,414	680,166	757,136	683,265	802,051	996,862	781,705	**753,417**	7,191,898
one year later	611,085	757,346	509,141	617,800	676,350	573,442	707,446	931,322	697,198	**–**	6,081,130
two years later	587,133	747,643	492,373	597,711	672,768	547,761	667,677	885,364	–	**–**	5,198,430
three years later	551,161	723,583	450,795	568,939	634,949	549,023	652,239	–	–	**–**	4,130,689
four years later	552,022	713,700	467,885	564,330	603,046	544,501	–	–	–	**–**	3,445,484
five years later	537,492	714,416	456,356	539,510	596,807	–	–	–	–	**–**	2,844,581
six years later	537,690	693,885	449,501	535,782	–	–	–	–	–	**–**	2,216,858
seven years later	522,515	685,539	449,521	–	–	–	–	–	–	**–**	1,657,575
eight years later	514,753	677,940	–	–	–	–	–	–	–	**–**	1,192,693
nine years later	508,214	–	–	–	–	–	–	–	–	**–**	508,214
Current estimate of cumulative claims	508,214	677,940	449,521	535,782	596,807	544,501	652,239	885,364	697,198	**753,417**	6,300,983
Cumulative payments to date	(483,049)	(641,647)	(426,434)	(481,637)	(532,496)	(453,616)	(471,033)	(630,636)	(348,061)	**(144,813)**	(4,613,422)
Liability recognised at 100% level	25,165	36,293	23,087	54,145	64,311	90,885	181,206	254,728	349,137	**608,604**	1,687,561
Liability recognised in respect of prior accident years at 100% level											78,555
Total net liability to external parties at 100% level											1,766,116

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2013.

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

Accident year	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	**2013 £000**	Total £000
Current estimate of cumulative claims	508,214	677,940	449,521	535,782	596,807	544,501	652,239	885,364	697,198	**753,417**	6,300,983
Less: attributable to external Names	(119,054)	(162,485)	(93,072)	(103,305)	(105,043)	(82,481)	(87,825)	(114,578)	(79,588)	**(83,221)**	(1,030,652)
Group's share of current ultimate claims estimate	389,160	515,455	356,449	432,477	491,764	462,020	564,414	770,786	617,610	**670,196**	5,270,331
Cumulative payments to date	(483,049)	(641,647)	(426,434)	(481,637)	(532,496)	(453,616)	(471,033)	(630,636)	(348,061)	**(144,813)**	(4,613,422)
Less: attributable to external Names	112,426	153,620	87,338	91,517	91,581	68,299	58,794	83,872	35,549	**11,729**	794,725
Group's share of cumulative payments	(370,623)	(488,027)	(339,096)	(390,120)	(440,915)	(385,317)	(412,239)	(546,764)	(312,512)	**(133,084)**	(3,818,697)
Liability for 2004 to 2013 accident years recognised on Group's balance sheet	18,537	27,428	17,353	42,357	50,849	76,703	152,175	224,022	305,098	**537,112**	1,451,634
Liability for accident years before 2004 recognised on Group's balance sheet											41,482
Total Group liability to external parties included in the balance sheet – net**											1,493,116

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

26.2 Movements in insurance claims liabilities and reinsurance claims assets

Year ended 31 December	2013 Gross £000	2013 Reinsurance £000	2013 Net £000	2012 Gross £000	2012 Reinsurance £000	2012 Net £000
Total at beginning of year	(1,932,904)	453,439	(1,479,465)	(1,902,571)	412,828	(1,489,743)
Claims and claim adjustment expenses for year	(572,440)	53,161	(519,279)	(719,792)	180,966	(538,826)
Cash paid for claims settled in the year	640,505	(147,926)	492,579	614,723	(124,685)	490,038
Exchange differences and other movements	11,777	1,272	13,049	74,736	(15,670)	59,066
Total at end of year	(1,853,062)	359,946	(1,493,116)	(1,932,904)	453,439	(1,479,465)
Claims reported and claim adjustment expenses	(829,548)	146,946	(682,602)	(932,604)	192,311	(740,293)
Claims incurred but not reported	(1,023,514)	213,000	(810,514)	(1,000,300)	261,128	(739,172)
Total at end of year	(1,853,062)	359,946	(1,493,116)	(1,932,904)	453,439	(1,479,465)

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

Year ended 31 December	2013 Gross £000	2013 Reinsurance £000	2013 Net £000	2012 Gross £000	2012 Reinsurance £000	2012 Net £000
Current year claims and claim adjustment expenses	(761,179)	101,561	(659,618)	(930,635)	239,912	(690,723)
Over-provision in respect of prior year claims and claim adjustment expenses	188,739	(48,400)	140,339	210,843	(58,946)	151,897
Total claims and claim adjustment expenses	(572,440)	53,161	(519,279)	(719,792)	180,966	(538,826)

27 Trade and other payables

	Note	2013 £000	2012 £000
Creditors arising out of direct insurance operations		15,364	15,606
Creditors arising out of reinsurance operations		130,814	130,605
		146,178	146,211
Share of Syndicates' other creditors' balances		8,230	10,239
Social security and other taxes payable		14,764	8,649
Other creditors		12,900	9,037
		35,894	27,925
Reinsurers' share of deferred acquisition costs	17	23,479	18,340
Accruals and deferred income		98,587	73,139
Total		304,138	265,615

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

	2013 £000	2012 £000
Within one year	277,386	248,155
After one year	26,752	17,460
	304,138	265,615

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.

28 Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled. The principal subsidiaries of the Company and the country in which they are incorporated are listed in note 37. The amounts charged in the consolidated income statement comprise the following:

	2013 £000	2012 restated* £000
Current tax		
Expense for the year	65,950	15,751
Adjustments in respect of prior years	6,475	2,973
Total current tax expense	72,425	18,724
Deferred tax		
(Credit)/expense for the year	(49,865)	676
Adjustments in respect of prior years	(7,500)	2,912
Effect of rate change	(8,280)	(12,884)
Total deferred tax credit	(65,645)	(9,296)
Total tax charged to the income statement	6,780	9,428

The standard rate of corporation tax in Bermuda is 0% whereas the effective rate of tax for the Group is 2.8% (2012: 4.3%). A reconciliation of the difference is provided below:

	2013 £000	2012 restated* £000
Profit before tax	244,538	217,454
Tax calculated at the standard corporation tax rate applicable in Bermuda: 0% (2012: 0%)	–	–
Effects of Group entities subject to overseas tax at different rates	8,729	31,675
Impact of overseas tax rates on:		
Effect of rate change	(8,280)	(12,884)
Expenses not deductible for tax purposes	4,460	1,734
Tax losses for which no deferred tax asset is recognised	3,532	6,752
Other	721	716
S1013 CTA 2009 deduction and share-based payments	3	(727)
Non-taxable income	(1,360)	(23,723)
Overseas tax	–	–
Prior year tax adjustments	(1,025)	5,885
Tax charge for the period	6,780	9,428

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

29 Deferred tax

Deferred tax assets	2013 £000	2012 £000
Trading losses in overseas entities	32,123	25,608

Net deferred tax liabilities	2013 £000	2012 restated* £000
Deferred tax assets	16,055	15,170
Deferred tax liabilities	(92,001)	(149,643)
Total net deferred tax liability	(75,946)	(134,473)

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

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

At 31 December	2012 £000	Income statement (charge)/credit £000	Transfer from equity £000	2013 £000
Trading losses in overseas entities	25,608	6,515	–	32,123
Deferred tax assets	25,608	6,515	–	32,123

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

At 31 December	2012 restated* £000	Income statement (charge)/credit £000	Transfer from equity £000	2013 £000
Tangible assets	1,659	(481)	–	**1,178**
Trading losses in UK entities	–	789	–	**789**
Trade and other payables	1,035	3,328	–	**4,363**
Intangible assets – Syndicate capacity	2,876	(548)	–	**2,328**
Retirement benefit obligations	3,800	265	(2,865)	**1,200**
Other items	5,800	(1,865)	2,262	**6,197**
Total deferred tax assets	15,170	1,488	(603)	**16,055**
Investment in associated enterprises	(6)	6	–	**–**
Financial assets	(996)	(1,066)	–	**(2,062)**
Insurance contracts – equalisation provision†	(31,032)	2,135	–	**(28,897)**
Reinsurance premiums	(113,861)	68,782	–	**(45,079)**
	(145,895)	69,857	–	**(76,038)**
Open years of account	(3,748)	(12,215)	–	**(15,963)**
Total deferred tax liabilities	(149,643)	57,642	–	**(92,001)**
Net total deferred tax liabilities	(134,473)			**75,946**

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.
†The solvency regulations in the UK require certain entities within the Group to establish an equalisation provision, to be utilised against abnormal levels of future losses in certain lines of business. The regulations prescribe that the provision is increased every year by an amount that is calculated as a percentage of net premiums written for those lines of business during the financial year subject to a maximum percentage. The amount of each annual increase is a deductible expense for tax purposes, and the equalisation provision is taxed when released. Equalisation provisions are not permitted under IFRS which therefore results in the temporary difference for tax purposes. Following a change in the legislation at the end of 2008, Lloyd's Corporate Members are also entitled to a tax deduction for claims equalisation losses although this is not a solvency requirement for Lloyd's. The Group has provided for the deferred tax liability on its Corporate Members' claims equalisation reserve during the year.

UK deferred income tax assets and liabilities are calculated at 20% for the year ended 31 December 2013 (2012: 23%).

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 £2,165,000, comprising £603,000 deferred tax and £2,768,000 current tax (2012: £4,746,000 deferred tax and £616,000 current tax).

Deferred tax assets of £32,123,000 (2012: £25,608,000), relating to losses arising in overseas entities, which depend on the availability of future taxable profits in excess of profits arising from the reversal of other temporary differences, are recognised above. Business projections indicate it is probable that sufficient future taxable income will be available against which to offset these recognised deferred tax assets within five years. £30,526,000 (2012: £23,809,000) of the tax losses to which these assets relate will expire after 15 years or later; the balance of tax losses carried forward has no time limit. The Group has not provided for deferred tax assets totalling £10,087,000 (2012: £13,931,000) including £10,087,000 (2012: £13,841,000) in relation to losses in overseas companies of £28,821,000 (2012: £39,545,000). 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 £32,123,000 (2012: £25,608,000).

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. From 1 January 2013, the Group adopted IAS 19 (11) which resulted in the full recognition of the defined benefit surplus/deficit on the balance sheet. The pension retirement benefit obligations for 2012 have also been restated for this change. See note 2 for more detail.

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

	2013 £000	2012 £000
Present value of scheme obligations	**179,479**	173,420
Fair value of scheme assets	**(185,666)**	(156,513)
(Surplus)/deficit for funded plans	**(6,187)**	16,907
Effect of asset ceiling/onerous liability	**10,553**	–
Net amount recognised as a defined benefit obligation	**4,366**	16,907

30 Employee retirement benefit obligations continued

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

As the fair value of scheme obligations exceeds the present value of the scheme assets, the scheme reports a deficit.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit actuarial cost method. A formal full actuarial valuation is performed on a triennial basis, most recently at 31 December 2011, and updated at each intervening balance sheet date by the actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of AA rated corporate bonds that have terms to maturity that approximate to the terms of the related pension liability.

The scheme assets are invested are as follows:

At 31 December	2013 £000	2012 £000
Managed fund pooled investment vehicles		
UK equity funds	7,996	8,025
Emerging market equity funds	74,959	59,658
Global equity funds	37,258	28,069
Bond funds	39,048	47,417
US equities	13,173	9,892
Cash	13,232	3,452
	185,666	156,513

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

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

The amounts recognised in total comprehensive income are as follows:

	Note	2013 £000	2012 restated* £000
Interest cost on defined benefit obligation		7,700	7,548
Interest income on plan assets		(6,934)	(6,841)
Net interest cost		766	707
Administrative expenses and taxes		234	347
Total expense recognised in operational expenses in the income statement	9	1,000	1,054
Remeasurements			
Effect of change in demographic assumptions		6,975	3,114
Effect of change in financial assumptions		(3,982)	14,725
Effect of experience adjustments		–	(4,372)
Return on plan asset (excluding interest income)		(25,287)	(10,982)
Changes in asset ceiling/onerous liability (excluding interest income)		10,553	–
Remeasurement of third-party Names share of defined benefit obligation		1,966	(416)
Total remeasurement included in other comprehensive income		(9,775)	2,069
Total defined benefit (credit)/charge recognised in comprehensive income		(8,775)	3,123

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

30 Employee retirement benefit obligations continued

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

	2013 £000	2012 restated* £000
Group defined benefit liabilities at beginning of the year	16,907	15,168
Third-party Names' share of liability	(3,083)	(3,076)
Net defined benefit liability at beginning of year	13,824	12,092
Defined benefit cost included in net income	1,000	1,054
Recovery of charge from third-party Names	85	108
Total remeasurement included in other comprehensive income	(9,775)	2,069
Employer contributions by Hiscox Group	(1,800)	(1,800)
Less contributions received by Hiscox Group from third-party Names	301	301
Net defined benefit liability at end of year	3,635	13,824
Third-party Names' share of liability	731	3,083
Group defined benefit liability at end of year	4,366	16,907

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

	2013 £000	2012 restated* £000
Opening fair value of scheme assets	156,513	140,517
Interest income	6,934	6,841
Cash flows		
Contribution by the employer	1,800	1,800
Benefit payments	(4,634)	(3,280)
Administration expenses	(234)	(347)
Remeasurements		
Return on plan assets (excluding interest income)	25,287	10,982
Closing fair value of scheme assets	185,666	156,513

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

	2013 £000	2012 restated* £000
Opening present value of scheme obligations	173,420	155,685
Interest expense	7,700	7,548
Cash flows		
Benefit payments	(4,634)	(3,280)
Remeasurements		
Changes in demographic assumptions	6,975	3,114
Changes in financial assumptions	(3,982)	14,725
Impact of experience adjustments	–	(4,372)
Closing present value of scheme obligations	179,479	173,420

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

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

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of scheme obligations	179,479	173,420	155,685	146,737	140,676	101,615	106,793
Fair value of scheme assets	(185,666)	(156,513)	(140,517)	(144,056)	(118,391)	(115,166)	(127,576)
Present value of unfunded obligations/ (surplus scheme assets)	(6,187)	16,907	15,168	2,681	22,285	(13,551)	(20,783)
Effect of asset ceiling/onerous liability	10,553	–	–	–	–	–	–
Gross liability recognised on balance sheet	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:

	2013 years	2012 years
Male	28.8	26.9
Female	30.2	28.3

Notes to the consolidated financial statements
continued

30 Employee retirement benefit obligations continued

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

	2013 years	2012 years
Male	**30.2**	28.3
Female	**31.7**	29.8

The weighted average duration of the defined benefit obligation at 31 December 2013 was 24.6 years.

Other principal actuarial assumptions are as follows:

	2013 %	2012 %
Discount rate	**4.7**	4.5
Inflation assumption (RPI)	**3.4**	2.9
Inflation assumption (CPI)	**2.4**	2.1
Pension increases	**3.4**	2.9

The triennial valuation carried out as at 31 December 2011 resulted in a deficit position of £19.7 million. The Group agreed to fund the £19.7 million deficit paying instalments over five years. During the year the Group made its second instalment of £1.8 million to the defined benefit scheme (2012: £1.8 million) which included £0.2 million for the expenses of the pension fund (2012: £0.2 million). For 2014, the Group is required to fund an additional £1.8 million.

The scheme is currently in an overall surplus position, at the balance sheet date. The Group is therefore only required to book a liability for its commitment to contributions for the next three years, making the balance sheet position less sensitive to changes in assumptions as the scheme assets are sufficient to compensate for a certain amount of deterioration.

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 £4,892,000 at 31 December 2013 (2012: £4,650,000), but this would have no impact on the recorded net deficit on the balance sheet (2012: £4,650,000).

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 2013 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 4.95%	4,366	4,344	22
Effect of an increase in inflation			
Use of RPI inflation assumption of 3.65%	4,366	4,366	–

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	2013	2012 restated*
Profit for the year attributable to the owners of the Company (£000)	**237,758**	208,026
Weighted average number of ordinary shares (thousands)	**358,652**	391,592
Basic earnings per share (pence per share)	**66.3p**	53.1p

31 Earnings per share continued

Diluted

Diluted earnings per share is calculated adjusting for the assumed conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options and awards. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2013	2012 restated*
Profit for the year attributable to the owners of the Company (£000)	**237,758**	208,026
Weighted average number of ordinary shares in issue (thousands)	**358,652**	391,592
Adjustments for share options (thousands)	**15,860**	16,427
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**374,512**	408,019
Diluted earnings per share (pence per share)	**63.5p**	51.0p

*The comparative information has been restated for the adoption of IAS 19 (2011). See note 2.2 for details.

Diluted earnings per share has been calculated after taking account of 15,131,711 (2012: 15,915,875) options and awards under employee share option and performance plan schemes and 728,284 (2012: 510,925) options under SAYE schemes.

32 Dividends paid to owners of the Company

	2013 £000	2012 £000
Interim dividend for the year ended:		
31 December 2013 of 7.0p (net) per share	**24,746**	–
31 December 2012 of 6.0p (net) per share	**–**	23,567
Final dividend for the year ended:		
31 December 2011 of 11.9p (net) per share	**–**	46,606
	24,746	70,173

The final dividend for the year ended 31 December 2012 was paid as part of the B Share Scheme (see note 24) 395,188,526 B Shares of 50p each were issued, of which 12p per share was in lieu of a final dividend for a cash value of £47,423,400.

The final dividend for 2011 and interim dividends for 2012 and 2013 were either paid in cash or issued as a scrip dividend at the option of the shareholder. The final dividend for the year ended 31 December 2011 was paid in cash of £44,301,000 and 562,194 shares for the scrip dividend. The interim dividend for the year ended 31 December 2013 was paid in cash of £22,625,000 (2012: £18,206,000) and 324,261 shares for the scrip dividend (2012: 1,196,214).

Subject to shareholder approval at the forthcoming Extraordinary General Meeting on 18 March 2014, the Board proposes to pay 14.0p per ordinary share instead of a final dividend for the year ended 31 December 2013. Together with the interim dividend of 7.0p per ordinary share, this represents a total dividend for 2013 of 21.0p per ordinary share. In addition, the Board proposes to pay a special distribution of 36.0p per ordinary share. Such amounts will be paid by way of a C/D share scheme. A scrip dividend alternative will not be offered to shareholders.

33 Acquisitions

During the prior year, the Group acquired a 25% holding in Lark (2012) Ltd, ('Lark'), for total consideration of £3,104,000. Lark is a specialist UK insurance broker. The Company is treated as an associate of the Group from this date. No goodwill arose on acquisition. There were no acquisitions during 2013.

34 Disposals

During 2013, the Group disposed of its holding in Bracken Hill Specialty Insurance Company Inc. for $32.8 million, realising a gain of $2.4 million. In addition, the Group sold its interest in Senior Wright Indemnity Limited, an associate of the Group for £900,000, £300,000 of which was receivable at 31 December 2013. The sale realised a loss of £1.1 million on disposal.

35 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, to meet the subsidiary's obligations at Lloyd's. The total guarantee given under these deeds of covenant (subject to limitations) amounts to £25 million (2012: £15 million) in respect of Hiscox Ltd supported by £28 million of investment securities and US$258 million (2012: US$350 million) in respect of Hiscox Capital Ltd supported by US$271 million of investment securities. 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.

35 Contingencies and guarantees continued

(b) Hiscox plc continued with its Letter of Credit and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, for a total US$875 million which may be drawn in cash (under a revolving credit facility), Letter of Credit or a combination thereof, providing that the cash portion does not exceed US$400 million. In addition, the terms also provide that upon request the facility may be drawn in a currency other than US Dollar. At 31 December 2013 US$333 million (2012: US$308 million) was drawn by way of Letter of Credit to support the Funds at Lloyd's requirement and no cash drawings were outstanding (2012 £nil).

(c) Hiscox Insurance Company Limited has arranged a Letter of Credit of £50,000 (2012: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's, the arrangement is collateralised with cash of £50,000 (2012: £50,000).

(d) The Council of Lloyd's has the discretion to call a contribution of up to 3% of capacity if required from the managed syndicates.

(e) As Hiscox Insurance Company (Bermuda) Limited (Hiscox Bermuda) is not an admitted insurer or reinsurer in the US, the terms of certain US insurance and reinsurance contracts require Hiscox Bermuda to provide Letters of Credit or other terms of collateral to clients. In 2012, Hiscox Bermuda renegotiated its Letter of Credit Reimbursement and Pledge Agreement with Citibank for the provision of a Letter of Credit facility in favour of US ceding companies and other jurisdictions, and entered into new Letter of Credit facility agreements with the Royal Bank of Scotland and Commerzbank AG. The agreements combined are a three-year secured facility that allowed Hiscox Bermuda to request the issuance of up to US$400 million in Letters of Credit. Letters of Credit issued under these facilities are collateralised by US Government and Corporate Securities of Hiscox Insurance Company (Bermuda) Limited. Letters of Credit under this facility totaling US$112,670,681 were issued with an effective date of 31 December 2013 (2012: US$126,579,000 on a US$400 million facility) and these were collateralised by US Government and Corporate Securities with a fair value of US$131,385,000 (2012: US$149,120,000).

36 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 £1,902,000 (2012: £418,000).

Operating lease commitments

The Group acts as both lessee and lessor in relation to various offices in the UK and overseas which are held under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group also has payment obligations in respect of operating leases for certain items of office equipment. Operating lease rental expenses for the year totaled £8,677,000 (2012: £7,233,000). Operating lease rental income for the year totaled £547,000 (2012: £615,000).

The aggregate minimum lease payments required by the Group under non-cancellable operating leases, over the expected lease terms, are as follows:

		2013 £000	2012 £000
No later than one year	Land and buildings	**7,883**	7,482
	Office equipment	**330**	194
Later than one year and no later than five years	Land and buildings	**25,734**	25,967
	Office equipment	**347**	72
Later than five years	Land and buildings	**15,093**	18,101
		49,387	51,816

The total future aggregate minimum lease rentals receivable by the Group as lessor under non-cancellable operating property leases are as follows:

	2013 £000	2012 £000
No later than one year	**395**	584
Later than one year and no later than five years	**180**	613
Later than five years	**–**	–
	575	1,197

Obligations under finance leases

There were no finance lease arrangements in place at 31 December 2013 or 31 December 2012.

Finance lease interest expense for the year was £nil (2012: £nil).

37 Principal subsidiary companies of Hiscox Ltd at 31 December 2013

Company	Nature of business	Country
Hiscox plc*	Holding company	Great Britain
Hiscox Insurance Company Limited	General insurance	Great Britain
Hiscox Insurance Company (Guernsey) Limited*	General insurance	Guernsey
Hiscox Holdings Inc.	Insurance holding company	USA (Delaware)
ALTOHA, Inc.	Holding company	USA (Delaware)
Hiscox Insurance Company Inc.	General insurance	USA (Illinois)
Hiscox Inc.	Underwriting agent	USA (Delaware)
Hiscox Insurance Company (Bermuda) Limited*	General insurance and reinsurance	Bermuda
Hiscox Dedicated Corporate Member Limited	Lloyd's corporate Name	Great Britain
Hiscox Holdings Limited**	Insurance holding company	Great Britain
Hiscox Syndicates Limited	Lloyd's managing agent	Great Britain
Hiscox ASM Ltd	Insurance intermediary	Great Britain
Hiscox Underwriting Group Services Limited	Service company	Great Britain
Hiscox Capital Ltd*	Reinsurance	Bermuda
Hiscox Underwriting Ltd	Underwriting agent	Great Britain
Hiscox Europe Underwriting Limited	Insurance intermediary	Great Britain
Kiskadee Re Ltd	Special purpose insurer	Bermuda

*Held directly.
**Hiscox Holdings Limited held 48,558 shares in Hiscox Ltd at 31 December 2013 (2012: 54,560).

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

38 Related-party transactions

Details of the remuneration of the Group's key personnel are shown in the annual report on remuneration 2013 on pages 59 to 66. 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 to Syndicate 33 are as follows.

	Transactions in the income statement for the year ended		Balances outstanding (payable) at	
	31 December 2013 £000	31 December 2012 £000	**31 December 2013 £000**	31 December 2012 £000
Hiscox Syndicates Limited	**39,136**	25,840	**36,271**	21,102
Hiscox Group insurance carriers	**25,924**	6,313	**23,654**	1,836
Hiscox Group insurance intermediaries	**11,246**	12,550	**(7,646)**	(7,874)
Other Hiscox Group companies	**–**	–	**(7,893)**	(8,321)
	76,306	44,703	**44,386**	6,743

(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.

	Total 2013 £000	Total 2012 £000
Gross premium income achieved through associates	**14,474**	12,994
Commission expense charged by associates	**3,557**	3,286
Amounts payable to associates at 31 December	**37**	29
Amounts receivable from associates at 31 December	**9,769**	10,539

Details of the Group's associates are given in note 16.

(c) Internal reinsurance arrangements

During the current and prior year, there were a number of reinsurance arrangements entered into in the normal course of trade between various Group companies. The related results of these transactions have been eliminated on consolidation.

Five-year summary

	2013 £000	2012 restated* £000	2011 £000	2010 £000	2009 £000
Results					
Gross premiums written	**1,699,478**	1,565,819	1,449,219	1,432,674	1,435,401
Net premiums written	**1,371,114**	1,268,140	1,174,011	1,131,627	1,157,023
Net premiums earned	**1,283,311**	1,198,621	1,145,007	1,131,158	1,098,102
Profit before tax	**244,538**	217,454	17,271	211,366	320,618
Profit for the year after tax	**237,758**	208,026	21,272	178,800	280,497
Assets employed					
Intangible assets	**72,720**	69,617	67,552	64,108	50,413
Financial assets carried at fair value	**2,585,054**	2,406,269	2,368,636	2,459,107	2,413,300
Cash and cash equivalents	**564,375**	657,662	516,547	336,017	259,647
Insurance liabilities and reinsurance assets	**(2,150,299)**	(2,056,223)	(2,007,745)	(1,817,102)	(1,702,225)
Other net assets	**337,611**	288,041	310,909	223,984	100,151
Net assets	**1,409,461**	1,365,366	1,255,899	1,266,114	1,121,286
Net asset value per share (p)	**402.2**	346.4	323.5	332.7	299.2
Key statistics					
Basic earnings per share (p)	**66.3**	53.1	5.5	47.2	75.2
Diluted earnings per share (p)	**63.5**	51.0	5.3	45.4	72.3
Combined ratio (%)	**83.0**	85.5	99.5	89.3	86.0
Return on equity (%)	**19.3**	17.1	1.7	16.5	30.1
Dividends per share (p)	**21.0**	18.0	17.0	16.5	15.0
Share price – high† (p)	**695.0**	489.4	424.7	381.4	362.0
Share price – low† (p)	**453.6**	369.3	340.5	317.0	277.0

*The 2012 results have been restated to reflect the revised pension accounting standard.
†Closing mid-market prices.

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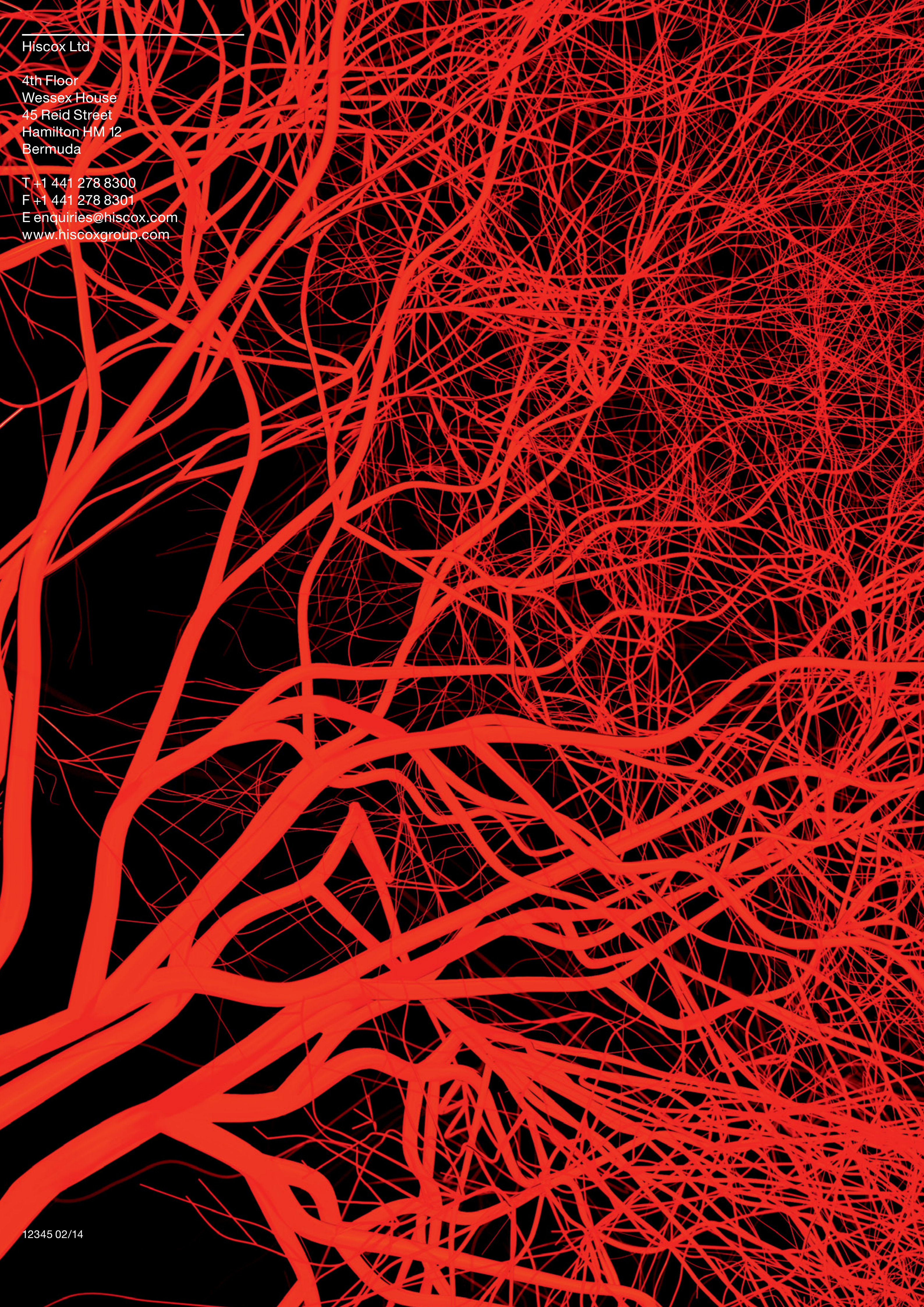

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