HISCOX

Hiscox Ltd full year results

For the year ended 31 December 2019

"Retail profits up as Hiscox weathers a third consecutive year of storms."

	2019	**2018***
Gross premiums written	$4,030.7m	$3,778.3m
Net premiums earned	$2,635.6m	$2,573.6m
Profit before tax	$53.1m	$135.6m*
Earnings per share ($)	17.2¢	41.6¢*
Earnings per share (£)	13.5p	31.2p*
Total ordinary dividend per share for the year	43.4¢	41.9¢
Net asset value per share ($)	768.2¢	798.6¢*
Net asset value per share (£)	580.1p	627.0p*
Group combined ratio	105.7%	94.9%
Return on equity	2.2%	5.3%*
Investment return	3.6%	0.7%
Reserve releases	$25.9m	$326.5m

Highlights

- Gross premiums written up by 8.1% in constant currency, despite disciplined action to reduce $200 million in underperforming lines.
- Group profits were impacted by large catastrophe events, with $165 million reserved for Hurricane Dorian and Typhoons Faxai and Hagibis, in addition to $25 million of reduced fees and profit commissions.
- Hiscox Retail now a $2.2 billion business with profits increased by 22% to $178.4 million. Combined ratio of 98.7%, in line with guidance of between 97-99% for 2019.
  - Hiscox UK and Hiscox Europe generated good profits, driven by a strong performance in small business insurance.
  - Hiscox USA is profitable, with action taken to improve performance in D&O and media business progressing as planned.
  - 180,000 Retail customers added in 2019, taking the total to 1.2 million globally – including more than 450,000 direct and partnerships customers. Growth in Retail expected to be in the middle of the 5-15% target range for 2020.
  - Retail combined ratio to improve by 1-2% per annum and return to 90-95% target range in 2022.
- Hiscox London Market impacted by catastrophes and property claims, but market conditions continue to improve. Hiscox Syndicate 33 increased its capacity by 19% to make the most of any opportunities for profitable growth in 2020 as rates rise for the third successive year, up in 14 out of 15 lines.
- Hiscox Re & ILS impacted by natural catastrophes, market-wide adverse development on prior year catastrophes, as well as deterioration in some previously exited lines.
- Strong investment return of $223.0 million (2018: $38.1 million).
- Robust reserves 9.4% above actuarial estimate, with continued positive development in Retail. Reserve releases expected to be between 3-5% of opening net reserves in 2020.
- Full year dividend up by 3.5% to 29.6 cents, in line with the Group's progressive dividend policy.

Bronek Masojada, Chief Executive Officer, Hiscox Ltd, commented:

"Our strategy of balance, between big-ticket lines and our more steady retail earnings, provides resilience and opportunity. Our growing Retail profits and strong investment return has enabled us to weather a third consecutive year of storms. We are investing for growth as we look to capture the many opportunities we see ahead."

*These figures have been restated to reflect previously announced tax provisions. See note 2.2 of the financial statements.

2020 events: Coronavirus and UK floods

It is too early to estimate the impact of the Coronavirus. The main areas of potential exposure for Hiscox are event cancellation, travel and personal accident cover and we have received notifications of small claims to date. Pandemic is only covered in a very small part of the portfolio where we have very controlled net exposure.

Some Hiscox UK household customers have unfortunately suffered flooding from the recent storms and our claims teams are working hard to get them back to normal. To date we have had 112 claims of which over 50% are reinsured with Flood Re, the Government-backed flood insurance programme. Net losses are well within our expected catastrophe loss budget for the quarter.

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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.

The Hiscox Group employs over 3,100 people in 14 countries, and has customers worldwide. Through the retail businesses in the UK, Europe, Asia and the USA, 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, courage, ownership and integrity. 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

I am able to report a profit before tax of $53.1 million (2018: $135.6 million*), with the investment income of $223.0 million (2018: $38.1 million) being a key contributor to the result. Our strategy has remained the same as we continue to build our retail businesses to balance the more volatile big-ticket risks and it is working.

In 2019, the Retail businesses accounted for 54% of our overall gross premiums written and 73% of our net premiums written. As I have said before, the growth in the Retail arm demonstrates the power of compounding, each year we aim for between 5% and 15% growth. In 2019, Retail growth moderated to 7% (2018: 11.3%) in constant currency, in line with our expectations, given the result of action taken over the last 18 months to reduce in underperforming lines, and the impact of bedding in new IT systems and ways of working in the UK. Our US business accelerated growth as the year progressed, in the UK we are seeing momentum improve and our European business had another excellent year. The combined ratio for Hiscox Retail is 98.7%, outside of our target range of between 90%-95%, but still profitable, and it's needed to be as our big-ticket lines took a battering from a series of catastrophes in Japan and an active claims year in the London Market. Paying claims and restoring businesses is the raison d'etre of an insurance company. We have fulfilled our promise to pay this year, having paid out $1.2 billion in claims across the Group. The London Market has responded well, with increased prices across the board; the reinsurance market is a little slower to adjust and we will shrink accordingly.

Our balanced strategy means that we are still able to grow the dividend, despite a large loss year. As such, the Board is pleased to announce a final dividend of 29.6 cents, which is an increase of 3.5% in line with prior year dividend. The record date for the dividend will be 15 May 2020 and the payment date will be 10 June 2020.

Hiscox is a specialist insurer. We are not a generalist and aim to be very good at some things and leave other classes to the competition. The breadth of the reach of the Company, however, is increasingly impressive. In the big-ticket arena we participate as a significant participant in the ILS market and stretch all the way across into the retail business to offering personal and commercial customers online coverage. This innovative activity emanates from our restless culture of always trying to find a better way of doing insurance and reinsurance. I derive joy from seeing my colleagues creating new opportunities and making Hiscox such a stimulating environment and interesting place to work. New people are attracted by these qualities and the challenging careers we offer and I'm proud that we have been named in the top five of Glassdoor's Best Places to Work in 2020. This ability to attract talented and driven workers gives me confidence for the future.

The market

The retail market in the USA is hardening in casualty lines, where we are seeing rate rises up to 13% in response to adverse claims trends. The action taken over the last 18 months to refocus our private company D&O and our media accounts is working. We are seeing increased competition in the UK direct-to-consumer commercial business and expect some impact following the IR35 legislation[†], but we also see plenty of opportunity for profitable growth.

The reinsurance market has yet to show the same level of discipline as we have seen in our big-ticket insurance lines. It is felt that the very large reinsurers are happy to hold prices at last year's levels in order to squeeze some smaller players who are reliant on increasingly expensive retrocession. It was ever thus, and the dance will no doubt continue. It is very unlikely that the investment contribution will be so high in 2020 and hopefully reinsurance underwriting discipline will return. In the meantime, we will reduce our exposure, waiting for sense to prevail.

The big-ticket insurance business is getting interesting at last. In 2019, Hiscox London Market saw rate rises in 14 out of 15 classes, overall up by 11% and continuing to rise. The direction is good. We don't need to be greedy and drive huge volatility in pricing, but we need to be persistent in getting reasonable increases year-on-year to repair the damage done by a long decline. We have to be able to cover claims inflation, which has been equally persistent, driven by genuine increased costs but also by the ingenuity of lawyers to meet their budgets at the cost of ours.

Climate change

I have spent my working life wrestling with the impact of climate volatility on our business. The year-to-year nature of underwriting risk gives us a front row seat to climate variability. Investment in natural catastrophe research and modelling has always been important to us, and our market-leading catastrophe research team develops not just what we call 'the Hiscox view of risk', but now 'the Hiscox view of climate risk'. We will strengthen our expertise this year with two additional climate change researchers.

As debate around dealing with climate change and, more specifically, Environment Social and Governance (ESG) issues, accelerate, so too do our efforts. We developed the Hiscox ESG framework during the year, which guides our efforts, with central themes that can be locally tailored and executed. We also publicly pledged our support for the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), and completed ESG disclosures for FTSE4Good, CDP, Dow Jones Sustainability Index and ClimateWise. Hiscox has been carbon neutral through offsetting since 2014. There is more to do, of course, and we are focused on the opportunity as well as the challenge that this brings.

The Board

We have a strong Board and Executive team. Our Non Executive Directors have a wealth of experience in insurance, reinsurance, marketing and banking, gained in all corners of the world. They have diverse backgrounds and come from a number of different countries which is very important to us as we continue to build a global business. One test I always apply to a new Non Executive is that in some way, they have already been where we are going.

We enjoy having an Executive team that has had a long service with the Company, and a balance of experience and fresh thinking. This year, Richard Watson retired as Executive Director and Group Chief Underwriting Officer after 33 years with Hiscox. He has made a massive contribution to the business in that time in a variety of leadership roles and I thank him for everything he has done. He stays on with us as Non Executive Chairman of Hiscox Re & ILS and also as a Director of our London Market subsidiary. Both are roles he is admirably suited to, and qualified to do, and I am pleased we will continue to benefit from his expertise in this way.

Joanne Musselle replaces Richard as our new Chief Underwriting Officer for the Group and Executive Director. This was an internal appointment after an extensive search both inside and outside of Hiscox. Joanne has been with Hiscox since 2002 and has some very valuable experience under her belt, gained in claims management, as Chief Underwriting Officer for Hiscox UK & Ireland, and latterly as Chief Underwriting Officer of all our retail operations. I am delighted we will benefit from her experience on the main Board.

Following nine years of service, at which point the UK Corporate Governance Code deems him not independent, Robert McMillan, stepped down from the Board in May. Bob's vast experience in building retail businesses has been invaluable and I am pleased that we will continue to benefit from his advice as he remains a Non Executive Director on our Hiscox USA Board.

It is with great sadness that I report the death of Dr James King during 2019, who served on the main Board from 2006 to 2015 and was a valued counsellor. His sound common sense and incisive mind were very important to me. As a Bermudian, he was an able pilot helping us to navigate our arrival on Bermuda in 2006.

Culture and values

We periodically review our culture to make sure as a Group we have the right set of values to guide us.

We have recently finished a year-long initiative, which involved canvassing hundreds of employees from across the Group asking: what makes them proud to be a part of Hiscox, what values resonate with them and what values they see being lived. I am glad to say that this has resulted in some fine-tuning of our values to guarantee that they are fit for purpose for the future.

As a result of our values re-fresh we've adopted 'connected' as the theme of this year's Annual Report. It captures our sense of togetherness and our long-term commitment to building a sustainable business of which everyone can be proud. Part of that connectedness is also about looking out for each other, knowing the people we work with and creating networks beyond teams. I am proud of the WeMind initiative created in the UK by our employees; a mental health and well being network that introduced mental health first aiders and oversees activities including a 'walk and talk club' to bring people together to discuss what's on their mind and delivered mental health training for over 100 people managers. It was gratifying for the team behind this initiative to receive the Outstanding Employee Network of the Year award at the European Diversity Awards 2019 and shows how our values are being lived by the people who work here. I thank them all for their hard work during the year.

Outlook

We aim to balance Hiscox Retail with the higher-volatility big-ticket businesses. Looking forward, we expect our retail business to get back on track, with better growth this year than last and an improved combined ratio. We will trim the reinsurance business to suit conditions. The London Market is seeing improvements in rates and conditions. In the past these improvements have made it straight through to much better returns. We have the brand, talent and diversity of product and geography to make the most of the opportunities ahead.

Robert Childs
2 March 2020

*These figures have been restated to reflect previously announced tax provisions. See note 2.2 to the financial statements.

[†]The **new IR35** legislation that comes into effect from April 2020 will change the way in which **contractor** status is determined when working with medium and large organisations in the private sector.

HISCOX

Chief Executive's report

2019 showed the value of our long-standing strategy of building and broadening the balance in our business between big-ticket lines and more steady retail earnings. Good performance by Hiscox UK and Hiscox Europe, combined with strong investment returns, offset the impact of a third year of catastrophe events and some adverse claims development in the big-ticket business and Hiscox USA. This allowed us to deliver a combined ratio of 105.7% (2018: 94.9%) and a pre-tax profit of $53.1 million (2018: $135.6 million*). This is below our ambitions and your expectations of us. We have taken necessary action which is having a positive impact.

Gross premiums written grew in constant currency by 8.1% to $4,030.7 million (2018: $3,778.3 million). We have seen good rate momentum in many areas, and will continue to grow in a disciplined way. We have cut over $200 million of underperforming business, but we are still growing having found new opportunities where conditions are good and rates are healthy. In the same way that our strategy of balance has given us resilience in the short term, it drives opportunities in the medium term and we are optimistic about the prospects for our $2.2 billion Retail business, and in the benefit of the repricing we are seeing in our London Market business.

I review each of our business areas in turn below.

Hiscox Retail

Hiscox Retail comprises our smaller ticket businesses in the UK, Europe, the USA and Asia, and our Special Risks business. In this division, our specialist knowledge and tailored products differentiate us and our ongoing investment in brand helps us build strong market positions.

Retail profits increased by 22% to $178.4 million (2018: $146.3 million*) with a combined ratio of 98.7% (2018: 93.6%). Investment returns were a material contributor and we were pleased that Hiscox Retail experienced continued positive prior year reserve development of $46 million (2018: $100 million) despite strengthening in a few poor performing lines.

As we said in our Q3 trading update, the 2019 combined ratio for Hiscox Retail is outside the 90-95% range we target for this division due to the impact of claims activity in the USA and a cautious approach to reserve development. Our US experience is due to three factors. First, like others in the US private company directors and officers' (D&O) market, we experienced an increase in claims costs on the employment practices liability element of the cover. Our lower D&O policy limits leaves us relatively insulated from 'jumbo awards', but the trickle-down effect increased average claim size. Second, the time to settle small business casualty claims in the US has lengthened, increasing our currently outsourced legal costs. Finally, in line with our cautious approach, we are setting more prudent current year loss picks, and we expect to hold reserves for longer.

As we announced last year, we have responded firmly to these factors. We have reduced our private company D&O book from $80 million to less than $20 million and are investing in strengthening our internal claims capability to allow us to in-source more of our legal work. Rates for US private company D&O are turning and we are seeing increases of 13%. We are confident that our Retail combined ratio will improve by 1-2% per annum to return to our 90-95% combined ratio target range in 2022.

We now serve over 1.2 million Retail customers generating $2.2 billion of premiums, growth of 7.1% in constant currency (2018: 1 million customers and $2.1 billion GWP). A key priority has been building the brand as well as the infrastructure to operate effectively at this scale. In the last decade we have invested over $500 million in marketing of which $88.9 million was in the last year (2018: $69.7 million). We see the pay-off in brand awareness, affinity, consideration and decision to purchase, all of which are key drivers of our economics. Our multi-year IT modernisation programmes continue in order to support the growth ahead.

Our direct-to-consumer and partnerships businesses are thriving, seeing compound growth of 29% over the last three years. We focus largely on micro businesses, sole traders and businesses with fewer than ten employees, and 80% of our customers have premiums of less than $/£/€1,000.

The opportunity for Hiscox Retail remains enormous, with an addressable small business market in countries where we already operate of over $80 billion of premium income and growing. We estimate that we currently serve less than 2% of this highly fragmented sector. At the moment this opportunity is clearest in the USA where we are ahead of the competition, but inevitably some are now beginning to respond. Ongoing investment in marketing is essential as we continue to see greater value in investing for profitable growth, rather than running the business for short-term profitability. Building a small-ticket retail business takes time, but persistence pays off in market position, scale and long-term profitability. Our expectations for revenue for Hiscox Retail remain between 5-15%.

During the year, we made an additional tax provision of up to $60 million following a reappraisal of how we invested in and classified marketing activity historically. This additional provision has been presented as a prior year adjustment and, as a result, the previously disclosed profit for 2018 has been restated.

Hiscox UK

Hiscox UK provides commercial insurance for small- and medium-sized businesses as well as personal lines cover, including high-value household, fine art and luxury motor.

Hiscox UK had a good year of recovery after a challenging 2018 as it adapted to a new IT system with new ways of working which impacted growth. Service levels have now improved and we appreciate the support of our brokers and customers while we worked hard to put things right. Gross premiums were up by 3.9% in constant currency to $746.4 million (2018: $749.6 million) with our commercial business growing by 9%.

The direct-to-consumer market remains competitive, particularly in commercial lines. Despite this, we are operating in healthy niche markets and have been able to grow premiums by around 10%. Looking forward, IR35 (the changing basis of taxation for independent contractors), may have a short-term modest impact on growth.

In household broker business, retention was impacted due to the tough pricing action taken over the last 18 months in response to market-wide claims trends such as the growing prevalence of escape of water claims. I am pleased to report a return to profitability and stability in top line, driven by our award-winning claims reputation.

Cyber is a growth area and we launched a new and enhanced product called CyberClear during the period. We are proud that it has been rated the most comprehensive cyber insurance policy for SMEs as the first and only policy to receive a 100% score in the Insurance Times Cyber Product Report.

The team's hard work was recognised with three industry awards; Insurance Times' Personal Lines Insurer of the Year and Cyber Product of the Year, and, at the British Insurance Awards, Insurance Provider of the Year.

Hiscox Europe

Hiscox Europe operates in Germany, France, Benelux, Iberia and Ireland. These businesses provide personal lines cover, including high-value household, fine art and classic car, as well as commercial insurance for small- and medium-sized businesses.

Our European operations had another excellent year, delivering $408.4 million in gross written premiums (2018: $372.2 million), an increase of 15.6% in constant currency. Our new carrier, Hiscox SA, started trading in January 2019, and we successfully transferred all policies to our new entity. This completed our Brexit restructuring for Hiscox Retail, a multi-year effort which cost us $18 million and required $50 million in incremental capital.

We continue to see strong demand for our professions, specialty commercial and cyber products across our businesses in Europe. This has enabled us to carve out a leadership position for these lines in Germany, Spain and Benelux.

We extended our footprint in Germany, opening offices in Berlin and Stuttgart, and expanded the team in Munich. Additional investment in marketing and distribution is having a positive impact, and the team were rewarded for their efforts with a 'Best in Industry' award for our claims management in D&O, cyber and professional indemnity from AssCompact, a popular broker publication.

In France we have seen a return to stronger profitability after several challenging years. This improvement has been driven by a period of portfolio adjustment which included the introduction of a new underwriting and pricing strategy. A continued focus on growing our partnerships business in Spain, through innovative solutions and by improving the service we offer, has seen a 20% increase in premium versus the prior year. We will continue to build on our successful partnerships in both France and Spain and actively explore new distribution opportunities in the technology and insurtech space.

The roll-out of our 'MyHiscox' broker extranet sites across Europe has made it easier for brokers to do business with us by providing them with access to additional products and self-service features. The robotic process automation (RPA) which has been rolled out across policy administration, claims and finance, has resulted in the automation of 115,000 transactions in 2019. This enables us to not only automate back-end processing but also further improves service levels for our brokers and partners.

Similar to the systems changes completed in the UK and under way in the USA, we are also about to begin the multi-year implementation of a new core platform for Europe, starting in Germany in 2020. This is a necessity to support the scale of the business.

Our business in Europe has grown since we opened our first office in Paris in 1995, with no business, and lots of ambition. It is now a consistent and important contributor to our profits. Hiscox Germany reached €100 million in premiums in 2019 and France will follow suit in 2020. The market in our segments in Europe is significant and our ambition is to have Hiscox Europe match Hiscox UK in scale and profits. This is a significant opportunity for us.

Hiscox USA

Hiscox USA underwrites small-to-mid-market commercial risks through brokers, other insurers and distribution partners and directly to businesses online and over the telephone.

The business continues to achieve strong growth, with gross premiums written increasing by 6.8% over the year in constant currency to $865.0 million (2018: $809.6 million), growing to 11% in the second half. Despite market challenges in some casualty lines, Hiscox USA delivered a profit in 2019.

Our direct and partnerships division (DPD) continues to be the star performer to reach $275 million. It has benefited from our sustained investment in marketing and brand building. We launched our first fully integrated marketing campaign with ABC TV and Major League Baseball this year, and have continued to build on our ongoing 'Encourage Courage' campaign aimed at small businesses – all of which helps to differentiate us from our competitors.

Our broker channel business has seen strong growth in healthcare and general liability where rates are attractive, but a disciplined approach in private company D&O, media and entertainment business has resulted in a reduction in those areas throughout the year. The action we have taken in these lines is working, as we have seen an improvement in current year loss ratios. Like others in the market, we are seeing increased competition in mid-market cyber, which has led to reduced pricing and widening cover, and we are being selective.

Our preparations for the US IT systems changes, which are necessary to support our future growth plans, are progressing well, with roll-out to DPD expected during 2020.

We have an addressable market of 30 million small businesses in the USA and these investments in IT and marketing will help us achieve our ambitions.

Hiscox Special Risks

Hiscox Special Risks underwrites kidnap and ransom (K&R), security risks, personal accident, classic car, jewellery and fine art, with teams in London, Guernsey, Cologne, Madrid, Munich, Paris, New York, Los Angles and Miami.

Gross premiums written decreased by 3.1% in constant currency to $129.9 million (2018: $136.2 million). Our expertise in the K&R market has helped us maintain our leadership position in a very competitive environment. While others in the market are streamlining their offering, we remain focused on building out our expertise and will continue to innovate to preserve our market share. A highlight this year was a new product the team developed and brought to market in just two weeks to support our marine clients travelling to the Gulf following political tensions in Iran. It is precisely this responsiveness which sustains and builds our market position with customers.

Hiscox Asia

Our brand in Asia, DirectAsia, is a direct-to-consumer business in Singapore and Thailand that sells predominantly motor insurance. It grew gross written premiums by 36.6% in constant currency to $46.6 million.

Singapore and Thailand have attracted and retained record numbers of customers, driven by the success of new partnerships with firms like Prudential, Shell and Vicom. Similar partnerships with like-minded businesses will enable us to continue on this growth trajectory. An ongoing investment in brand has helped us to combat increased competition and supports our drive to reach scale.

Hiscox London Market

Hiscox London Market uses the global licences, distribution network and credit rating available through Lloyd's to insure clients throughout the world.

Hiscox London Market's profits decreased to $30.4 million (2018: $75.8 million*) and the combined ratio deteriorated to 104.4% (2018: 89.3%). The most material adverse impact came from attritional losses in property, and large loss activity in D&O and alternative risk. We also suffered adverse prior-year development from healthcare, and prior year catastrophes.

A second year of rising rates in the London Market has driven above-budget growth of 10.3% to $967.9 million (2018: $877.7 million), or 11.2% in constant currency. Positive momentum has continued in the majority of classes, spurred on by a withdrawal of capacity and the Lloyd's 'Decile 10' initiative which has instilled some much-needed discipline in the market. We have seen material rate increases in major property, cargo, hull and general liability. In US public company D&O, rates are up 60% and we have grown substantially. These rate improvements are necessary after the extended soft market, however in some areas such as Florida small property risks and personal accident, rates are still not reflective of the risk, and where necessary we will shrink.

In property, we are actively changing the portfolio mix and reducing our exposure in our household and commercial binders where we have suffered attritional losses alongside catastrophe losses from Hurricane Dorian. This action will improve underlying profitability in time, however the 12-month terms on binder business means that we will not see the full benefits until 2021 and 2022. Terrorism delivered good profits in tough market conditions, despite being impacted by riots in Hong Kong and Chile.

Modernisation in the London Market is a multi-year, market-wide initiative which I believe is critical to the long-term success of Lloyd's. We have been strong supporters of the push towards electronic trading via Placing Platform Limited, an initiative which I chair, and I am pleased to say that over 75% of all business we write at Lloyd's is now bound electronically.

The goal for Hiscox London Market is 'to lead the way in emerging risk' and so we have been focused on driving awareness of new risks. We held a first-of-its-kind 'cyber cube' experiential event on the trading floor of Lloyd's of London which tested cyber security knowledge and promoted our new CyberClear365 product. We created a virtual reality simulation of a US hurricane and an app to assist our client's understanding of rising sea levels and the downstream impact for homes and communities. These events drive awareness and sales.

We are also leading the way in digital trading. Our FloodPlus product uses external data to price risks more precisely and we drive down cost by using APIs to connect to US coverholders. We also use third-party capital to leverage our expertise, giving us larger lines to deploy through consortia for general liability, space, flood and product recall.

We are optimistic about conditions in the London Market and have increased our stamp capacity – the amount of business we can write through Lloyd's via Hiscox Syndicate 33 – by 19% year-on-year to £1.7 billion in 2020. This gives us the headroom to execute our plans, taking advantage of the ongoing price rises and dislocation in the market.

Hiscox Re & ILS

Hiscox Re & ILS comprises the Group's reinsurance teams, based in London and Bermuda, and insurance-linked securities (ILS) activity. The team underwrites on behalf of Hiscox and third-party capital partners, including other insurance companies, Lloyd's syndicates and capital market investors.

Hiscox Re & ILS has been impacted by another year of heavy catastrophe claims, resulting in a loss before tax of $93.8 million (2018: loss of $28.7 million*) and a 2019 combined ratio of 163.9% (2018: 116.9%). This is the third consecutive year of large events. Our long-standing relationships in the Japanese market meant that Typhoons Faxai and Hagibis had a material impact on us. We also experienced claims from Hurricane Dorian which impacted the Bahamas and the US, as well as from the riots in Chile and wildfires in Australia. Unusually, Hiscox Re & ILS suffered prior year deteriorations due to the adverse development of 2018 Typhoon Jebi and the need to strengthen reserves for the healthcare business which we exited in 2017. All of these factors combined meant we had this poor result.

Gross premiums written grew by 7.4% in constant currency to $866.5 million (2018: $812.0 million), as rate improvement in loss-affected property lines and retrocession was offset by deliberate reductions in risk excess and our withdrawal from casualty reinsurance business. Throughout the year, the team remained disciplined in the face of underwhelming, albeit positive, rate improvement, still dampened by an overabundance of capacity despite three years of significant market losses.

Our ILS offering continues to see interest from new and existing clients, with assets under management at $1.5 billion. Both of our flagship Kiskadee funds ended 2019 with positive returns, a good result in a challenging year. We expect that ILS funds under management will decrease in 2020 as one of our investors has indicated that they will reduce their commitment to this asset class. At the beginning of 2019 we launched a new fund, giving ILS investors access to both reinsurance and primary insurance risk through the Hiscox Re and Hiscox London Market teams. The fund launched with $100 million in capital and we have been pleased with its performance in its maiden year. We also launched a new fund for 1 January renewals, offering investors a higher risk/reward profile to complement our existing medium and lower risk/return funds.

In such an uncertain environment as this, it pays to be disciplined and nimble. The vision for Hiscox Re & ILS is 'one team, unlocking capital and pioneering risk' and the goal is to bring together our capabilities from underwriting through to analytics, research and claims, in order to profit in changing markets. We continue to believe engaging with multiple capital sources will allow us to write a broader range of products, more of them, and at better margins. At the moment we do not expect to fully use all of the capital available to us in 2020 as rate increases continue to be below our targets. We therefore expect top line growth to remain subdued as we pursue a disciplined path.

Claims

It has been a busy year for claims in big-ticket lines and Hiscox USA as outlined previously, however our Retail businesses in the UK and Europe had a relatively good claims experience.

For Japanese Typhoons Faxai and Hagibis, and Hurricane Dorian which impacted the Bahamas and the US, we reserved $165 million and in addition we expect $25 million in reduced fees and profit commission.

In 2019, we had a small positive reserve release of $26 million (2018: $326 million) from prior years. Despite its challenges in the US, Hiscox Retail had a positive prior year reserve development of $46 million (2018: $100 million). Hiscox London Market and Hiscox Re & ILS suffered deteriorations of $20 million in aggregate (2018: $126 million favourable). We seek to reserve cautiously and our reserves are set at 9.4% above actuarial estimates (2018: 11.0%). We expect that we will return to our more normal pattern reserve releases of 9% to 12% of opening reserves over the next three years. In 2020, we expect reserve releases to be between 3-5% of opening net reserves, returning to our normal pattern over the next three years.

Information technology and major projects

The significant investment we are making in replacing end-of-life technologies with new systems and processes has continued this year. Our Retail customer numbers have grown by 172% to 1.2 million over the last five years, and we need this improved infrastructure to meet their expectations for system availability, digital accessibility, and operational robustness. Regulators are also beginning to scrutinise the financial sector's operational resilience. Although our core system availability is currently over 99.9% these investments mean we are building a business with the infrastructure to support our future growth ambitions.

2019 saw the bedding in of the new Hiscox UK IT system. After a challenging period of adjustment in which broker service levels were not what we would have hoped, I am pleased to say we have seen a return to normalcy. Those products which are not on the new system will be migrated across by 2022. In the direct channel, the underwriting of 90% of direct commercial business and in the broker channel 60% of new business, is automated. The increased automation of simple underwriting process has freed our underwriters up to do what they do best by focusing their efforts on our most unusual or complex risks.

Hiscox USA worked on a new system in 2019 and 2020 will see this go live within our DPD business with the project concluding in 2021. Our US broker channel will follow once the new system has had the opportunity to embed. Hiscox Europe is at the start of a similar journey, with preparations under way to begin system changes in Germany, and so will benefit the most from our lessons learnt along the way.

We are now in the implementation period of our Group-wide finance transformation programme, which will replace our core finance systems and evolve the capabilities of our finance teams worldwide.

We expect that 2020 will be the last year of peak system change, with the volume of change dropping to a lower level from 2021. As the systems become fully functional we can expect to see benefits in the Group's expense ratio.

2020 will also see Hiscox develop a new UK location strategy. Hiscox London has been located at 1 Great St Helen's for the last 22 years and our lease will soon come to an end. Before moving into new premises, we have taken the opportunity to review our UK footprint in order to shape our UK-based activities to support growth at a lower cost. Over the next two or three years we will move up to 300 roles out of London to join the 750 Hiscox employees already working in other locations across the UK.

Investments

We manage our investment portfolio with two main objectives in mind: providing sufficient liquidity to pay claims and providing capital to support the underwriting business, while generating strong risk-adjusted returns. On all fronts, the investment portfolios delivered in 2019.

With the tailwinds of strong markets, our investment return was the best we have seen in several years. US bonds form the majority of our portfolios across the Group, and we maintained a modest allocation to equities and other risk assets. As a result of this strategy, our investments made $223.0 million (2018: $38.1 million) after deducting investment expenses, a return of 3.6% (2018: 0.7%).

Given the strength of markets in 2019, we do not expect a repeat in the year ahead. Government bond yields are lower and corporate bond spreads look tight. Having re-rated, equity markets are clearly less well placed than after the falls of 2018. Markets also seem relatively sanguine about political instability but this does not mean such events cannot have an impact; there is no shortage of events in the calendar in the year ahead, the US election amongst them. As such, we enter the year more cautiously, but remain prepared to add risk as opportunities present themselves.

People

Building an insurance business requires a pile of money and a group of talented people. As capital will follow talent, we put a disproportionate effort on attracting, developing, retaining and rewarding talented people. This is a never-ending effort with different approaches being used at different levels of seniority.

In 2019 across Hiscox we received around 50,000 applicants for advertised roles, and hired 867. As a parent of children applying for junior roles, I became aware that for many companies the recruitment process can be like a black hole - you apply and hear nothing, not even an acknowledgement. Hiscox was better than this, but not always good enough. In 2019 we re-engineered our approach to job seekers, thinking of them with the same care and intelligence that we apply to customers. We introduced a net promoter score for all applicants, a brave decision when we have 58 rejections for every successful applicant. I am pleased to report that our net promoter score amongst those who were unsuccessful after interview improved by 26 points over the year, a real vindication of a recruitment approach much more in tune with our 'human' value.

For many years at a senior level, we have practised personalised career development and succession planning to ensure that we have the right mix of leadership experience, underwriting nous, business acumen and technical skills to drive the Group forward – and it is working. Individual development plans fit in with global succession plans, as we have seen with the recent appointment of Joanne Musselle as Group Chief Underwriter who replaced Richard Watson on his retirement outlined in the Chairman's statement. Similarly, in April 2019 Bob Thaker was appointed CEO of Hiscox UK, after an internal and external search. Bob joined Hiscox ten years ago in a Group strategy role and has worked in UK Claims, Hiscox Asia as Chief Operating Officer and then Chief Executive. He was replaced in Asia by Celine Chotithamaporn, an external hire who brings valuable local cultural and industry knowledge.

In 2019 we welcomed Grace Hanson as our new Chief Claims Officer, again after an internal and external search. Grace has held multiple roles in the industry in the US and Bermuda, and she brings a unique blend of experience in both big-ticket and smaller-ticket retail claims. We are already benefiting from her broad experience as she directs the re-engineering of our US claims function.

We believe that this approach - looking ahead, taking career risks on talent, but looking externally as well, ensures smoother senior leadership transitions, to the benefit of the individuals, the business and shareholders.

Purpose and values

During the year we undertook a Group-wide conversation and workshop process to define our purpose and update our values. This involved over 500 staff from all geographies and seniorities. We last did this five years ago.

We see our purpose as 'As experts in risk, we give people and businesses the confidence to realise their ambitions'. Whether they are a small business, a large corporate, a homeowner or a collector, we believe our expertise and clear products are a safety net, giving our clients confidence. If a loss occurs their claim will be handled sympathetically, professionally and fairly. If we do this well our customers are free to do what they want to do most – pursue their ambitions with confidence.

Our values evolve as our business and the societies we serve evolve. Our refreshed values are:

Integrity – do the right thing, no matter how hard.
Courage – dare to take a risk.
Human – clear, fair and inclusive.
Connected – together, build something better.
Ownership – passionate, commercial and accountable.

Most businesses have values. The challenge is to believe in them and then live up to them, accepting that we are all human and will err while we strive to do so. The inclusivity of the process we went through in updating our purpose and values showed the real passion our staff have for living the values, and we have all committed to use them as a reference point in our day-to-day and longer-term decision-making. We believe that by trying to do so, we make better decisions, make Hiscox a better business to work with and a better place of employment for talented ambitious people, to the ultimate benefit of customers, staff, shareholders and society.

Outlook

I am excited and optimistic about the scale of opportunity we have ahead of us.

In the short-term we will take advantage of the strong pricing momentum in our London Market business, navigate our way through the pricing challenges in reinsurance and continue to build our profitable Retail businesses. Our success in this will be reflected in our 2020 earnings.

Looking further ahead, we are still a small and successful player in many of our areas with plenty of room to grow. Our strategy of balance, between big-ticket lines and our more steady retail earnings, continues to provide us with options. We have made investments in people, brand and infrastructure that will help us deliver our ambition to be the leading specialist insurer in the markets in which we operate – leading in growth rate, profitability and reputation.

Bronek Masojada
2 March 2020

*These figures have been restated to reflect previously announced tax provisions. See note 2.2 to the financial statements.

Additional performance measures (APMs)

The Group uses, throughout its financial publications, additional performance measures (APMs) in addition to the figures that are prepared in accordance with International Financial Reporting Standards (IFRS). The Group believes that these measures provide useful information to enhance the understanding of its financial performance. These APMs are: premium growth in local currency, combined claims and expense ratios, return on equity, net asset value per share and net tangible asset value per share and prior-year developments. These are common measures used across the industry, and allow the reader of our Annual Report and Accounts to compare across peer companies. The APMs should be viewed as complementary to, rather than a substitute for, the figures prepared in accordance with IFRS.

Following the change in the functional currency at the beginning of 2018, which has significantly reduced the impact of foreign exchange movements to the Group's profit or loss, the Directors decided to stop disclosing the profit excluding foreign exchange gains/(losses) key performance measure. This APM is deemed as no longer providing meaningful information.

- **Premium growth in local currency**

Gross premiums written, 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 that exchange fluctuations have on the result and therefore allows a direct comparison between years. This is performed on a business unit basis and gives an accurate indication of premium growth compared to prior years.

- **Combined claims and expense ratios**

The combined claims and expense ratios are common measures enabling comparability across the insurance industry that measure the relevant underwriting profitability of the business by reference to its costs as a proportion of its net earned premium. The Group calculates the combined ratio as if the Group owned all of the business, including the proportion of Syndicate 33 that the Group does not own (Group controlled income). 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 the Group to measure all of its underwriting businesses on an equal measure. The calculation is discussed further in note 6, 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)**

Use of return on equity is common within the financial services industry, and the Group uses ROE as one of its key performance metrics. While the measure enables the company to compare itself against other peer companies in the immediate industry, it is also a key measure internally where it is used to compare the profitability of business segments, and underpins the performance-related pay and pre-2018 share-based payment structures. The ROE is shown in note 8, along with an explanation of the calculation.

- **Net asset value (NAV) per share and net tangible asset value per share**

The Group uses NAV per share as one of its key performance metrics, including using the movement of NAV per share in the calculation of the options vesting of awards granted under performance share plans (PSP) from 2018 onwards. 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. Net tangible asset value comprises total equity excluding intangible assets. NAV per share and net tangible asset value per share are shown in note 7, along with an explanation of the calculation.

- **Prior-year developments**

Prior-year developments are a measure of favourable or adverse development that existed at the prior balance sheet date. It enables the users of the financial statements to compare and contrast the Group's performance relative to peer companies. The Group maintains a prudent approach to reserving, to help mitigate the uncertainty within the reserve estimates. The prior-year development is calculated as the positive or negative movement in ultimate losses on prior accident years between the current and prior-year balance sheet date, as shown in note 13.

HISCOX

Condensed consolidated income statement

For the year ended 31 December 2019

	Note	2019 Total $m	2018 Total (restated)* $m
Income			
Gross premiums written	6	4,030.7	3,778.3
Outward reinsurance premiums		(1,351.9)	(1,196.8)
Net premiums written		2,678.8	2,581.5
Gross premiums earned		3,931.9	3,699.8
Premiums ceded to reinsurers		(1,296.3)	(1,126.2)
Net premiums earned		2,635.6	2,573.6
Investment result	9	223.0	38.1
Other income	10	53.1	46.8
Total income		2,911.7	2,658.5
Expenses			
Claims and claim adjustment expenses		(3,206.7)	(2,326.6)
Reinsurance recoveries		1,630.6	1,100.8
Claims and claim adjustment expenses, net of reinsurance		(1,576.1)	(1,225.8)
Expenses for the acquisition of insurance contracts		(944.9)	(882.0)
Reinsurance commission income		283.9	240.3
Operational expenses	10	(593.5)	(607.5)
Net foreign exchange gain/(loss)		8.5	(13.7)
Total expenses		(2,822.1)	(2,488.7)
Results of operating activities		89.6	169.8
Finance costs	11	(36.6)	(34.6)
Share of profit of associates after tax		0.1	0.4
Profit before tax		53.1	135.6
Tax expense	12	(4.2)	(17.7)
Profit for the year (all attributable to owners of the Company)		48.9	117.9
Earnings per share on profit attributable to owners of the Company			
Basic	14	**17.2¢**	41.6¢
Diluted	14	**16.9¢**	40.8¢

* See note 2.2 for further details.

The notes to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019 Total $m	2018 Total (restated)* $m
Profit for the year	48.9	117.9
Other comprehensive income		
Items that will not be reclassified to the income statement:		
Remeasurements of the net defined benefit obligation	(16.5)	20.2
Income tax effect	3.4	(4.1)
	(13.1)	16.1
Items that may be reclassified subsequently to the income statement:		
Exchange losses on translating foreign operations	(1.0)	(14.7)
	(1.0)	(14.7)
Other comprehensive income net of tax	(14.1)	1.4
Total comprehensive income for the year (all attributable to owners of the Company)	34.8	119.3

* See note 2.2 for further details.

The notes to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated balance sheet

At 31 December 2019

	Note	**2019 $m**	2018 (restated)* $m	2017 (restated)* $m
Assets				
Goodwill and intangible assets		278.0	204.6	186.0
Property, plant and equipment		128.4	61.4	65.6
Investments in associates		8.6	9.9	10.7
Deferred tax		76.9	60.7	53.5
Deferred acquisition costs		456.1	455.9	446.1
Financial assets carried at fair value	16	5,539.0	5,029.7	5,139.6
Reinsurance assets	13	3,386.9	2,456.6	1,833.3
Loans and receivables including insurance receivables		1,556.3	1,265.1	1,121.5
Current tax asset		4.7	3.6	5.7
Cash and cash equivalents		1,115.9	1,288.8	867.8
Total assets		12,550.8	10,836.3	9,729.8
Equity and liabilities				
Shareholders' equity				
Share capital		34.1	34.0	33.9
Share premium		70.5	57.6	45.8
Contributed surplus		184.0	184.0	184.0
Currency translation reserve		(326.3)	(325.3)	(310.6)
Retained earnings		2,226.3	2,307.6	2,363.0
Equity attributable to owners of the Company		2,188.6	2,257.9	2,316.1
Non-controlling interest		1.1	1.1	1.1
Total equity		2,189.7	2,259.0	2,317.2
Employee retirement benefit obligations		55.1	35.8	64.1
Deferred tax		0.4	9.1	9.6
Insurance liabilities	13	8,094.5	6,701.5	6,007.7
Financial liabilities	16	728.8	700.5	391.1
Current tax		62.0	43.9	47.3
Trade and other payables		1,420.3	1,086.5	892.8
Total liabilities		10,361.1	8,577.3	7,412.6
Total equity and liabilities		12,550.8	10,836.3	9,729.8

* See note 2.2 for further details.

The notes to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital $m	Share premium $m	Contributed surplus $m	Currency translation reserve $m	Retained earnings $m	Equity attributable to owners of the Company $m	Non-controlling interest $m	Total equity $m
Balance at 1 January 2019	**34.0**	**57.6**	**184.0**	**(325.3)**	**2,307.6**	**2,257.9**	**1.1**	**2,259.0**
Profit for the year (all attributable to owners of the Company)	-	-	-	-	48.9	**48.9**	-	48.9
Other comprehensive income net of tax (all attributable to owners of the Company)	-	-	-	(1.0)	(13.1)	**(14.1)**	-	(14.1)
Employee share options:								
Equity settled share-based payments	-	-	-	-	3.6	**3.6**	-	3.6
Proceeds from shares issued	-	3.6	-	-	-	**3.6**	-	3.6
Deferred and current tax on employee share options	-	-	-	-	0.2	**0.2**	-	0.2
Net movements of treasury shares held by Trust	-	-	-	-	-	**-**	-	-
Shares issued in relation to Scrip Dividend	0.1	9.3	-	-	-	**9.4**	-	9.4
Dividends paid to owners of the Company	-	-	-	-	(120.9)	**(120.9)**	-	(120.9)
Balance at 31 December 2019	**34.1**	**70.5**	**184.0**	**(326.3)**	**2,226.3**	**2,188.6**	**1.1**	**2,189.7**

The notes to the condensed consolidated financial statements are an integral part of this document.

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Condensed consolidated statement of changes in equity

For the year ended 31 December 2018

(restated)*

	Share capital $m	Share premium $m	Contributed surplus $m	Currency translation reserve $m	Retained earnings $m	Equity attributable to owners of the Company $m	Non-controlling interest $m	Total equity $m
Balance at 1 January 2018 as reported previously	**33.9**	**45.8**	**184.0**	**(310.6)**	**2,414.2**	**2,367.3**	**1.1**	**2,368.4**
Cumulative impact of prior period adjustments	-	-	-	-	(51.2)	**(51.2)**	**-**	**(51.2)**
Balance at 1 January 2018 (restated)	33.9	45.8	184.0	(310.6)	2,363.0	**2,316.1**	**1.1**	**2,317.2**
Profit for the year (all attributable to owners of the Company)	-	-	-	-	117.9	**117.9**	-	117.9
Other comprehensive income net of tax (all attributable to owners of the Company)	-	-	-	(14.7)	16.1	**1.4**	-	1.4
Employee share options:								
Equity settled share-based payments	-	-	-	-	(3.6)	**(3.6)**	-	(3.6)
Proceeds from shares issued	0.1	4.0	-	-	-	**4.1**	-	4.1
Deferred and current tax on employee share options	-	-	-	-	4.2	**4.2**	-	4.2
Net movements of treasury shares held by Trust	-	-	-	-	(76.5)	**(76.5)**	-	(76.5)
Shares issued in relation to Scrip Dividend	-	7.8	-	-	-	**7.8**	-	7.8
Dividends paid to owners of the Company	-	-	-	-	(113.5)	**(113.5)**	-	(113.5)
Balance at 31 December 2018	**34.0**	**57.6**	**184.0**	**(325.3)**	**2,307.6**	**2,257.9**	**1.1**	**2,259.0**

* See note 2.2 for further details.

The notes to the condensed consolidated financial statements are an integral part of this document.

HISCOX

Condensed consolidated statement of cash flows

For the year ended 31 December 2019

	Note	2019 $m	2018 (restated)* $m
Profit before tax		**53.1**	135.6
Adjustments for:			
Net foreign exchange (gain)/loss		**(8.5)**	13.7
Interest and equity dividend income	9	**(123.7)**	(103.0)
Interest expense	11	**36.6**	34.6
Net fair value (gains)/losses on financial assets		**(70.8)**	33.8
Depreciation, amortisation and impairment	10	**44.6**	33.2
Charges in respect of share-based payments	10	**3.6**	(3.6)
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		**414.3**	136.3
Financial assets carried at fair value		**(405.0)**	3.0
Financial liabilities carried at fair value		**(0.5)**	(18.3)
Financial liabilities carried at amortised cost		**0.8**	(53.2)
Other assets and liabilities		**14.3**	58.5
Cash paid to the pension fund		**(3.6)**	(3.7)
Interest received		**130.8**	90.8
Equity dividends received		**1.1**	0.8
Interest paid		**(36.4)**	(33.9)
Current tax paid		**(11.2)**	(24.2)
Net cash flows from operating activities		**39.5**	300.4
Purchase of property, plant and equipment		**(6.4)**	(7.8)
Purchase of intangible assets		**(90.9)**	(51.8)
Net cash flows from investing activities		**(97.3)**	(59.6)
Proceeds from the issue of ordinary shares		**3.6**	4.1
Shares repurchased		**-**	(76.5)
Distributions made to owners of the Company	15	**(111.6)**	(105.7)
Proceeds from long-term debt issue, net of fees		**-**	380.3
Principal elements of lease payments		**(15.5)**	-
Net cash flows from financing activities		**(123.5)**	202.2
Net (decrease)/increase in cash and cash equivalents		**(181.3)**	443.0
Cash and cash equivalents at 1 January		**1,288.8**	867.8
Net (decrease)/increase in cash and cash equivalents		**(181.3)**	443.0
Effect of exchange rate fluctuations on cash and cash equivalents		**8.4**	(22.0)
Cash and cash equivalents at 31 December	18	**1,115.9**	1,288.8

* See note 2.2 for further details.

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

The notes to the condensed consolidated financial statements are an integral part of this document.

Notes to the condensed consolidated financial statements

1. General information

The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, Asia and the USA and currently has over 3,100 staff.

The Company is registered and domiciled in Bermuda and its ordinary shares are listed on the London Stock Exchange. The address of its registered office is: Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

2. Basis of preparation

These condensed consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union, and the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority (FCA).

The basis of preparation and summary of accounting policies applicable to the Group's condensed consolidated financial statements can be found in the Note 2 of the 2019 Annual Report and Accounts. The comparative figures have been restated for prior period adjustments detailed in note 2.2. In addition the Group has adopted new and amended accounting standards as described in note 2.1.

The Group's consolidated financial statements from which the condensed financial statements have been extracted have been audited. The auditor's report on the consolidated financial statements is unqualified and does not contain an emphasis-of-matter paragraph.

After making enquiries, the Directors have an expectation that the Company and the Group have adequate resources to continue in operational existence over a period of at least 12 months from the date of approval of the condensed consolidated financial statements. For this reason, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates ('the functional currency'). The condensed consolidated financial statements are stated in US Dollars which is the Group's presentation currency. Except where otherwise indicated, all amounts presented in the financial statements are in US Dollars millions ($m) rounded to the nearest hundred thousand Dollars.

These condensed consolidated financial statements were approved on behalf of the Board of Directors by the Chief Executive, Bronek Masojada and the Chairman, Robert Childs. Accordingly, the financial statements were approved for issue on 2 March 2020.

2.1. Significant accounting policies

The following accounting standard is effective for annual periods beginning on or after 1 January 2019 and has been applied in preparing these condensed consolidated financial statements:

IFRS 16 *Leases*

IFRS 16 supersedes IAS 17 *Leases* and sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires lessees to account for leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using applicable incremental borrowing rates as of 1 January 2019. Lease liabilities amounts are presented in balance sheet under trade and other payables.

2. Basis of preparation (continued)

2.1. New and amended accounting standards adopted by the Group (continued)

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. Right-of-use assets are presented in balance sheet under property, plant and equipment.

The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its previous application of IAS 17. As permitted by IFRS 16, the Group also elected to use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

In addition, the Group has opted to use the recognition exemptions for lease contracts that, at the commencement date:

- have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and
- lease contracts for which the underlying asset is of low value (low-value assets).

Payments associated with short-term leases amounting to $2.7 million and leases of low-value assets amounting to $0.1 million are recognised on a straight-line basis as an expense in profit or loss.

The impact on the consolidated balance sheet as at 1 January 2019 is shown below:

	$m
Assets	
Increase in property, plant and equipment	78.8
Analysed as right-of-use assets related to:	
• Properties	77.9
• Other	0.9
Liabilities	
Increase in trade and other payables	78.8
Analysed as lease liabilities	78.8

The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.4%.

The undiscounted future minimum payments disclosed under the prior standard at 31 December 2018 were $87.0 million. The impact of discounting was $6.3 million, the short term leases, for which an exemption was applied, amounted to $1.9 million. The resulting total lease liability recognised as at 1 January 2019 under IFRS 16 is $78.8 million.

Impact on the condensed consolidated income statement for the year ended 31 December 2019
The depreciation expenses from right-of-use assets (operating expenses) and interest expense on the lease liabilities (finance costs) under IFRS 16 in 2019 were $1.1 million higher than the amount of operating lease expenses under IAS 17.

Impact on the condensed consolidated cash flow statement for the year ended 31 December 2019
Compared with the previous accounting for operating leases under IAS 17, the application of the new standard affects the classification of cash flows. In prior years, operating lease payments were presented as operating cash flows. Lease payments are now split into payments of principal that are presented as financing cash flows, and payments of interest that are presented as operating cash flows under interest expense. Payments related to leases for 2019 amounting to $15.5 million, which under IAS 17 would be classified as operating leases, are presented under cash flows from financing activities. Additionally, the interest expense on the lease liabilities calculated under IFRS 16 amounting to $1.8 million is presented under cash flows from operating activities.

No other new and amended accounting standards adopted by the Group for the annual period beginning on 1 January 2019 have impact on the Group's condensed consolidated financial statements.

2.2. Prior period adjustments

In 2019, the Group has made an additional tax provision relating to reappraisal of uncertain tax positions, the most significant one relates to a classification of marketing activity affecting a historical tax position. This has been presented as a prior-period adjustment and has led to a decrease in profit after tax of $10.1 million in 2018 and a decrease in opening retained earnings for 2018 of $51.2 million, with a decrease in closing equity at 31 December 2018 of $58.1 million. The impact on the condensed consolidated income statement, balance sheet, equity and cash flow statements are shown in the tables overleaf.

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2. Basis of preparation (continued)

2.2. Prior period adjustments (continued)

FY18			
Consolidated income statement 2018	As reported previously $m	Effect of prior-period adjustments $m	Restated $m
Total expenses	2,486.9	1.8	2,488.7
Effect analysed as:			
Operational expenses	605.7	1.8	607.5
Profit before tax	137.4	(1.8)	135.6
Tax expense	(9.4)	(8.3)	(17.7)
Profit after tax	128.0	(10.1)	117.9
Exchange losses on translating foreign operations	(17.9)	3.2	(14.7)
Total comprehensive income	**126.2**	**(6.9)**	**119.3**

FY18			
Consolidated statement of changes in equity 2018	As reported previously $m	Effect of prior-period adjustments $m	Restated $m
Balance at 1 January	2,368.4	(51.2)	2,317.2
Effect analysed as:			
Retained earnings	2,414.2	(51.2)	2,363.0

	FY18				FY17		
Balance sheet 2018	As reported previously $m	Effect of prior-period adjustments - opening balance $m	Effect of prior-period adjustments at 31 December 2018 $m	Restated $m	As reported previously $m	Effect of prior-period adjustments at 31 December 2017 $m	Restated $m
Total assets	10,846.3	-	(10.0)	10,836.3	9,729.8	-	9,729.8
Effect analysed as adjustments to:							
Current tax asset	13.6	-	(10.0)	3.6	5.7	-	5.7
Total liabilities	8,529.2	51.2	(3.1)	8,577.3	7,361.4	51.2	7,412.6
Effect analysed as adjustments to:							
Deferred tax	-	9.6	(0.5)	9.1	-	9.6	9.6
Current tax	10.3	37.8	(4.2)	43.9	9.5	37.8	47.3
Trade and other payables	1,081.1	3.8	1.6	1,086.5	889.0	3.8	892.8
Total equity	2,317.1	(51.2)	(6.9)	2,259.0	2,368.4	(51.2)	2,317.2
Effect analysed as adjustments to:							
Retained earnings	2,368.9	(51.2)	(10.1)	2,307.6	2,414.2	(51.2)	2,363.0
Currency translation reserve	(328.5)	-	3.2	(325.3)	(310.6)	-	(310.6)

2. Basis of preparation (continued)

2.2. Prior period adjustments (continued)

Other 2018	FY18 As reported previously	Effect of prior-period adjustments	Restated
Earnings per share	45.1¢	(3.5)¢	41.6¢
Diluted earnings per share	44.3¢	(3.5)¢	40.8¢
NAV per share	819.1¢	(20.5)¢	798.6¢
Tangible net asset value per share	746.8¢	(20.6)¢	726.2¢
Return on Equity	5.6%	(0.3)%	5.3%

The impact on the condensed consolidated cash flow statement is limited to a decrease in profit before tax and a corresponding increase in changes in other assets and liabilities within net cash flows from operating activities of $1.8 million for the year ended 31 December 2018.

3. Financial, insurance and other risk management

The Group's financial, insurance and other risk management objectives and policies are consistent with that disclosed in note 3 of the full consolidated financial statements as at, and for the year ended, 31 December 2019, except for the currency risk discussed below. The principal risks and uncertainties are unchanged and may be summarised as underwriting risk, reserving risk, reliability of fair values, equity price risk, interest rate risk, liquidity risk, credit risk, currency risk, capital risk and tax risk. The Group recognises that following the decision of the UK to leave the European Union, it may continue to face greater volatility in credit, currency and liquidity risk whilst uncertainty remains.

The Group continues to monitor all aspects of its financial risk appetite and the resultant exposure taken with caution, and has consequently suffered insignificant defaults on investments held, and other third-party balances during the period under review.

As detailed in note 16, the Group's investment allocation is broadly comparable to that at 31 December 2018 as outlined in the Group Report and Accounts. The Group also continues to be mindful of the processes required for establishing the reliability of fair values obtained for some classes of financial assets affected by ongoing periods of diminished liquidity. In order to assist users, the Group has disclosed the measurement attributes of its investment portfolio in a fair value hierarchy in note 17 in accordance with IFRS 13 Fair Value Measurement.

The Group remains susceptible to fluctuations in rates of foreign exchange, in particular between US Dollars and Sterling. The estimated impact of a 10% strengthening or weakening of Sterling against the US Dollar on profit before tax:

Effect on profit before tax	December 2019	December 2018
10% strengthening of Sterling	$28.6m	$9.0m
10% weakening of Sterling	$(23.4)m	$(7.4)m

This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged.

Strong treasury management has ensured that the Group's balance sheet remains well capitalised and its operations are financed to accommodate foreseen liquidity demands together with a high level of capital sufficient to meet future catastrophe obligations even if difficult investment market conditions were to prevail for a period of time.

4. Seasonality and weather

Historically, the Group's most material exposure to catastrophe losses on certain lines of business such as reinsurance inwards and marine and major property risk have been greater during the second half of the calendar year, broadly in line with the most active period of the North Atlantic hurricane season. In contrast, a majority of gross premium income written in these lines of business occurs during the first half of the calendar year. The Group actively participates in many regions and if any catastrophic events do occur, it is likely that the Group will share some of the market's losses. Consequently, the potential for significantly greater volatility in expected returns remains during the second half of the year. Details of the Group's recent exposures to these classes of business are disclosed in the Group's 2019 Report and Accounts.

5. Related-party transactions

Transactions with related parties during the period are disclosed in note 33 of the Group's 2019 Report and Accounts.

6. 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.

In the first half of 2019, the Group reviewed the segmental presentation of financial information it requires to assess performance and allocate resources. To further align to how the Group manages its investments through a centralised investment function, and the basis for internal performance incentivisation, the Group has changed the method of allocation of the investment result to the reportable operating segments. Previously this was presented based on investment returns recognised by legal entities that made up the segments, and this is now allocated to each segment based on:

- attributed capital at the beginning of the year under the Group's capital allocation methodology; and
- weighted average insurance liabilities net of reinsurance.

There is no impact on the consolidated investment result and following this change, the comparative figures in the segmental reporting have been re-presented.

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

Hiscox Retail brings together the results of the Group's retail business divisions in the UK, Europe, USA and Asia, as well as Hiscox Special Risks. Hiscox UK and Hiscox Europe underwrite personal and commercial lines of business through Hiscox Insurance Company Limited and Hiscox Société Anonyme (Hiscox SA), together with the fine art and non-US household insurance business written through Syndicate 33. In addition, Hiscox UK includes elements of specialty and international employees and officers' insurance written by Syndicate 3624. Hiscox Europe excludes the kidnap and ransom business written by Hiscox SA. Hiscox Special Risks comprises the specialty and fine art lines written through Hiscox Insurance Company (Guernsey) Limited and the European kidnap and ransom business written by Hiscox SA and Syndicate 33. Hiscox USA comprises commercial, property and specialty business written by Hiscox Insurance Company Inc. and Syndicate 3624.

Hiscox London Market comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines, excluding the kidnap and ransom business. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage and aviation business.

Hiscox Re & ILS is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda and London. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are also included. The segment also includes the performance and fee income from the ILS funds, along with the gains and losses made as a result of the Group's investment in the funds.

Corporate Centre comprises finance costs and administrative costs associated with Group management activities and intragroup borrowings. The segment includes results from run-off portfolios where the Group has ceded all insurance risks to third-party reinsurers.

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.

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6. Operating segments (continued)

Year to 31 December 2019

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Gross premiums written	2,196.3	967.9	866.5	-	**4,030.7**
Net premiums written	1,957.5	504.6	216.7	-	**2,678.8**
Net premiums earned	1,895.1	527.9	212.6	-	**2,635.6**
Investment result	133.9	50.6	38.5	-	**223.0**
Other income	29.0	9.0	12.7	2.4	**53.1**
Total income	2,058.0	587.5	263.8	2.4	**2,911.7**
Claims and claim adjustment expenses, net of reinsurance	(929.7)	(356.1)	(290.3)	-	**(1,576.1)**
Expenses for the acquisition of insurance contracts	(497.0)	(147.9)	(16.1)	-	**(661.0)**
Operational expenses	(460.9)	(59.2)	(63.6)	(9.8)	**(593.5)**
Net foreign exchange gains/(losses)	9.2	7.1	13.8	(21.6)	**8.5**
Total expenses	(1,878.4)	(556.1)	(356.2)	(31.4)	**(2,822.1)**
Results of operating activities	179.6	31.4	(92.4)	(29.0)	**89.6**
Finance costs	(1.2)	(1.0)	(1.4)	(33.0)	**(36.6)**
Share of profit/(loss) of associates after tax	-	-	-	0.1	**0.1**
Profit/(loss) before tax	178.4	30.4	(93.8)	(61.9)	**53.1**
100% ratio analysis†					
Claims ratio (%)	48.9	66.3	132.8	-	**60.4**
Expense ratio (%)	49.8	38.1	31.1	-	**45.3**
Combined ratio (%)^	98.7	104.4	163.9	**-**	**105.7**

6. Operating segments (continued)

Year to 31 December 2018 (restated)*

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre[‡] $m	Total $m
Gross premiums written	2,087.1	877.7	812.0	1.5	**3,778.3**
Net premiums written	1,874.5	522.9	241.5	(57.4)	**2,581.5**
Net premiums earned	1,821.8	551.8	257.4	(57.4)	**2,573.6**
Investment result**	19.9	10.8	7.4	-	**38.1**
Other income	23.8	9.8	13.1	0.1	**46.8**
Total income	1,865.5	572.4	277.9	(57.3)	**2,658.5**
Claims and claim adjustment expenses, net of reinsurance	(812.1)	(253.3)	(217.9)	57.5	**(1,225.8)**
Expenses for the acquisition of insurance contracts	(459.3)	(164.6)	(17.4)	(0.4)	**(641.7)**
Operational expenses	(448.5)	(75.5)	(58.4)	(25.1)	**(607.5)**
Net foreign exchange gains/(losses)	1.1	(2.6)	(11.6)	(0.6)	**(13.7)**
Total expenses	(1,718.8)	(496.0)	(305.3)	31.4	**(2,488.7)**
Results of operating activities	146.7	76.4	(27.4)	(25.9)	**169.8**
Finance costs	(0.2)	(0.6)	(1.3)	(32.5)	**(34.6)**
Share of profit/(loss) of associates after tax	(0.2)	-	-	0.6	**0.4**
Profit/(loss) before tax	146.3	75.8	(28.7)	(57.8)	**135.6**
100% ratio analysis[†]					
Claims ratio (%)	43.8	46.0	83.8	-	**48.5**
Expense ratio (%)	49.8	43.3	33.1	-	**46.4**
Combined ratio (%)^	93.6	89.3	116.9	-	**94.9**

* See note 2.2 for further details.

[‡]Includes a run-off casualty portfolio following the completion of a loss portfolio transfer reinsurance treaty effective from 2018 ceding any future payments on losses arising from claims developments related to policies written from 2010 to 2016, with premiums earned of $(57.4) million and claims adjustment expenses net of reinsurance of $57.5 million.

** Re-presented to reflect change in method of allocation of the investment result to reportable operating segments. The impact as at 31 December 2018 amounted to an increase of $10.4 million in Hiscox Retail, and decreases of $2.5 million in Hiscox London Market, $5.5 million in Hiscox Re & ILS and $2.4 million in Corporate Centre. See page 24 for further details.

[†] The Group's percentage participation in Syndicate 33 can fluctuate from year to year and consequently, presentation of the ratios at the 100% level removes any distortions arising therefrom.

^ The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts, operational expenses, including profit-related pay and foreign exchange gains or losses as a proportion of net premiums earned. The combined ratio is the total of the claims and expenses ratios. All ratios are calculated using the 100% results and excludes a run-off portfolio, where the Group has ceded all insurance risks to a third-party reinsurer, included within Corporate Centre.

6. Operating segments (continued)

The tables presented below contain the net earned premium, claims, expenses and foreign exchange items at 100% ownership, to enable calculation of the ratios included in the operating segments.

Year to 31 December 2019

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Net premiums earned	1,934.4	721.6	249.4	-	2,905.4
Claims and claim adjustment expenses, net of reinsurance	(945.5)	(478.6)	(331.3)	-	(1,755.4)
Expenses for the acquisition of insurance contracts	(509.2)	(205.1)	(20.7)	-	(735.0)
Operational expenses	(464.9)	(78.2)	(71.6)	(9.8)	(624.5)
Net foreign exchange gains/(losses)	9.4	8.4	14.9	(21.6)	11.1

Year to 31 December 2018

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Net premiums earned	1,863.0	719.4	298.1	(57.4)	2,823.1
Claims and claim adjustment expenses, net of reinsurance	(816.1)	(330.9)	(249.8)	57.5	(1,339.3)
Expenses for the acquisition of insurance contracts	(475.6)	(213.9)	(19.5)	(0.4)	(709.4)
Operational expenses	(451.9)	(95.3)	(66.0)	(17.7)	(630.9)
Net foreign exchange gains/(losses)	0.3	(2.7)	(13.2)	(0.6)	(16.2)

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7. Net asset value per share and net tangible asset value per share

	2019		2018 (restated)*	
	Net asset value (total equity)	**Net asset value per share cents**	Net asset value (total equity)	Net asset value per share cents
	$m		$m	
Net asset value	**2,189.7**	**768.2**	2,259.0	798.6
Net tangible asset value	**1,911.7**	**670.6**	2,054.4	726.2

*See note 2.2 for further details.

The net asset value per share is based on 285,051,997 shares (2018: 282,886,319), being the shares in issue at 31 December 2019, less those held in treasury and those held by the Group Employee Benefit Trust. Net tangible assets comprise total equity excluding intangible assets. The net asset value per share expressed in pence is 580.1p (2018: 627.0p).

8. Return on equity

	2019 **$m**	2018 (restated)* $m
Profit for the year (all attributable to owners of the Company)	**48.9**	117.9
Opening total equity*	**2,259.0**	2,317.2
Adjusted for the time-weighted impact of capital distributions and issuance of shares	**(52.3)**	(83.7)
Adjusted opening total equity	**2,206.7**	2,233.5
Return on equity (%)	**2.2**	5.3

*See note 2.2 for further details.

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.

9. Investment result

i. Analysis of investment result

The total investment result for the Group comprises:

	2019 **$m**	2018 $m
Investment income including interest receivable	**123.7**	103.0
Net realised gains/(losses) on financial investments at fair value through profit or loss	**34.4**	(25.4)
Net fair value gains/(losses) on financial investments at fair value through profit or loss	**73.0**	(35.1)
Investment result – financial assets	**231.1**	42.5
Net fair value (losses)/gains on derivative financial instruments	**(2.2)**	1.3
Investment expenses	**(5.9)**	(5.7)
Total result	**223.0**	38.1

9. Investment result (continued)

ii. Investment return

	2019		2018	
	Return $m	**Yield %**	Return $m	Yield %
Debt and fixed income securities	**161.8**	**3.4**	57.5	1.3
Equities and investment funds	**61.4**	**13.3**	(27.5)	(6.2)
Deposits with credit institutions/cash and cash equivalents	**7.9**	**0.7**	12.5	0.8
Investment result – financial assets	**231.1**	**3.6**	42.5	0.7

*See note 2.2 for further details.

10. Other income and operational expenses

	2019 $m	2018 (restated)* $m
Agency-related income	**28.6**	27.1
Profit commission	**3.9**	7.0
Other underwriting income/(loss)	**0.9**	(3.4)
Other income	**19.7**	16.1
Other income	**53.1**	46.8
Wages and salaries	**192.3**	212.3
Social security costs	**33.9**	32.7
Pension cost – defined contribution	**16.7**	14.6
Pension cost – defined benefit	**1.0**	2.2
Share-based payments	**3.6**	(3.6)
Temporary staff costs	**49.6**	55.6
Travel and entertainment	**20.6**	19.7
Legal and professional	**40.7**	39.9
Office costs	**12.7**	25.0
Computer costs	**70.4**	71.1
Marketing expenses	**88.9**	69.7
Depreciation, amortisation and impairment	**44.6**	33.2
Other expenses	**18.5**	35.1
Operational expenses	**593.5**	607.5

*See note 2.2 for further details.

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

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11. Finance costs

	2019 **$m**	2018 $m
Interest charge associated with long-term debt	**28.7**	28.3
Interest and expenses associated with bank borrowing facilities	**3.2**	2.5
Interest and charges associated with Letters of Credit	**2.0**	3.2
Other interest expenses*	**2.7**	0.6
	36.6	34.6

*Includes interest expense on lease liabilities of $1.8 million (2018: $nil), see note 2.1 for further details.

As at 31 December 2019, the total amount drawn by way of Letter of Credit to support the Funds at Lloyd's requirement was $50 million (2018: $50 million).

12. Tax expense

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

The amount charged in the condensed consolidated income statement comprise the following:

	2019 **$m**	2018 (restated)* $m
Current tax expense	**29.0**	29.5
Deferred tax credit	**(24.8)**	(11.8)
Total tax charged to the income statement	**4.2**	17.7

*See note 2.2 for further details.

13. Insurance liabilities and reinsurance assets

	2019 **$m**	2018 $m
Gross		
Claims and claim adjustment expenses	**6,276.0**	4,992.2
Unearned premiums	**1,818.5**	1,709.3
Total insurance liabilities, gross	**8,094.5**	6,701.5
Recoverable from reinsurers		
Claims and claim adjustment expenses	**2,921.0**	2,047.1
Unearned premiums	**465.9**	409.5
Total reinsurers' share of insurance liabilities	**3,386.9**	2,456.6
Net		
Claims and claim adjustment expenses	**3,355.0**	2,945.1
Unearned premiums	**1,352.6**	1,299.8
Total insurance liabilities, net	**4,707.6**	4,244.9

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13. Insurance liabilities and reinsurance assets (continued)

The development of net claims reserves by accident years are detailed below.

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

Accident year	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	**2019 $m**	**Total $m**
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:	1,218.3	1,496.1	1,178.5	1,128.3	1,177.0	1,252.8	1,479.1	1,851.8	1,794.2	1,785.7	14,361.8
one year later	1,068.1	1,379.8	1,038.2	1,001.1	1,034.4	1,158.4	1,341.5	1,626.9	1,837.3		11,485.7
two years later	1,004.8	1,325.1	962.8	899.8	939.8	1,063.1	1,267.9	1,613.8			9,077.1
three years later	978.1	1,321.8	927.0	834.8	884.6	1,056.0	1,285.6				7,287.9
four years later	947.9	1,312.7	917.7	830.8	852.2	1,056.6					5,917.9
five years later	942.2	1,260.4	937.8	804.5	833.5						4,778.4
six years later	909.9	1,224.2	927.5	802.1							3,863.7
seven years later	894.9	1,191.8	910.2								2,996.9
eight years later	888.6	1,172.8									2,061.4
nine years later	885.2										885.2
Current estimate of cumulative claims	885.2	1,172.8	910.2	802.1	833.5	1,056.6	1,285.6	1,613.8	1,837.3	1,785.7	12,182.8
Cumulative payments to date	(849.0)	(1,162.0)	(812.6)	(751.6)	(709.9)	(815.2)	(976.8)	(1,127.9)	(930.1)	(389.2)	(8,524.3)
Liability recognised at 100% level	36.2	10.8	97.6	50.5	123.6	241.4	308.8	485.9	907.2	1,396.5	3,658.5
Liability recognised in respect of prior accident years at 100% level											**97.9**
Total net liability to external parties at 100% level											**3,756.4**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2019.

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13. Insurance liabilities and reinsurance assets (continued)

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

Accident year	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	**2019 $m**	**Total $m**
Current estimate of cumulative claims	885.2	1,172.8	910.2	802.1	833.5	1,056.6	1,285.6	1,613.8	1,837.3	1,785.7	12,182.8
Less: attributable to external Names	(127.5)	(158.7)	(96.5)	(82.1)	(84.1)	(107.1)	(129.4)	(166.9)	(184.4)	(195.9)	(1,332.6)
Group's share of current ultimate claims estimate	757.7	1,014.1	813.7	720.0	749.4	949.5	1,156.2	1,446.9	1,652.9	1,589.8	10,850.2
Cumulative payments to date	(849.0)	(1,162.0)	(812.6)	(751.6)	(709.9)	(815.2)	(976.8)	(1,127.9)	(930.1)	(389.2)	(8,524.3)
Less: attributable to external Names	119.2	153.5	84.6	74.1	74.0	83.0	96.0	117.7	103.5	46.5	952.1
Group share of cumulative payments	(729.8)	(1,008.5)	(728.0)	(677.5)	(635.9)	(732.2)	(880.8)	(1,010.2)	(826.6)	(342.7)	(7,572.2)
Liability for 2010 to 2019 accident years recognised on Group's balance sheet	27.9	5.6	85.7	42.5	113.5	217.3	275.4	436.7	826.3	1,247.1	3,278.0
Liability for accident years before 2010 recognised on Group's balance sheet											**77.0**
Total Group liability to external parties included in balance sheet – net*											**3,355.0**

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

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14. 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 ordinary shares in issue during the year, excluding ordinary shares held by the Group and held in treasury as own shares.

	2019	2018 (restated)*
Profit for the year attributable to owners of the Company ($m)	**48.9**	117.9
Weighted average number of ordinary shares (thousands)	**284,015**	283,564
Basic earnings per share (cents per share)	**17.2¢**	41.6¢
Basic earnings per share (pence per share)	**13.5p**	31.2p

*See note 2.2 for further details.

Diluted

Diluted earnings per share is calculated by 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.

	2019	2018 (restated)*
Profit for the year attributable to owners of the Company ($m)	**48.9**	117.9
Weighted average number of ordinary shares in issue (thousands)	**284,015**	283,564
Adjustments for share options (thousands)	**4,361**	5,650
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**288,376**	289,214
Diluted earnings per share (cents per share)	**16.9¢**	40.8¢
Diluted earnings per share (pence per share)	**13.3p**	30.6p

*See note 2.2 for further details.

Diluted earnings per share has been calculated after taking account of Performance Share Plan awards and options under Save As You Earn schemes.

15. Dividends paid to owners of the Company

	2019 $m	2018 $m
Final dividend for the year ended:		
31 December 2018 of 28.6¢ (net) per share	**81.4**	-
31 December 2017 of 19.5p or 27.2¢ (net) per share	**-**	76.0
Interim dividend for the year ended:		
31 December 2019 of 13.75¢ (net) per share	**39.5**	-
31 December 2018 of 13.25¢ (net) per share	**-**	37.5
	120.9	113.5

The final dividend for the year ended 31 December 2018 was either paid in cash or issued as a scrip dividend equivalent of 28.6¢ per share. The final dividend for the year ended 31 December 2018 was paid in cash of $75.2 million (2018: $71.5 million) and 296,044 shares for the scrip dividend (2018: 263,368).

15. Dividends paid to owners of the Company (continued)

The interim dividends for 2019 and 2018 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 2019 was paid in cash of $36.4 million (2018: $35.7 million) and 157,487 shares for the scrip dividend (2018: 107,896).

From the 2018 dividend, dividends have been and will continue to be declared in US Dollars, aligning shareholder returns with the primary currency in which the Group generates cash flow.

The Board has declared a final dividend of 29.6¢ per share to be paid on 10 June 2020 to shareholders registered on 15 May 2020 taking the total ordinary dividend per share for the year to 43.35¢ (2018: 41.85¢). The dividends will be paid in Sterling unless shareholders elect to be paid in US Dollars. The foreign exchange rate at which future dividends declared in US Dollars will be calculated is based on the average exchange rate in the five business days prior to the scrip dividend price being determined. On this occasion, the period will be between 26 May 2020 to 1 June 2020 inclusive.

A scrip dividend alternative will be offered to the shareholders of the Company.

When determining the level of dividend each year, the Board considers the ability of the Group to generate cash; the availability of that cash in the Group, while considering constraints such as regulatory capital requirements and the level required to invest in the business. This is a progressive policy and is expected to be maintained for the foreseeable future.

16. Financial assets and liabilities

i. Analysis of financial assets carried at fair value

	2019 $m	2018 $m
Debt and fixed income securities	4,989.9	4,574.6
Equities and investment funds	486.4	398.0
Deposits with credit institutions	-	0.4
Total investments	5,476.3	4,973.0
Insurance-linked funds	61.2	55.2
Derivative financial instruments	1.5	1.5
Total financial assets carried at fair value	5,539.0	5,029.7

ii. Analysis of financial liabilities carried at fair value

	2019 $m	2018 $m
Derivative financial instruments	**0.6**	1.1
Total financial liabilities carried at fair value	**0.6**	1.1

iii. Analysis of financial liabilities carried at amortised cost

	2019 $m	2018 $m
Long-term debt	**725.6**	697.1
Accrued interest on long-term debt	**2.6**	2.3
Total financial liabilities carried at amortised cost	**728.2**	699.4

16. Financial assets and liabilities (continued)

On 24 November 2015, the Group issued £275.0 million 6.125% fixed-to-floating rate callable subordinated notes due 2045, with a first call date of 2025.

The notes bear interest from, and including, 24 November 2015 at a fixed rate of 6.125% per annum 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.

On 25 November 2015, the notes were admitted for trading on the London Stock Exchange's regulated market. The notes were rated BBB- by S&P as well as by Fitch.

On 14 March 2018, the Group issued £275.0 million 2% notes due December 2022. The notes will be redeemed on the maturity date at their principal amount together with accrued interest.

The notes bear interest from, and including, 14 March 2018 at a fixed rate of 2% per annum annually in arrears starting 14 December 2018 until maturity on 14 December 2022.

On 14 March 2018, the notes were admitted for trading on the Luxembourg Stock Exchange's Euro MTF. The notes were rated BBB+ by S&P as well as by Fitch.

The fair value of the long-term debt is estimated at $787.3 million (2018: $706.3 million). The fair value measurement is classified within Level 1 of the fair value hierarchy. The fair value is estimated by reference to the actively traded value on the stock exchanges.

iv. Investment and cash allocation

	2019		2018	
	$m	**%**	$m	%
Debt and fixed income securities	**4,989.9**	**75.7**	4,574.6	73.0
Equities and investment funds	**486.4**	**7.4**	398.0	6.4
Deposits with credit institutions / cash and cash equivalents	**1,115.9**	**16.9**	1,289.2	20.6
Total	**6,592.2**		6,261.8	

v. Total investments and cash allocation by currency

	2019 %	2018 (restated)* %
US Dollars	**64.8**	64.3
Sterling	**22.1**	21.7
Euro	**8.7**	10.5
Other	**4.4**	3.5

*Following a review of the underlying currency of the debt and fixed income securities, an amount of $67.9 million has been reclassified from US Dollars and Sterling to Euro and other currencies and has been reflected in the 2018 currency allocation above.

17. Fair value measurements

An analysis of assets and liabilities carried at fair value categorised by fair value hierarchy that reflects the significance of the inputs used in measuring the fair value, is set out below.

As at 31 December 2019	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial Assets				
Debt and fixed income securities	1,495.9	3,494.0	-	4,989.9
Equities and investment funds	-	467.9	18.5	486.4
Insurance-linked funds	-	-	61.2	61.2
Derivative financial instruments	-	1.5	-	1.5
Total	1,495.9	3,963.4	79.7	5,539.0
Financial Liabilities				
Derivative financial instruments	-	0.6	-	0.6
Total	-	0.6	-	0.6

As at 31 December 2018	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial Assets				
Debt and fixed income securities	1,509.0	3,065.6	-	4,574.6
Equities and investment funds	-	379.1	18.9	398.0
Deposits with credit institutions	0.4	-	-	0.4
Insurance-linked funds	-	-	55.2	55.2
Derivative financial instruments	-	1.5	-	1.5
Total	1,509.4	3,446.2	74.1	5,029.7
Financial Liabilities				
Derivative financial instruments	-	1.1	-	1.1
Total	-	1.1	-	1.1

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17. Fair value measurements (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the ‘fair value hierarchy’ described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- level 1 - fair values measured using quoted prices (unadjusted) in active markets for identical instruments;
- level 2 - fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on market observable data;
- level 3 - fair values measured using valuation techniques for which significant inputs are not based on market observable data.

The fair values of the Group’s financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment managers 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 investment funds, comprise a portfolio of stock investments in trading entities which are invested in various quoted investments. The fair value of these investment funds are based on the net asset value of the fund reported by independent pricing sources or the fund manager.

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, long-term debt and exchange-traded equities which are measured based on quoted prices in active markets.

Level 2 of the hierarchy contains certain government bonds, US government agencies, corporate securities, asset backed securities and mortgage-backed securities. The fair value of these assets is based on the prices obtained from both investment managers and investment custodians as discussed above. The Group records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US government agencies and corporate securities are based on a limited number of transactions for those securities and as such the Group considers these instruments to have similar characteristics to those instruments classified as Level 2. Also included within Level 2 are units held in traditional long funds and long and short special funds and over-the-counter derivatives.

Level 3 contains investments in a limited partnership and unquoted equity securities and insurance-linked funds which have limited observable inputs on which to measure fair value. Unquoted equities, including equity instruments in limited partnerships, are carried at fair value. Fair value is determined to be net asset value for the limited partnerships, and for the equity holdings it is determined to be the latest available traded price. The effect of changing one or more of the inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant. At 31 December 2019, the insurance-linked fund of $61.2 million represents the Group’s investment in Kiskadee Funds (2018: $55.2 million).

The fair value of the Kiskadee Funds is estimated to be the net asset value as at the balance sheet date. The net asset value is based on the fair value of the assets and liabilities in the Fund. Significant inputs and assumptions in calculating the fair value of the assets and liabilities associated with reinsurance contracts written by the Kiskadee Funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the Kiskadee Funds if reasonably different inputs and assumptions were used and has found 7-9% change to the fair value of the liabilities would increase or decrease the fair value of the funds by $4.5 million to $5.2 million.

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 transfers made between Level 1, Level 2 or Level 3 of the fair value hierarchy.

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17. Fair value measurements (continued)

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 2019 Financial assets		
	Equities and investment funds	**Insurance-linked funds**	**Total**
	$m	**$m**	**$m**
Balance at 1 January	**18.9**	**55.2**	**74.1**
Fair value gains or losses through profit or loss*	**0.2**	**0.7**	**0.9**
Foreign exchange gains	**0.5**	**-**	**0.5**
Purchases	**0.7**	**5.5**	**6.2**
Settlements	**(1.8)**	**(0.2)**	**(2.0)**
Closing balance	**18.5**	**61.2**	**79.7**
Unrealised gains and (losses) in the year on securities held at the end of the year	**(0.1)**	**0.7**	**0.6**

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

	31 December 2018 Financial assets		
	Equities and investment funds	Insurance-linked funds	Total
	$m	$m	$m
Balance at 1 January	15.4	49.9	65.3
Fair value gains or losses through profit or loss*	(0.4)	(3.1)	(3.5)
Foreign exchange losses	(0.7)	-	(0.7)
Purchases	5.0	9.3	14.3
Settlements	(0.4)	(0.9)	(1.3)
Closing balance	18.9	55.2	74.1
Unrealised gains and (losses) in the year on securities held at the end of the year	(0.4)	(3.1)	(3.5)

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

18. Condensed consolidated cash flow statement

Included within cash and cash equivalents held by the Group are balances totalling $167 million (2018: $211 million) not available for immediate use by the Group outside of the Lloyd's syndicates within which they are held. Additionally, $41 million (2018: $24 million) is pledged cash held against Funds at Lloyd's, and $0.3 million (2018: $10 million) held within trust funds against reinsurance arrangements.