Hiscox Ltd full year results

For the year ended 31 December 2017

"A good result in an historic year for catastrophes"

	2017	2016
Gross premiums written	£2,549.3m	£2,402.6m
Net premiums earned	£1,874.5m	£1,675.0m
Profit before tax	£30.8m	£354.5m
Profit before tax excluding FX	£93.6m	£202.1m
Earnings per share	9.3p	119.8p
Total ordinary dividend per share for year	29.0p	27.5p
Net asset value per share	618.6p	649.9p
Group combined ratio	99.9%	84.2%
Group combined ratio excluding FX	98.8%	90.6%
Return on equity	1.5%	23.0%
Investment return	2.0%	1.9%
Foreign exchange (losses)/gains	£(62.8)m	£152.4m
Reserve releases	£251.5m	£213.0m

Highlights

- Hiscox delivered a profit before tax excluding FX of £93.6 million despite reserving net $225 million for claims in an historic year for natural catastrophes.
- Hiscox Retail now accounts for 56% of the Group's GWP and its profits exceeded £100 million for the second consecutive year. Hiscox USA remains the standout performer with premium growth of 29% in constant currency.
- Hiscox London Market reduced premiums as planned by 20%, and is now set to grow as rates rise following the hurricanes, earthquakes and wildfires in the second half of 2017.
- Hiscox Re & ILS was profitable in a costly year for reinsurers, due to good underwriting on behalf of Hiscox and third-party capital providers. ILS assets under management now at $1.5 billion.

Bronek Masojada, Chief Executive of Hiscox Ltd, commented:

"Our long-held strategy of balance has served us well this year. The strong growth and profits in retail countered the volatility felt in our big-ticket businesses which were impacted by an historic year for natural catastrophes. We have made significant investments in infrastructure and brand both of which will continue. Market pricing has improved and as a consequence we have growth ambitions for every part of our business."

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Notes to editors

About The Hiscox Group

Hiscox is a global specialist insurer, headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). Our ambition is to be a 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. It's a long-standing strategy which in 2017 saw the business deliver a profit before tax (excluding foreign exchange) of £93.6 million despite reserving net $225 million for claims in the most costly year ever for natural catastrophes.

The Hiscox Group employs over 2,700 people in 14 countries, and has customers worldwide. Through the retail businesses in the UK, Europe, Asia and the US, we offer a range of specialist insurance for professionals and business customers as well as homeowners. Internationally traded, bigger ticket business and reinsurance is underwritten through Hiscox London Market and Hiscox Re & ILS.

Our values define our business, with a focus on people, quality, courage and excellence in execution. We pride ourselves on being true to our word and our award-winning claims service is testament to that. For more information, visit www.hiscoxgroup.com.

Chairman's statement

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

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

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

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

Financial performance

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

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

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

Market

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

People

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

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

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

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

Regulatory burden

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

Outlook

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

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

Robert Childs
26 February 2018

Chief Executive's report

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

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

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

We have a zest for what lies ahead, and see opportunities for profitable growth in each of our business units.

I review each part of our business in turn below.

Hiscox Retail

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

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

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

Hiscox UK & Europe

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

Hiscox UK & Ireland

Our most mature retail operation, Hiscox UK & Ireland, increased gross written premiums by 11.6% to £556.3 million (2016: £498.6 million), with every region contributing. The broker channel remains a key driver, with the professional risks and specialty commercial business performing particularly well.

We still have plenty of room for growth in our existing product areas. We have attracted new business with our broadened appetite for larger risks, and have also expanded the range of professions we cover to include milliners and other specialist retailers.

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

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

The power and distinctiveness of the Hiscox brand is an important driver of our growth. We have seen good improvements in all key brand measures as the long-term benefits of a consistent strategy and ongoing investment continue to pay off. In the UK, we returned to TV with a sponsored ten-part property series on Channel 4, 'Best Laid Plans', to support our renovations and extensions product.

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

Hiscox Europe

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

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

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

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

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

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

Hiscox International

This division comprises Hiscox USA, Hiscox Special Risks and DirectAsia. Its revenues grew by 28.8% to £654.3 million (2016: £508.1 million), 28.4% at constant currency.

Hiscox USA

Hiscox USA underwrites small- to mid-market commercial risks through brokers, partnerships and directly to businesses online and over the telephone. The business continues to be a standout performer within the Group, delivering excellent growth of 28.8% in constant currency to $701.6 million (2016: $544.8 million), with all lines contributing. Hiscox USA withstood the impact of the Q3 hurricanes well, testament to the scale and resilience we have built into the business.

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

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

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

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

Hiscox Special Risks

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

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

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

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

DirectAsia

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

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

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

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

Hiscox London Market

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

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

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

Looking at each business area in turn:

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

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

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

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

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

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

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

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

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

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

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

Product recall is still a relatively new line of business and there is some overcapacity, but it remains an attractive specialty area where we can add value with niche expertise. Market losses have helped to curtail rate reductions and we have achieved good growth. We agreed to buy the renewal rights to Liberty's London Market product recall book, and we launched an aviation-focused product that has been endorsed by the Aircraft Builders Council as the product recall policy of choice for its members. In 2018, we will focus on increasing our cross-sell opportunities, particularly in marine and energy.

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

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

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

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

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

Hiscox Re & ILS

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

Gross written premiums for Hiscox Re & ILS grew 4.5% in constant currency to $700.2 million (2016: $670.0 million). Net of cessions to supporting capital partners, premiums reduced to $243.6 million (2016: $306.2 million). The business delivered a profit of $25.5 million (2016: $155.9 million) and a 101.3% combined ratio (2016: 53.0%), a good result in the face of challenging trading conditions. We benefited from our non-catastrophe lines, fees on our management of third-party funds and some releases from catastrophes in prior years.

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

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

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

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

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

Claims

2017 will be remembered as one of the most costly years in history for natural catastrophes as a result of hurricanes Harvey, Irma, Maria and Nate, Mexico earthquakes and California wildfires. The total cost of these events to the industry is estimated at in excess of $140 billion, and Hiscox established net reserves of $225 million to cover the expected losses from them. We try to take a prudent view when we create these reserves, but as with many matters in insurance, uncertainties remain. The prudence of our team in reserving prior catastrophes and individual claims was demonstrated with the release of £252 million (2016: £213 million) from prior years. Shocks in insurance are normally negative, so it was pleasing to demonstrate past prudence.

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

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

Marketing

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

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

IT

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

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

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

Investments

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

The recovery from the crisis has taken much longer than we expected but it does seem that 2017 may prove to be a turning point and that a return to a more normal level of interest rates has started. Our bond portfolios have been positioned accordingly and whilst those in Sterling and Euros start from very low levels, we are investing our US Dollar cash flow at much higher yields than we have been used to for some time. Portfolios such as ours will be beneficiaries if interest rates move higher in 2018 as we expect. The so-called risk-free returns that we enjoyed pre-crisis are still some way away but at least we are taking steps in the right direction. In the meantime we continue to resist the temptation to take more risk and lower the quality of the portfolio.

Capital and external environment

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

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

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

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

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

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

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

Change in reporting currency

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

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

Evolution of leadership

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

This year our organisation’s structure has evolved, some of our pioneers are departing and we have filled their roles and created new roles with a mix of internal talent and judicious external recruitment.

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

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

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

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

David Astor has spent 15 years as our Chief Investment Officer and is retiring in March 2018. David’s steady nerve during the financial crisis helped us navigate turbulent markets and a low interest rate environment. His measured insight and expertise, dry humour and understatement will be missed. Alex Veys joined Hiscox in December as the new CIO for the Group. Alex brings a wealth of experience in managing large and complex asset management portfolios from 30 years in investment management.

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

Outlook

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

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

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

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

Bronek Masojada
26 February 2018

Additional Performance Measures

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

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

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

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

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

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

Reserve releases
Reserve releases are a measure of favourable development on claims reserves that existed at the prior balance sheet date. It enables the users of the financial statements to compare and contrast our performance relative to peer companies. The Group maintains a prudent approach to reserving, to help mitigate the uncertainty within the reserve estimates. The release is calculated as the movement in ultimate losses on prior accident years between the current and prior year balance sheet date, as shown in note 16, as the result of better than expected outcomes of the estimates booked at the prior period close.

Hiscox Ltd
Consolidated income statement
For the year ended 31 December 2017

	Note	**2017 Total £000**	2016* Total £000
Income			
Gross premiums written	4	**2,549,279**	2,402,579
Outward reinsurance premiums		**(685,046)**	(614,636)
Net premiums written	4	**1,864,233**	1,787,943
Gross premiums earned		**2,556,993**	2,220,853
Premiums ceded to reinsurers		**(682,512)**	(545,840)
Net premiums earned	4	**1,874,481**	1,675,013
Investment result	7	**81,263**	70,630
Other income	9	**41,955**	37,594
Total income		**1,997,699**	1,783,237
Expenses			
Claims and claim adjustment expenses		**(1,931,417)**	(1,004,601)
Reinsurance recoveries		**914,416**	264,829
Claims and claim adjustment expenses, net of reinsurance	16	**(1,017,001)**	(739,772)
Expenses for the acquisition of insurance contracts		**(619,704)**	(538,467)
Reinsurance commission income		**163,599**	128,627
Operational expenses	9	**(410,380)**	(411,358)
Net foreign exchange (losses)/gains		**(62,753)**	152,408
Total expenses		**(1,946,239)**	(1,408,562)
Results of operating activities		**51,460**	374,675
Finance costs		**(20,863)**	(20,266)
Share of profit from associates after tax		**201**	134
Profit before tax		**30,798**	354,543
Tax expense	18	**(4,488)**	(17,557)
Profit for the year (all attributable to owners of the Company)		**26,310**	336,986
Earnings per share on profit attributable to owners of the Company			
Basic	19	**9.3p**	119.8p
Diluted	19	**9.0p**	116.0p

*Reclassification of investment fees, see note 2.1.

The related notes 1 to 21 are an integral part of this document.

Consolidated statement of comprehensive income
For the year ended 31 December 2017

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

The related notes 1 to 21 are an integral part of this document.

Consolidated balance sheet

At 31 December 2017

	Note	**2017** £000	2016 £000
Assets			
Goodwill and intangible assets		**137,814**	123,724
Property, plant and equipment		**48,614**	48,425
Investment in associates		**7,943**	13,835
Deferred tax		**39,602**	41,392
Deferred acquisition costs		**330,466**	346,592
Financial assets carried at fair value	11	**3,807,143**	3,792,033
Reinsurance assets	10,16	**1,357,966**	805,649
Loans and receivables including insurance receivables	12	**830,704**	802,906
Current tax asset		**4,235**	2,406
Cash and cash equivalents	15	**642,789**	664,816
Total assets		**7,207,276**	6,641,778
Equity and liabilities			
Shareholders' equity			
Share capital		**19,141**	19,060
Share premium		**27,128**	18,035
Contributed surplus		**89,864**	89,864
Currency translation reserve		**148,789**	202,272
Retained earnings		**1,468,639**	1,488,306
Equity attributable to owners of the Company		**1,753,561**	1,817,537
Non-controlling interest		**866**	866
Total equity		**1,754,427**	1,818,403
Employee retirement benefit obligations		**47,492**	56,139
Deferred tax		**-**	17,030
Insurance liabilities	16	**4,450,182**	3,852,976
Financial liabilities	11	**289,714**	276,293
Current tax		**7,004**	21,735
Trade and other payables	17	**658,457**	599,202
Total liabilities		**5,452,849**	4,823,375
Total equity and liabilities		**7,207,276**	6,641,778

The related notes 1 to 21 are an integral part of this document.

Consolidated statement of changes in equity

For the year ended 31 December 2017

	Note	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Equity attributable to owners of the Company £000	Non controlling interest £000	Total equity £000
Balance at 1 January 2016		19,030	15,231	89,864	91,178	1,312,660	1,527,963	866	1,528,829
Profit for the year (all attributable to owners of the company)		-	-	-	-	336,986	336,986	-	336,986
Other comprehensive income/(expense) net of tax (all attributable to owners of the company)		-	-	-	111,094	(37,029)	74,065	-	74,065
Employee share options:									
Equity settled share based payments		-	-	-	-	26,274	26,274	-	26,274
Proceeds from shares issued		22	1,534	-	-	-	1,556	-	1,556
Deferred and current tax on employee share options		-	-	-	-	1,907	1,907	-	1,907
Shares purchased by Trust		-	-	-	-	(38,558)	(38,558)	-	(38,558)
Shares issued in relation to Scrip dividends	20	8	1,270	-	-	-	1,278	-	1,278
Dividends paid to owners of the Company	20	-	-	-	-	(113,934)	(113,934)	-	(113,934)
Balance at 31 December 2016		19,060	18,035	89,864	202,272	1,488,306	1,817,537	866	1,818,403
Profit for the year (all attributable to owners of the company)		-	-	-	-	26,310	26,310	-	26,310
Other comprehensive income net of tax (all attributable to owners of the company)		-	-	-	(53,483)	6,893	(46,590)	-	(46,590)
Employee share options:									
Equity settled share based payments		-	-	-	-	25,186	25,186	-	25,186
Proceeds from shares issued		58	4,681	-	-	-	4,739	-	4,739
Deferred and current tax on employee share options		-	-	-	-	5,300	5,300	-	5,300
Net movements of treasury shares held by Trust		-	-	-	-	(2,900)	(2,900)	-	(2,900)
Shares issued in relation to Scrip dividends	20	23	4,412	-	-	-	4,435	-	4,435
Dividends paid to owners of the Company	20	-	-	-	-	(80,456)	(80,456)	-	(80,456)
Balance at 31 December 2017		**19,141**	**27,128**	**89,864**	**148,789**	**1,468,639**	**1,753,561**	**866**	**1,754,427**

The related notes 1 to 21 are an integral part of this document

Consolidated statement of cash flows

For the year ended 31 December 2017

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

The purchase, maturity and disposal of financial assets is part of the Group's insurance activities and is therefore classified as an operating cash flow. The purchase, maturity and disposal of derivative contracts is also classified as an operating cash flow. Included within cash and cash equivalents held by the Group are balances totalling £132 million (2016: £136 million) not available for immediate use by the Group outside of the Lloyd's Syndicate within which they are held. Additionally, £11 million (2016: £38 million) is pledged cash against Funds at Lloyd's and £5 million is held within trust funds against reinsurance arrangements.

The related notes 1 to 21 are an integral part of this document.

Notes to the consolidated financial statements

1. General information

The financial information set out in this statement is extracted from the Group's consolidated financial statements for the year ended 31 December 2017. The financial statements are subject to completion of audit activity. We anticipate receiving an unqualified audit opinion.

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

The Company is registered and domiciled in Bermuda and on 12 December 2006 its ordinary shares were listed on the London Stock Exchange.

2. Basis or preparation

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority, in addition to the Bermuda Companies Act 1981.

Except as described in 2.1, the accounting policies applied in these consolidated financial statements are consistent with those of the previous year. The summary of accounting policies applicable to the Group's consolidated financial statements can be found in note 2 to the 2017 Annual Report and Accounts.

2.1 Changes in accounting policies

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

The amendments included minor changes to the following standards:

Amendments to IAS7 Statement of Cash Flows: Disclosure initiative
Amendments to IAS12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

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

- IFRS 17 will replace IFRS 4 and sets out requirements relating to the measurement, presentation and disclosure of insurance contracts. It prescribes a general measurement model based on the discounted current estimates of future cash flows including an explicit risk adjustment and a contractual service margin which represents the unearned profit of the contracts. Application of a simplified premium allocation approach, which is similar to the current unearned premium approach, is permitted if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. IFRS 17 requires any expected losses arising from loss-making contracts to be accounted for in income statement when the entity determines that losses are expected. The Group plans to adopt the new standard on the required effective date of 1 January 2021. The Group is evaluating the impact of adopting IFRS 17 on the Group's financial statements. IFRS 17 has not been endorsed by the EU.

- IFRS 9: Financial Instruments incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39 and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach. The amendments to IFRS 4 Insurance Contracts issued in 2016 address the accounting consequences of applying IFRS 9 to insurers prior to IFRS 17 Insurance Contracts. The amendments include an optional temporary exemption from applying IFRS 9 that is available to companies whose predominant activity is to issue insurance contracts until the earlier of the effective date of IFRS 17 or 2021. The Group meets the eligibility criteria and will adopt this approach. Based on a high-level impact assessment using currently available information and may be subject to changes arising from further detailed analyses or additional information, the Group expects no significant impact on its balance sheet and equity, except for the effect of applying the new impairment requirements. The Group expects a recognition of an earlier and higher loss allowance resulting in a slightly lower equity and will perform a detailed assessment in the future to determine the extent. IFRS 9 has been endorsed by the EU.

- IFRS 15 Revenue from Contracts with Customers replaces IAS 18 and establishes principles for revenue recognition that apply to all contracts with customers except for insurance contracts, financial instruments, and lease contracts. It requires an entity to recognise revenue when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. In particular, it specifies that variable consideration is only recognised to the extent that it is highly probable that a significant reversal will not occur. The Group will adopt this standard on 1 January 2018 and expects no significant impact on the Group's financial statements. IFRS 15 has been endorsed by the EU.

- IFRS 16 Leases replaces IAS 17 Leases and addresses the definition of a lease, recognition and measurement of leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. For lessee accounting, this has the effect of bringing most of the existing operating leases to be accounted for in a similar manner as finance leases under the existing IAS 17, 'Leases'. Lessor accounting however remains largely unchanged from IAS 17. IFRS 16 is of particular relevance to the operating leases for major assets where the Group is a lessee, which relate to leases of properties occupied by the Group's businesses. Under IFRS 16, these leases will be brought on to the statement of financial position with a 'right to use' asset being established and a corresponding liability representing the obligation to make lease payments. The current rental accrual charge in the profit and loss account will be replaced with a depreciation charge for the 'right to use' asset and the interest expense on the lease liability. The Group is currently assessing the impact of this new standard. IFRS 16 has been endorsed by the EU.

In 2017, the Group changed the presentation of investment result in the consolidated income statement to be investment result net of investment management fees. There is therefore a reclassification of £4.4 million related to prior year investment management fees from operational expenses to investment result.

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.

3. Financial risk

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

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

As at 31 December 2017	AAA	AA	A	Other / non-rated	Total
	£000	£000	£000	£000	£000
Debt and fixed income securities	**600,567**	**1,635,200**	**691,056**	**503,420**	**3,430,243**
Deposits with credit institutions	**-**	**1,892**	**2,595**	**833**	**5,320**
Reinsurance assets	**365,071**	**214,635**	**774,749**	**3,511**	**1,357,966**
Cash and cash equivalents	**117,544**	**33,700**	**472,547**	**18,998**	**642,789**
Total	**1,083,182**	**1,885,427**	**1,940,947**	**526,762**	**5,436,318**
Amounts attributable to largest single counterparty	**177,715**	**929,153**	**87,357**	**16,602**	

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

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

The largest counterparty exposure within AAA rating at 31 December 2017 is a fully collateralised recoverable from ILS (2016 : German government). For the AA rating it is with the US Treasury at both 31 December 2017 and 2016. Other/non-rated assets include £462 million rated as BBB (2016 : £511 million). At 31 December 2017 and 2016, the Group held no material debt and fixed income securities that were past due or impaired beyond their reported fair values. For the current period and prior period, the Group did not experience any material defaults on debt securities.

The Group's AAA rated reinsurance assets include fully collateralised positions at 31 December 2017 and 2016.

An analysis of the Group's debt and fixed income securities at 31 December by class is detailed below:

	2017	2016
	%	%
Government issued bonds and instruments	**34**	30
Agency and government supported debt	**14**	13
Asset backed securities	**3**	5
Mortgage backed instruments – agency	**4**	5
Mortgage backed instruments – non-agency	**1**	2
Mortgage backed instruments – commercial	**1**	1
Corporate bonds	**40**	41
Lloyd's deposits and bond funds	**3**	3

Liquidity risk

A significant proportion of the Group's investments are 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:

	Debt and fixed income securities	**Deposits with credit institutions**	**Cash and cash equivalents**	**2017 total**	2016 total
	£000	£000	£000	**£000**	£000
Less than one year	796,587	4,030	642,789	**1,443,406**	1,392,555
Between one and two years	1,065,768	1,290	-	**1,067,058**	1,007,139
Between two and five years	1,174,164	-	-	**1,174,164**	1,183,179
Over five years	393,724	-	-	**393,724**	521,484
Total	3,430,243	5,320	642,789	**4,078,352**	4,104,357

The Group's equities and shares in unit trusts and other non-dated instruments have no contractual maturity terms but could also be liquidated in an orderly manner for cash in a prompt and reasonable time frame within one year of the balance sheet date.

4. Operating segments

The Group's operating segment reporting follows the organisational structure and management's internal reporting systems, which form the basis for assessing the financial reporting performance of, and allocation of resource to each business segment.

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

- **Hiscox Retail** brings together the results of the UK and Europe, and Hiscox International being the US, Special Risks and Asia retail business divisions. Hiscox UK and Europe underwrite European personal and commercial lines of business through Hiscox Insurance Company Limited, together with the fine art and non-US household insurance business written through Syndicate 33. In addition, the UK includes elements of specialty and international employees and officers' insurance written by Syndicate 3624 and Hiscox Europe excludes the kidnap and ransom business written by Hiscox Insurance Company Limited. Hiscox International comprises the specialty and fine art lines written through Hiscox Insurance Company (Guernsey) Limited, and the motor business written via DirectAsia, together with US commercial, property and specialty business written by Syndicate 3624 and Hiscox Insurance Company Inc. via the Hiscox USA business division. It also includes the European kidnap and ransom business written by Hiscox Insurance Company Limited and Syndicate 33.
- **Hiscox London Market** comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines, excluding the kidnap and ransom business. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage and aviation business.
- **Hiscox Re and ILS** is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda, London and Paris. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are also included. The segment also includes the performance and fee income from the ILS funds, along with the gains or losses made as a result of our investment in the

funds.

- **Corporate Centre** comprises the investment return, finance costs and administrative costs associated with Group management activities. Corporate Centre also includes the majority of foreign currency items on economic hedges and intragroup borrowings. Corporate Centre forms a reportable segment due to its investment activities which earn significant external returns.

All amounts reported below represent transactions with external parties only. In the normal course of trade, the Group's entities enter into various reinsurance arrangements with one another. The related results of these transactions are eliminated on consolidation and are not included within the results of the segments. This is consistent with the information used by the chief operating decision maker when evaluating the results of the Group. Performance is measured based on each reportable segment's profit before tax.

a. Profit before tax by segment

					Year ended 31 December 2017
	Hiscox Retail	**Hiscox London Market**	**Hiscox Re and ILS**	**Corporate centre**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Gross premiums written	**1,423,916**	**581,686**	**543,677**	**-**	**2,549,279**
Net premiums written	**1,298,865**	**376,217**	**189,151**	**-**	**1,864,233**
Net premiums earned	**1,229,859**	**435,664**	**208,958**	**-**	**1,874,481**
Investment result	**22,777**	**11,256**	**21,677**	**25,553**	**81,263**
Other income	**27,425**	**10,790**	**3,375**	**365**	**41,955**
Total income	**1,280,061**	**457,710**	**234,010**	**25,918**	**1,997,699**
Claims and claim adjustment expenses, net of reinsurance	**(560,008)**	**(310,495)**	**(146,498)**	**-**	**(1,017,001)**
Expenses for the acquisition of insurance contracts	**(311,143)**	**(123,987)**	**(20,975)**	**-**	**(456,105)**
Operational expenses	**(298,440)**	**(47,690)**	**(41,345)**	**(22,905)**	**(410,380)**
Foreign exchange losses	**(411)**	**(11,771)**	**(4,075)**	**(46,496)**	**(62,753)**
Total expenses	**(1,170,002)**	**(493,943)**	**(212,893)**	**(69,401)**	**(1,946,239)**
Results of operating activities	**110,059**	**(36,233)**	**21,117**	**(43,483)**	**51,460**
Finance costs	**(8)**	**-**	**(1,331)**	**(19,524)**	**(20,863)**
Share of profit of associates after tax	**(192)**	**-**	**-**	**393**	**201**
Profit before tax	**109,859**	**(36,233)**	**19,786**	**(62,614)**	**30,798**
Profit before tax and foreign exchange losses	**110,270**	**(24,462)**	**23,861**	**(16,118)**	**93,551**

	Hiscox Retail	Hiscox London Market	Hiscox Re and ILS	Corporate centre	Total
					Year ended 31 December 2016*
	£000	£000	£000	£000	£000
Gross premiums written	1,181,384	726,045	495,150	-	2,402,579
Net premiums written	1,091,969	469,143	226,831	-	1,787,943
Net premiums earned	1,020,531	443,129	211,353	-	1,675,013
Investment result	30,390	12,289	10,058	17,893	70,630
Other income	14,075	9,121	13,704	694	37,594
Total income	1,064,996	464,539	235,115	18,587	1,783,237
Claims and claim adjustment expenses, net of reinsurance	(396,137)	(260,468)	(83,167)	-	(739,772)
Expenses for the acquisition of insurance contracts	(262,545)	(137,177)	(10,118)	-	(409,840)
Operational expenses	(286,704)	(56,871)	(47,644)	(20,139)	(411,358)
Foreign exchange gains	37,248	34,991	22,959	57,210	152,408
Total expenses	(908,138)	(419,525)	(117,970)	37,071	(1,408,562)
Results of operating activities	156,858	45,014	117,145	55,658	374,675
Finance costs	-	-	(1,654)	(18,612)	(20,266)
Share of profit of associates after tax	1,137	(1,003)	-	-	134
Profit before tax	157,995	44,011	115,491	37,046	354,543
Profit before tax and foreign exchange gains	120,747	9,020	92,532	(20,164)	202,135

* Investment fees have been reclassified from operational expenses to investment result, to record investment result on a net basis.

The 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.

b. 100% operating results by segment

	Hiscox Retail	**Hiscox London Market**	**Hiscox Re and ILS**	**Corporate centre**	**Total**
					Year ended 31 December 2017
	£000	**£000**	**£000**	**£000**	**£000**
Gross premiums written	**1,457,519**	**757,827**	**618,085**	**-**	**2,833,431**
Net premiums written	**1,329,426**	**482,533**	**224,203**	**-**	**2,036,162**
Net premiums earned	**1,258,474**	**545,894**	**243,759**	**-**	**2,048,127**
Investment result	**23,415**	**14,684**	**22,645**	**25,553**	**86,297**
Other income	**23,847**	**2,722**	**1,935**	**365**	**28,869**
Claims and claim adjustment expenses, net of reinsurance	**(569,558)**	**(382,623)**	**(172,966)**	**-**	**(1,125,147)**
Expenses for the acquisition of insurance contracts	**(320,516)**	**(153,320)**	**(22,101)**	**-**	**(495,937)**
Operational expenses	**(299,519)**	**(57,317)**	**(45,977)**	**(22,905)**	**(425,718)**
Foreign exchange losses	**(869)**	**(15,928)**	**(5,846)**	**(46,496)**	**(69,139)**
Results of operating activities	**115,274**	**(45,888)**	**21,449**	**(43,483)**	**47,352**

Year ended 31 December 2016*

	Hiscox Retail	Hiscox London Market	Hiscox Re and ILS	Corporate centre	Total
	£000	£000	£000	£000	£000
Gross premiums written	1,212,774	894,825	565,006	-	2,672,605
Net premiums written	1,119,546	581,322	263,452	-	1,964,320
Net premiums earned	1,046,838	550,229	242,462	-	1,839,529
Investment result	31,428	16,190	11,174	17,893	76,685
Other income	8,693	2,331	8,754	694	20,472
Claims and claim adjustment expenses, net of reinsurance	(402,508)	(315,951)	(94,819)	-	(813,278)
Expenses for the acquisition of insurance contracts	(270,986)	(165,131)	(10,337)	-	(446,454)
Operational expenses	(288,039)	(65,898)	(52,135)	(20,139)	(426,211)
Foreign exchange gains	40,115	48,101	28,927	57,210	174,353
Results of operating activities	165,541	69,871	134,026	55,658	425,096

* Investment fees have been reclassified from operational expenses to investment result, to record investment result on a net basis.

100% ratio analysis

Year ended 31 December 2017

	Hiscox Retail	**Hiscox London Market**	**Hiscox Re and ILS**	**Corporate centre**	**Total**
Claims ratio (%)	**45.2**	**70.1**	**71.0**	**-**	**54.9**
Expense ratio (%)	**49.3**	**38.6**	**27.9**	**-**	**43.9**
Combined ratio excluding foreign exchange impact (%)	**94.5**	**108.7**	**98.9**	**-**	**98.8**
Foreign exchange impact (%)	**0.1**	**2.9**	**2.4**	**-**	**1.1**
Combined ratio (%)	**94.6**	**111.6**	**101.3**	**-**	**99.9**

Year ended 31 December 2016*

	Hiscox Retail	Hiscox London Market	Hiscox Re and ILS	Corporate centre	Total
Claims ratio (%)	38.4	57.4	39.1	-	44.2
Expense ratio (%)	53.4	42.0	25.8	-	46.4
Combined ratio excluding foreign exchange impact (%)	91.8	99.4	64.9	-	90.6
Foreign exchange impact (%)	(3.8)	(8.7)	(11.9)	-	(6.4)
Combined ratio (%)	88.0	90.7	53.0	-	84.2

*Investment fees reclassified from operational expenses to investment return

The impacts on profit before tax of a 1% change in each component of the segmental combined ratios are:

	Year to 31 December 2017				Year ended 31 December 2016			
	Hiscox Retail	**Hiscox London Market**	**Hiscox Re and ILS**	**Corporate centre**	Hiscox Retail	Hiscox London Market	Hiscox Re and ILS	Corporate centre
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
At 100% level								
1% change in claims or expense ratio	**12,585**	**5,459**	**2,438**	**-**	10,468	5,502	2,425	-
At Group level								
1% change in claims or expense ratio	**12,299**	**4,357**	**2,090**	**-**	10,205	4,431	2,114	-

5. Net asset value per share

	2017		2016	
	Net asset value (total equity)	**Net asset value per share**	Net asset value (total equity)	Net asset value per share
	£000	**pence**	£000	p
Net asset value	**1,754,427**	**618.6**	1,818,403	649.9
Net tangible asset value	**1,616,613**	**570.0**	1,694,679	605.7

The net asset value per share is based on 283,600,709 shares (2016: 279,805,393), being the shares in issue at 31 December, less those held in treasury and those held by the Group's Employee Benefit Trust. Net tangible assets comprise total equity excluding intangible assets.

6. Return on equity

	2017	2016
	£000	£000
Profit for the year (all attributable to owners of the Company)	**26,310**	336,986
Opening total equity	**1,818,403**	1,528,829
Adjusted for the time weighted impact of capital distributions and issuance of shares	**(33,766)**	(60,742)
Adjusted opening total equity	**1,784,637**	1,468,087
Return on equity (%)	**1.5**	23.0

The return on equity is calculated by using profit for the period divided by the adjusted opening total equity. The adjusted opening total equity represents the equity on 1 January of the relevant year as adjusted for time weighted aspects of capital distributions and issuing of shares or treasury share purchases during the period. The time weighted positions are calculated on a daily basis with reference to the proportion of time from the transaction to the end of the period.

7. Investment result

The total investment result for the Group before taxation comprises:	2017	2016*
	£000	£000
Investment income including interest receivable	**63,296**	54,789
Net realised (losses)/gains on financial investments at fair value through profit or loss	**(3,980)**	6,416
Net fair value (losses)/gains on financial investments at fair value through profit or loss	**27,971**	13,631
Investment result – financial assets	**87,287**	74,836
Net fair value (losses)/gains on derivative financial instruments and borrowings (note 13)	**(1,315)**	155
Investment expenses	**(4,709)**	(4,361)
Total result	**81,263**	70,630

*Investment fees have been reclassified from operational expenses.

8. Analysis of return on financial investments

i. The weighted average return on financial investments for the year by currency, based on monthly asset values, was:

	2017	2016
	%	**%**
Sterling	**2.6**	3.2
US Dollar	**2.1**	1.5

Other	**-**	0.7

ii. Investment return:

	2017		2016	
	£000	**%**	£000	%
Debt and fixed income securities	**42,079**	**1.2**	55,709	1.9
Equities and shares in unit trusts	**41,453**	**12.9**	17,246	6.2
Deposits with credit institutions/cash and cash equivalents	**3,755**	**0.5**	1,881	0.3
Investment result – financial assets	**87,287**	**2.0**	74,836	1.9

9. Other income and operational expenses

	2017	2016*
	£000	£000
Agency related income	**12,549**	11,743
Profit commission	**9,113**	11,720
Other underwriting income	**(5,710)**	3,666
Other income	**26,003**	10,465
Other income	**41,955**	37,594

Wages and salaries	**130,517**	145,997
Social security costs	**23,291**	23,288
Pension cost – defined contribution	**9,903**	8,243
Pension cost – defined benefit	**1,756**	172
Share based payments	**25,186**	26,274
Marketing expenses	**53,607**	42,051
Depreciation, amortisation and impairment	**21,651**	28,162
Other expenses	**144,469**	137,171
Operational expenses	**410,380**	411,358

*Investment fees have been reclassified to be shown within the investment result in note 7.

Wages and salaries have been shown net of transfers to acquisition and claims expenses.

Other expenses include, but not limited to, legal and professional costs, computer costs, contractor-based costs and property costs. None of the items are individually material.

10. Reinsurance assets

	2017	2016
	£000	£000
Reinsurers' share of insurance liabilities	**1,358,547**	806,245
Provision for non-recovery and impairment	**(581)**	(596)
Reinsurance assets (note 16)	**1,357,966**	805,649

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 12). The Group recognised a gain during the year of £15,000 (2016: gain £134,000) in respect of impaired balances.

11. Financial assets and liabilities

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

	2017	2016
	£000	£000
Debt and fixed income securities	**3,430,243**	3,414,949
Equities and shares in unit trusts	**334,300**	305,342
Deposits with credit institutions	**5,320**	24,592
Total investments	**3,769,863**	3,744,883
Insurance linked fund	**36,976**	46,821
Derivative financial assets (note 13)	**304**	329
Total financial assets carried at fair value	**3,807,143**	3,792,033

	2017	2016
	£000	£000
Amounts owed to credit institutions	**13,664**	-
Derivative financial liabilities (note 13)	**121**	474
Total financial liabilities carried at fair value	**13,785**	474
Long-term debt	**274,129**	274,019
Accrued interest on long-term debt	**1,800**	1,800
Total financial liabilities carried at amortised cost	**275,929**	275,819

The amounts owed to credit institutions relate to outstanding investment trades in trust funds that are not available for offset against the same counterparty under cash and cash equivalents. These positions would be rated A had they have been recorded under cash and cash equivalents.

On 24 November 2015, the Group issued £275 million 6.125% fixed-to-floating rate callable subordinated notes due 2045, with a first call date of 2025. The notes bear interest from and including 24 November 2015 at a fixed rate of 6.125% per annum payable annually in arrears starting 24 November 2016 up until the first call date in November 2025, and thereafter at a floating rate of interest equal to three-month LIBOR plus 5.076% payable quarterly in arrears on each floating interest payment date. The fair value of the long-term debt is estimated at £317.4 million (2016 : £292.3 million) and is classified within Level 1 of the fair value hierarchy.

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

	2017	2016
	£000	£000
Sterling	**797,714**	786,504
US Dollars	**2,573,196**	2,571,078
Euro and other currencies	**398,953**	387,301
Total investments	**3,769,863**	3,744,883

12. Loans and receivables including insurance receivables

	2017	2016
	£000	£000
Gross receivables arising from insurance and reinsurance contracts	**743,727**	699,768
Provision for impairment	**(1,644)**	(1,276)

Net receivables arising from insurance and reinsurance contracts	**742,083**	698,492
Due from contract holders, brokers, agents and intermediaries	**481,888**	524,958
Due from reinsurance operations	**260,195**	173,534
	742,083	698,492
Prepayments and accrued income	**11,306**	7,713
Other loans and receivables:		
Net profit commission receivable	**17,008**	21,232
Accrued interest	**13,579**	12,590
Share of Syndicate's other debtors balances	**22,451**	30,223
Other debtors including related party amounts	**24,277**	32,656
Total loans and receivables including insurance receivables	**830,704**	802,906

There is no significant concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors. The Group has recognised a loss of £368,000 (2016: gain of £899,000) for the impairment of receivables during the year ended 31 December 2017. This is recorded under operational expenses in the consolidated income statement. The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

13. Derivative financial instruments

The Group entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2017. The Group had the right and intention to settle each contract on a net basis. The assets and liabilities of these contracts at 31 December 2017 all mature within one year of the balance sheet date and are detailed below.

31 December 2017

	Gross contract notional amount	Fair value of assets	Fair value of liabilities	**Net balance sheet position**
Derivative financial instrument included on balance sheet	**£000**	**£000**	**£000**	**£000**
Foreign exchange forward contracts	30,196	138	(121)	**17**
Interest rate futures contracts	122,122	166	-	**166**
Equity index futures	-	-	-	**-**
The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below				
Gross fair value of assets		13,823	16,703	**30,526**
Gross fair value of liabilities		13,685	16,824	**30,509**
Total		138	(121)	**17**

31 December 2016

	Gross contract notional amount	Fair value of assets	Fair value of liabilities	Net balance sheet position
Derivative financial instrument included on balance sheet	£000	£000	£000	£000
Foreign exchange forward contracts	26,591	312	(121)	**191**
Interest rate futures contracts	56,728	17	(106)	**(89)**
Equity index futures	10,223	-	(247)	**(247)**
The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below				
Gross fair value of assets		12,724	13,746	**26,470**
Gross fair value of liabilities		(12,412)	(13,867)	**(26,279)**
Total		312	(121)	**191**

Foreign exchange forward contracts

During the current and prior year the Group entered into a series of conventional over the counter forward contracts in order to secure translation gains made on Euro, US Dollar and other non-Pound Sterling denominated monetary assets. The contracts require the Group to forward sell a fixed amount of the relevant currency for Pound Sterling at pre-agreed future exchange rates. The Group made a loss on these forward contracts of £748,000 (2016: gain of £664,000) as included in investment result in note 7.

There was no initial purchase cost associated with these instruments.

Interest rate future contracts

During the year the Group continued short selling a number of government bond futures denominated in a range of currencies to informally hedge interest rate risk on specific long portfolios. All contracts are exchange traded and the Group made a loss on these futures contracts of £423,000 (2016: loss of £111,000) as included in investment result in note 7.

Equity index options

During the year, the Group purchased a number of equity index futures in order to hedge equity market exposure. All contracts were exchange traded and the Group made a loss on these future contracts of £144,000 (2016: loss of £398,000) as included in investment result in note 7.

14. Fair value measurements

In accordance with IFRS 13 : Fair value measurements, 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 2017	Level 1	Level 2	Level 3	**Total**
Financial assets	£000	£000	£000	**£000**
Debt and fixed income securities	**1,192,934**	**2,237,309**	**-**	**3,430,243**
Equities and shares in unit trusts	**-**	**322,914**	**11,386**	**334,300**
Deposits with credit institutions	**5,320**	**-**	**-**	**5,320**
Insurance linked funds	**-**	**-**	**36,976**	**36,976**
Derivative financial assets	**-**	**304**	**-**	**304**
Total	**1,198,254**	**2,560,527**	**48,362**	**3,807,143**
Financial liabilities				
Derivative financial liabilities	**-**	**121**	**-**	**121**
Total	**-**	**121**	**-**	**121**

As at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Debt and fixed income securities	1,005,111	2,409,838	-	3,414,949
Equities and shares in unit trusts	-	293,187	12,155	305,342
Deposits with credit institutions	24,592	-	-	24,592
Insurance linked funds	-	-	46,821	46,821
Derivative financial assets	-	329	-	329
Total	1,029,703	2,703,354	58,976	3,792,033
Financial liabilities				
Derivative financial liabilities	-	474	-	474
Total	-	474	-	474

The levels of the fair value hierarchy are defined by the standard as follows:

Level 1 – fair values measured using quoted prices (unadjusted) in active markets for identical instruments;
Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data;

Level 3 - fair values measured using valuation techniques for which significant inputs are not based on market observable data.

The fair value of the Group's financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

Investments in mutual funds, which are included in equities and shares in unit trusts, comprise a portfolio of stock investments in trading entities which are invested in various quoted investments. The fair value of shares in unit trusts are 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 hierarchy are certain government bonds, treasury bills, exchange traded equities and the long-term debt which are all measured based on quoted prices in active markets. The fair value of the long-term debt that is measured at amortised cost, is estimated at £317.4 million (2016 : £292.3 million) and is considered as Level 1 in the fair value hierarchy.

Level 2 of the hierarchy contains certain government bonds, US government agencies, corporate securities, asset backed securities and mortgage backed securities. The fair value of these assets is based on 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 of those instruments classified as Level 2. Also included within Level 2 are units held in traditional long funds and long and short special funds and over-the-counter derivatives.

Level 3 contains investments in a limited partnership, unquoted equity securities and an insurance-linked fund which have limited observable inputs on which to measure fair value. Unquoted equities are carried at fair value. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant and no further analysis has been performed. At 31 December 2017 the insurance linked funds of £36,976,000 represents the Group's investment in the ILS Funds (2016: £46,821,000).

The fair value of the ILS Funds is estimated to be the net asset value as at the balance sheet date. The net asset value is based on the fair value of the assets and liabilities in the funds. The majority of the assets of the Funds are cash and cash equivalents. Significant inputs and assumptions in calculating the fair value of assets and liabilities associated with reinsurance contracts written by the ILS Funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the ILS Funds if reasonably different inputs and assumptions were used and has found no significant changes in the valuation.

In certain cases, the inputs used to measure the fair value of a financial instrument may fall into more than one level within the fair value hierarchy. In this instance, the fair value of the instrument in its entirety is classified based on the lowest level of input that is significant to the fair value measurement.

During the year, there were no transfers made between Level 1 and Level 2 of the fair value hierarchy.

The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy:

31 December 2017	Financial assets		
	Equities and shares in unit trusts	Insurance linked fund	Total
	£000	**£000**	**£000**
Balance at 1 January	**12,155**	**46,821**	**58,976**
Fair value gains or losses through profit or loss*	**(341)**	**(5,710)**	**(6,051)**
Foreign exchange (losses)/gains	**(217)**	**(3,687)**	**(3,904)**
Purchases	**584**	**4,000**	**4,584**
Settlements	**(795)**	**(4,448)**	**(5,243)**
Closing balance	**11,386**	**36,976**	**48,362**
Unrealised gains and losses in the year on securities held at the end of the year	**(255)**	**(7,082)**	**(7,337)**

31 December 2016

	Equities and shares in unit trusts	Insurance linked fund	Total
	£000	£000	£000
Balance at 1 January	13,640	40,045	53,685
Fair value gains or losses through profit or loss*	(279)	3,666	3,387
Foreign exchange gains/(losses)	729	7,719	8,448
Purchases	305	-	305
Settlements	(2,240)	(4,609)	(6,849)
Closing balance	12,155	46,821	58,976
Unrealised gains and losses in the year on securities held at the end of the year	(1,397)	2,305	908

*Fair value gains/(losses) are included within the investment result in the income statement for equities and shares in unit trusts and through other income for the insurance linked fund.

15. Cash and cash equivalents

	2017	2016
	£000	£000
Cash at bank and in hand	**525,002**	568,186
Short-term deposits	**117,787**	96,630
	642,789	664,816

The Group holds its cash deposits with a well diversified range of banks and financial institutions. Cash includes overnight deposits. Short-term deposits include debt securities with an original maturity date of less than three months and money market funds.

16. Insurance liabilities and reinsurance assets

	2017	2016
	£000	£000
Gross		
Claims reported and claims adjustment expenses	**1,204,509**	977,664
Claims incurred but not reported	**2,018,131**	1,588,160
Unearned premiums	**1,227,542**	1,287,152
Total insurance liabilities, gross	**4,450,182**	3,852,976
Recoverable from reinsurers		
Claims reported and claims adjustment expenses	**361,657**	159,141
Claims incurred but not reported	**743,748**	383,974
Unearned premiums	**252,561**	262,534
Total reinsurers' share of insurance liabilities	**1,357,966**	805,649
Net		
Claims reported and claims adjustment expenses	**842,852**	818,523
Claims incurred but not reported	**1,274,383**	1,204,186
Unearned premiums	**974,981**	1,024,618
Total insurance liabilities, net	**3,092,216**	3,047,327

The gross claims reported, the claims adjustment expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2017 and 2016 are not material.

Claims development tables

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The Group analyses actual claims development compared with previous estimates on an accident year basis. This exercise is performed to include the liabilities of Syndicate 33 at the 100% level regardless of the Group's actual level of ownership. Analysis at the 100% level is required in order to avoid distortions arising from reinsurance to close arrangements which subsequently increase the Group's share of ultimate claims for each accident year three years after the end of that accident year.

The top half of each table 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 balance sheet, is also shown.

Insurance claims and claims expenses reserves – gross at 100% level

	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	**Total**
Accident year	£000	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	**£000**
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year	1,266,621	949,379	1,149,653	1,478,091	1,235,048	989,712	1,082,686	1,163,310	1,444,780	2,521,450	13,280,730
one year later	1,069,702	779,112	971,422	1,331,894	1,098,396	865,236	919,764	1,039,545	1,282,020	-	9,357,091
two years later	1,041,562	714,642	905,958	1,291,195	1,016,367	770,982	852,869	957,756	-	-	7,551,331
three years later	997,119	710,704	892,030	1,301,401	1,013,920	720,272	817,362	-	-	-	6,452,808
four years later	959,217	709,616	868,533	1,281,243	1,005,456	719,687	-	-	-	-	5,543,752
five years later	920,888	705,018	853,705	1,244,585	998,221	-	-	-	-	-	4,722,417
six years later	910,027	691,149	832,477	1,193,663	-	-	-	-	-	-	3,627,316
seven years later	895,707	689,127	819,209	-	-	-	-	-	-	-	2,404,043
eight years later	885,864	672,197	-	-	-	-	-	-	-	-	1,558,061
nine years later	888,380	-	-	-	-	-	-	-	-	-	888,380
Current estimate of cumulative claims	888,380	672,197	819,209	1,193,663	998,221	719,687	817,362	957,756	1,282,020	2,521,450	10,869,945
Cumulative payments to date	(866,500)	(632,943)	(759,806)	(1,113,670)	(844,017)	(618,610)	(667,960)	(639,665)	(657,997)	(481,399)	(7,282,567)
Liability recognised at 100% level	21,880	39,254	59,403	79,993	154,204	101,077	149,402	318,091	624,023	2,040,051	3,587,378
Liability recognised in respect of prior accident years at 100% level											145,810
Total gross liability to external parties at 100% level											**3,733,188**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2017.

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

Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	**£000**	**£000**
Current estimate of cumulative claims	888,380	672,197	819,209	1,193,663	998,221	719,687	817,362	957,756	1,282,020	2,521,450	10,869,945
Less: attributable to external Names	(170,298)	(116,337)	(128,818)	(174,624)	(129,405)	(78,888)	(90,645)	(103,769)	(143,092)	(346,420)	(1,482,296)
Group's share of current ultimate claims estimate	718,082	555,860	690,391	1,019,039	868,816	640,799	726,717	853,987	1,138,928	2,175,030	9,387,649
Cumulative payments to date	(866,500)	(632,943)	(759,806)	(1,113,670)	(844,017)	(618,610)	(667,960)	(639,665)	(657,997)	(481,399)	(7,282,567)
Less: attributable to external Names	167,206	109,944	115,793	158,677	109,232	66,774	72,675	67,167	72,099	64,815	1,004,382
Group share of cumulative payments	(699,294)	(522,999)	(644,013)	(954,993)	(734,785)	(551,836)	(595,285)	(572,498)	(585,898)	(416,584)	(6,278,185)
Liability for 2008 to 2017 accident years recognised on Group's balance sheet	18,788	32,861	46,378	64,046	134,031	88,963	131,432	281,489	553,030	1,758,446	3,109,464
Liability for accident years before 2008 recognised on Group's balance sheet											113,176
Total Group liability to external parties included in the balance sheet – gross**											**3,222,640**

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

Insurance claims and claims expenses reserves – net at 100% level

Accident year	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	**2017 £000**	**Total £000**
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year	874,319	770,050	909,622	1,134,891	898,706	853,422	884,251	941,762	1,100,293	1,387,895	9,755,211
one year later	777,422	640,573	794,340	1,047,635	790,634	754,513	769,648	865,225	992,943	-	7,432,933
two years later	775,934	610,232	749,016	1,005,876	732,953	677,509	700,338	792,593	-	-	6,044,451
three years later	730,412	612,801	729,846	1,003,399	707,487	627,356	656,820	-	-	-	5,068,121
four years later	695,799	602,146	707,349	996,201	700,150	624,512	-	-	-	-	4,326,157
five years later	682,857	599,370	702,389	957,060	703,822	-	-	-	-	-	3,645,498
six years later	674,391	586,697	678,767	929,696	-	-	-	-	-	-	2,869,551
seven years later	660,192	582,642	667,599	-	-	-	-	-	-	-	1,910,433
eight years later	650,361	566,952	-	-	-	-	-	-	-	-	1,217,313
nine years later	652,969	-	-	-	-	-	-	-	-	-	652,969
Current estimate of cumulative claims	652,969	566,952	667,599	929,696	703,822	624,512	656,820	792,593	992,943	1,387,895	7,975,801
Cumulative payments to date	(633,834)	(532,229)	(627,636)	(863,133)	(573,940)	(536,143)	(517,849)	(511,332)	(517,604)	(369,105)	(5,682,805)
Liability recognised at 100% level	19,135	34,723	39,963	66,563	129,882	88,369	138,971	281,261	475,339	1,018,790	2,292,996
Liability recognised in respect of prior accident years at 100% level											102,358
Total net liability to external parties at 100%											**2,395,354**

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2017.

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

Accident year	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	**2017** **£000**	**Total** **£000**
Current estimate of cumulative claims	652,969	566,952	667,599	929,696	703,822	624,512	656,820	792,593	992,943	1,387,895	7,975,801
Less: attributable to external Names	(117,941)	(92,225)	(95,349)	(125,164)	(74,881)	(64,029)	(68,368)	(82,307)	(101,243)	(151,590)	(973,097)
Group's share of current ultimate claims estimate	535,028	474,727	572,250	804,532	628,941	560,483	588,452	710,286	891,700	1,236,305	7,002,704
Cumulative payments to date	(633,834)	(532,229)	(627,636)	(863,133)	(573,940)	(536,143)	(517,849)	(511,332)	(517,604)	(369,105)	(5,682,805)
Less: attributable to external Names	115,138	86,597	86,995	113,555	58,819	53,760	54,316	51,937	51,257	46,906	719,280
Group share of cumulative payments	(518,696)	(445,632)	(540,641)	(749,578)	(515,121)	(482,383)	(463,533)	(459,395)	(466,347)	(322,199)	(4,963,525)
Liability for 2008 to 2017 accident years recognised on Group's balance sheet	16,332	29,095	31,609	54,954	113,820	78,100	124,919	250,891	425,353	914,106	2,039,179
Liability for accident years before 2008 recognised on Group's balance sheet											78,056
Total Group liability to external parties included in the balance sheet – net**											**2,117,235**

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

Movement in insurance claims liabilities and reinsurance claims assets
Year ended 31 December

	2017			2016		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Total at beginning of year	**(2,565,824)**	**543,115**	**(2,022,709)**	(2,038,096)	365,477	(1,672,619)
Claims and claims adjustment expenses for the year	**(1,931,417)**	**914,416**	**(1,017,001)**	(1,004,601)	264,829	(739,772)
Cash paid for claims settled in the year	**1,107,481**	**(287,420)**	**820,061**	776,722	(149,465)	627,257
Exchange differences and other movements	**167,120**	**(64,706)**	**102,414**	(299,849)	62,274	(237,575)
Total at end of year	**(3,222,640)**	**1,105,405**	**(2,117,235)**	(2,565,824)	543,115	(2,022,709)
Claims reported and claims adjustment expenses	**(1,204,509)**	**361,657**	**(842,852)**	(977,664)	159,141	(818,523)
Claims incurred but not reported	**(2,018,131)**	**743,748**	**(1,274,383)**	(1,588,160)	383,974	(1,204,186)
Total at end of year	**(3,222,640)**	**1,105,405**	**(2,117,235)**	(2,565,824)	543,115	(2,022,709)

The insurance claims expense reported in the consolidated income statement is comprised as follows:
Year ended 31 December

	2017			2016		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Current year claims and claims adjustment expenses	**(2,258,615)**	**982,093**	**(1,276,522)**	(1,275,018)	299,564	(975,454)
Over provision in respect of prior year claims and claims adjustment expenses	**327,198**	**(75,677)**	**251,521**	270,417	(57,465)	212,952
Acquisitions / (divestments) and transfers	**-**	**8,000**	**8,000**	-	22,730	22,730
Total claims and claims handling expense	**(1,931,417)**	**914,416**	**(1,017,001)**	(1,004,601)	264,829	(739,772)

*The net movement in 2016 relates to a retroactive reinsurance arrangement that transferred the benefits and risks of some of the Group's insurance portfolio.

17. Trade and other payables

	2017	2016
	£000	£000
Creditors arising out of direct insurance operations	**60,931**	27,997
Creditors arising out of reinsurance operations	**373,647**	319,494
	434,578	347,491
Share of Syndicate's other creditors' balances	**6,368**	9,844
Social security and other taxes payable	**20,090**	16,429
Other creditors	**10,555**	5,650
	37,013	31,923
Reinsurers' share of deferred acquisition costs	**68,004**	66,681
Accruals and deferred income	**118,862**	153,107
Total	**658,457**	599,202

18. Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled.

The amounts charged in the consolidated income statement comprise the following:

	2017	2016
	£000	£000
Current tax expense	**18,911**	27,230
Deferred tax credit	**(14,423)**	(9,673)
Total tax charged to the income statement	**4,488**	17,557

19. Earnings per share

Basic

Basic earnings per share is 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 purchased by the Group and held in treasury as own shares.

	2017	2016
Profit for the year attributable to the owners of the Company (£000)	**26,310**	336,986
Weighted average number of ordinary shares (thousands)	**281,964**	281,175
Basic earnings per share (pence per share)	**9.3p**	119.8p

Diluted

Diluted earnings per share is calculated adjusting for the assumed conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options and awards. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2017	2016
Profit for the year attributable to the owners of the Company (£000)	**26,310**	336,986
Weighted average number of ordinary shares in issue (thousands)	**281,964**	281,175
Adjustments for share options (thousands)	**9,065**	9,402
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**291,029**	290,577
Diluted earnings per share (pence per share)	**9.0p**	116.0p

Diluted earnings per share has been calculated after taking account of 8,292,818 (2016: 8,653,254) performance share plan awards and 772,427 (2016: 748,600) options under SAYE schemes.

20. Dividends paid to owners of the Company

	2017	2016
	£000	£000
Final dividend for the year ended: - 31 December 2016 of 19.0p (net) per share	**53,578**	-
Second interim dividend for the year ended:		
- 31 December 2015 of 32.0p (net) per share	**-**	89,674
Interim dividend for the year ended :		
– 31 December 2017 of 9.5p (net) per share	**26,878**	-
– 31 December 2016 of 8.5p (net) per share	**-**	24,260
	80,456	113,934

The final dividend for the year ended 31 December 2016 was either paid in cash or issued as a scrip dividend equivalent of 19.0p per share. The final dividend for the year ended 31 December 2016 was paid in cash of £51,246,000 and 251,000 shares for the scrip dividend.

The second interim dividend for the year ended 31 December 2015 was comprised of a final dividend equivalent of 16p per share and an additional return of capital of 16p per share. No scrip dividend alternative was offered.

The interim dividends for 2017 and 2016 were either paid in cash or issued as a scrip dividend at the option of the shareholder. The interim dividend for the year ended 31 December 2017 was paid in cash of £25,799,000 (2016: £22,983,000) and 108,769 shares for the scrip dividend (2016: 119,302).

The Board has declared a final dividend of 19.5p per share to be paid on 12 June 2018 to shareholders on the register at 11 May 2018, taking the total ordinary dividend per share for the year to 29.0p (2016: 27.5p).

21. 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 or 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 2017

	Consolidated income statement 2017	**Consolidated other comprehensive income 2017**	**Total impact on equity 2017**
	£000	**£000**	**£000**
Unrealised translation (losses)/gains on intragroup borrowings	**(37)**	**37**	**-**
Total (losses)/gains recognised	**(37)**	**37**	**-**

Impact as at 31 December 2016

	Consolidated income statement 2016	Consolidated other comprehensive income 2016	Total impact on equity 2016
	£000	£000	£000
Unrealised translation gains/(losses) on intragroup borrowings	8,146	(8,146)	-
Total gains/(losses) recognised	8,146	(8,146)	-

Note:
The Annual Report and Accounts for 2017 will be available to shareholders no later than 16 March 2018. Copies of the Report may be

obtained by writing to the Company Secretary, Hiscox Ltd, Wessex House, 45 Reid Street, Hamilton HM12, Bermuda. A copy of this and other announcements can be found at www.hiscoxgroup.com.