Hiscox Ltd full year results

For the year ended 31 December 2015

"A good year"

	2015	2014
Gross premiums written	£1,944.2m	£1,756.3m
Net premiums earned	£1,435.0m	£1,316.3m
Profit before tax	£216.1m	£231.1m
Earnings per share	72.8p	67.4p
Total ordinary dividend per share for year	24.0p	22.5p
Special dividend	16.0p	45.0p
Net asset value per share	545.0p	462.5p
Group combined ratio	85.0%	83.9%
Return on equity	16.0%	17.1%
Investment return	1.0%	1.8%
Reserve releases	£205.9m	£172.2m

Highlights

- Strong premium growth of 10.7% from across the Group, with retail businesses now generating 50% of income.
- Each division delivered good profits through careful risk selection, growth in profitable niches and an absence of natural catastrophes.
- Investment in the Hiscox brand continues to deliver, with retail customers now exceeding 600,000.
- Hiscox London Market continues to grow profitably, benefiting from new teams in complementary specialty lines.
- Hiscox Re performing well with Kiskadee Investment Managers' AUM on track to reach US$1 billion in 2016 after its second year of operation.
- A second interim dividend of 32.0p per share comprised of a special dividend of 16.0p and a final dividend equivalent of 16.0p, bringing the year's total distribution to 40.0p. Going forward the Group will retain a greater proportion of earnings to fund the growth opportunities we see.

Bronek Masojada, Chief Executive of Hiscox Ltd, commented:

"Our strategy continues to deliver good growth with our retail businesses contributing 50% of income. We have established profitable operations in everything from direct-to-consumer small business insurance to ILS fund management. This diversity sets us apart and gives us options."

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Notes to editors

About Hiscox

Hiscox, the international specialist insurer, is headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). There are three main underwriting divisions in the Group - Hiscox Retail (which includes Hiscox UK and Europe, Hiscox Guernsey, Hiscox USA and subsidiary brand, DirectAsia), Hiscox London Market and Hiscox Re. Through its retail businesses in the UK, Europe and the US Hiscox offers a range of specialist insurance for professionals and business customers, as well as homeowners. Hiscox underwrites internationally traded, bigger ticket business and reinsurance through Hiscox London Market and Hiscox Re.

For further information, visit www.hiscoxgroup.com.

Chairman’s statement

The Hiscox Group delivered a very healthy profit of £216.1 million (2014: £231.1 million) in 2015 with some help from a benevolent Mother Nature.

Our industry has enjoyed a long period of reduced catastrophic activity. The effect has been to attract more capital, and thus competition resulting in reduced prices. This is more keenly felt on accounts that attract larger premiums. We are prepared for this; we have a proven strategy of balancing the bigger-ticket with the smaller retail business. Our diverse product range sold across a wide geographic area means we are well placed to thrive in this environment.

Our retail operations have grown profitably and now account for half the Group’s income, reaping the rewards of our long-term investment in the Hiscox brand. Our London Market business has also had a strong year, exercising prudence and adding new teams in complementary specialty lines. Here we have benefited from the fallout from the recent M&A activity. Hiscox Re, with its focus on product development combined with technical strength and good underwriting, has done well, again delivering good profits. And Kiskadee, our Insurance Linked Securities (ILS) business, is on track to reach US$1 billion of funds in 2016.

Results
The result for the year ending 31 December 2015 was a very good profit before tax of £216.1 million (2014: £231.1 million). Gross written premium increased by 10.7% to £1,944.2 million (2014: £1,756.3 million). The combined ratio was 85.0% (2014: 83.9%). Earnings per share increased to 72.8p (2014: 67.4p) and the net asset value per share increased by 17.8% to 545.0p (2014: 462.5p). Return on equity was 16.0% (2014: 17.1%).

Dividend and capital
The Board has declared a second interim dividend of 32.0p per share (to be paid on 7 April 2016 to shareholders on the register at 11 March 2016), which comprises a final dividend equivalent of 16.0p per share (2014: 15.0p), taking the total ordinary dividend per share for the year to 24.0p, an increase of 1.5p (2014: 22.5p) and; an additional return of capital of 16.0p per share (2014: 45.0p). On this occasion the Directors have decided not to offer a scrip alternative.

This is the fourth successive year we have been able to return additional capital to shareholders. As previously communicated to the market however, returning capital to shareholders is not a long-term strategy and going forward the focus will be on pursuing opportunities for profitable growth. The Group continues to maintain a progressive core dividend policy.

In 2015 we raised £275 million via a subordinated debt issue. As Tier 2 capital it will support our ratings and also give us capital flexibility underpinning our 2016 business plans and beyond. As an inaugural issue it was competitively priced and the support was flattering.

Investments
After another challenging year for both bond and equity investment, characterised by low yields and volatility in many asset classes, we view our investment return of £33.7 million (2014: £56.4 million) to be satisfactory. This equates to a return of 1.0% (2014: 1.8%) of total assets under management.

It has never been our style to take excessive risk with our investment portfolio, particularly given the uncertainty and lack of liquidity which prevails in many investment markets. Our priority remains that of capital preservation over appreciation and whilst our portfolio of predominantly short-term bonds offers only modest upside, it reflects the nature of our liabilities and should limit the volatility of our portfolio overall. We have always been prepared to take some risk in the portfolio and we maintain an allocation to equity and hedge funds which we think is appropriate over the longer term despite more frequent outbreaks of short-term turbulence. The outlook for 2016 seems no clearer and we are planning for another year of similar returns.

Cyber opportunity
Cyber attack is mainly about theft of data or malicious damage by electronic means. This can lead to a whole series of consequences from reputational damage to manufacturing plants breaking down, and worse. As such it is definitely the province of insurers, and shouldn’t be left up to governments (as has been suggested). We have the underwriting expertise to address the issues and for over 15 years we have worked hard to provide our customers with responsive cover. Cuthbert Heath, the great twentieth century innovator of our industry, would have relished the challenge and so do we.

Market stress test
We are actively seeking a consensus amongst peers as well as our regulators to ensure an effective response to a disaster hitting the London market. Post-World Trade Centre, we responded to clients’ needs, paying valid claims and writing more profitable business post-loss. We think it is necessary to organise a market stress test "dry run” in

2016 to test the decision making processes and speed of response of all relevant parties. This is essential if London is to maintain its pre-eminence in global specialty insurance.

The Board
During 2015 a number of the original Hiscox Ltd Board retired; namely Dr James King, Andrea Rosen and Dan Healy having each completed nine years' service (the point at which the UK Corporate Governance Code deems them not independent). Richard Gillingwater, who joined the Board in 2010, stood down due to his new commitments at Scottish and Southern Energy as well as Henderson Global Investors. They have served the business well and I would like to thank them all for their wisdom and guidance.

Two new members of the Board bring a wealth of retail financial services and marketing experience; Lynn Carter and Anne MacDonald support our focus on retail growth and brand building. In November we announced the appointment of our new Senior Independent Director and Chairman of the Remuneration Committee, Colin Keogh, who has had a long career in the financial services sector.

In August we said farewell to Stuart Bridges who left after 16 years as our Chief Financial Officer. Stuart made a significant contribution to the Group. He joined in 1999 when our gross written premium was £241 million and shareholder funds were £134 million. By the time he left our market cap had risen to £2.5 billion, and we delivered a total shareholder return of 16.1% per annum. Stuart played an important role in our growth, guiding our financial strategy through the challenges of overseas expansion, testing investment markets and increasing regulation. I would like to thank him for all he has achieved for Hiscox.

People
During the year we were very happy to celebrate twenty years of operating in France and Germany, as well as ten years in Spain, USA and Bermuda. Our European business has matured into a profitable and growing part of the company against a backdrop of economic difficulty. The US and Bermudian businesses are profitable and have grown substantially. When I am travelling to any of these locations I am struck by the enthusiasm of our people and their desire to do a great job. Across the Group, we work hard to maintain our culture and also encourage employee ownership. I am proud and grateful for the talent and dedication our brand attracts.

Outlook
Although the result was in some part due to clement weather internationally, our strategy has once again proved itself in challenging conditions. For the best part of three decades we have sought to strike a balance between big-ticket wholesale exposures and smaller, less volatile retail risks; creating diversity in product, distribution and geography in order to grow despite market conditions. The Hiscox Group is now the only specialist insurer with established operations in all forms of insurance markets – from a direct-to-consumer offering, to a significant ILS fund management business and everything in between.

Treacherous currents and difficult headwinds will increasingly prevail in the years ahead and our experience tells us that catastrophes can occur at any time. As the operating environment gets tougher however, we believe our strategy will continue to give us profitable opportunities as we continue on our independent path with focus and discipline.

Robert Childs
29 February 2016

Chief Executive's report

It is pleasing to report a profit before tax of £216.1 million (2014: £231.1 million), a return on equity of 16.0% (2014: 17.1%) and premium growth of 10.7% to £1,944.2 million (2014: £1,756.3 million). Our good results are allowing us to pay a second interim dividend of 32.0p per share, which comprises a final dividend equivalent of 16.0p and a special dividend of 16.0p, bringing the year's total distribution to 40.0p. We do not expect the capital washing around our industry to go away in 2016, but we feel confident that the differentiated products in our retail businesses around the world will allow us to grow where margins are attractive, and we will use our retained earnings to fund the solvency capital this expansion requires.

Our US business, entering its tenth year of operation in 2016, contributed significantly to the Group's growth in 2015, increasing premiums by 21.5% and delivering a healthy profit. Hiscox London Market demonstrated its adaptability with growth of 14.6% and good profits. Hiscox Re continued to evolve whilst making a material profit contribution, with Kiskadee, our Insurance Linked Securities business, expected to manage US$1 billion by the end of 2016. Hiscox UK, Hiscox Europe and Hiscox Guernsey have all had a good year, with good progress shown in DirectAsia.

It was not a loss-free year for our industry, or Hiscox. We, like others, have benefited from the absence of major natural catastrophes. Our attritional claims were broadly in line with past years, and our skilled underwriting teams avoided material impact from some of the larger industry losses such as the explosions in Tianjin in China, tornado and freeze-related claims in the US, floods in the UK and mining related collapses in South America. In total these cost us a modest £25.1 million.

Hiscox Retail

Our specialist retail operations differentiate us from others in our sector who have grown out of London and Bermuda. The current competitive pressures have prompted many of them to try to replicate what we have achieved, but we have the considerable advantage of having begun this journey in 1989, with an initial focus on high net worth homes. Since then we have launched new lines of personal and commercial insurance, entered other countries, built great teams and invested heavily in our brand. Hiscox Retail now comprises half of the Group's gross written premium: £975.6 million in total (2014: £891.1 million). We began investing in commercial insurances for small and medium sized businesses in 1994; at £580.7 million it is now the single biggest segment in the Group.

In aggregate our retail businesses generated substantial profits: £73.3 million in 2015, slightly down on 2014's £78.1 million. This is due partly to our increased marketing expenditure which rose by £12.7 million to £44.5 million (2014: £31.8 million). These costs are taken to this year's profit and loss account, but their benefit accrues over many years; supporting not just our retail businesses, but the Group as a whole.

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

Hiscox UK and Europe

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

Our retail businesses in the UK and Europe made profits of £64.9 million (2014: £73.3 million). Claims within the UK and European businesses were benign for the majority of the year which encouraged us to boost our marketing expenditure by £4 million above plan. This looked like a sensible decision until December when storms Desmond, Eva and Frank hit the UK. The impact of these events on our business is estimated at £10 million. Europe enjoyed a record year in Euro terms thanks to strong underlying performance, augmented by a single significant prior year release. Exchange rate movements mean that this performance is not reflected in our Sterling result.

Hiscox UK and Ireland

Hiscox UK and Ireland grew gross written premiums 1.9% to £443.3 million (2014: £435.0 million). Good growth across most lines offset a reduction of £23 million in income from commercial partnerships as we rebalanced the portfolio towards more profitable lines.

Brokers are our most important distribution channel, accounting for just under 80% of our UK business. We support them with disciplined, but creative, underwriting solutions and a focus on delivering good service via our network of offices in Birmingham, Colchester, Dublin, Glasgow, Leeds, London, Maidenhead, Manchester and York. The broker channel achieved good retention of 87% and grew by 7.6%.

During the year, we saw a six-fold increase in demand for our cyber and data insurance product for small businesses. We also acquired RH Classics, a leading classic car insurance specialist, which broadens our capabilities and gives us access to a new group of customers.

Our marketing reach means we receive many enquiries from customers whose needs are outside of our underwriting appetite. In 2016, we are creating a managing general agent to underwrite these risks on behalf of other insurers, providing them with a flow of business and us with fees and profit commission.

At the end of the year we celebrated the opening of our new office in York, on time and on budget. Housing over 250 employees, with room for further expansion, this is the hub of our direct-to-consumer operations and represents our high ambitions for this business. This office was off to a strong start on day one, as the team beat their sales targets and served our customers brilliantly; a testament to our motivated and talented people. However, we did have a heart-stopping moment in December when swathes of York flooded and water crept towards our office. Thanks to our dedicated staff, all of whom were able to get to the office on the worst affected day, and a cannily built overflow tank, we were able to provide uninterrupted service to all of our flood-affected customers.

We have for several years been progressively in-sourcing all of our direct customer sales and service functions and moving our direct business to a new IT platform. These projects are all now complete, and after such a sustained period of investing in infrastructure, the UK direct business will now focus on profitable growth, increasing scale and improving its expense ratio.

Hiscox Europe

Hiscox Europe grew gross written premiums by 7.8% to €205.6 million (2014: €190.8 million) and achieved a combined ratio of 92.2% (2014: 94.1%), with a good performance in all product lines and from Spain, Germany and Benelux in particular.

During the year, Hiscox Specialty Commercial was launched in France and Germany. This suite of products broadens our liability and property offering to small businesses. We hope to replicate the success we have experienced in the UK and early signs have been very positive. Our cyber product in Germany and the Netherlands has also done particularly well, as demand grows and customer preparedness to buy increases. Alternative distribution, via broker schemes, and partnerships with other organisations is growing in importance. In Spain, participation in a number of contingency and personal accident managing general agencies is generating good growth.

Not everything went to plan. One of our priorities was to accelerate the growth of our Franco German direct commercial business through a significant marketing investment. We achieved growth of over 20% to €5 million, but the returns were not commensurate with the cost. We have decided that the pan-European experiment did not work and will be pursuing a less ambitious path in 2016. A key part of this is transforming the direct business to one which can also support the broker and partnership channels, and is managed and led at a local level.

Our European Service Centre in Lisbon is operating well. It now performs up to 90% of transactions, representing a key step to reducing our European expense base.

Our European business offers opportunities for steady growth despite the Eurozone's travails. In 2016, we will explore opportunities in the classic car market, look to grow the commercial and partnership business, and continue to use segmentation to drive productivity and efficiency.

Hiscox International

This division comprises Hiscox USA, Hiscox Guernsey and DirectAsia. Its revenues grew by 26.4% to £380.5 million (2014: £301.1 million) and it achieved a combined ratio of 97.9% (2014: 100.1%). Hiscox USA was the biggest contributor to the division's growth and profit improvement.

Hiscox USA

Hiscox USA primarily underwrites small-to-middle market commercial risks through brokers, other insurers and directly to businesses (either online or over the telephone). It delivered another stellar performance in 2015, with gross written premiums increasing by 21.5% in local currency to US$446.6 million (2014: US$367.6 million), and a strong profit. This result was helped by a stable claims environment, discipline on commissions and good expense management.

Our core professional liability and small commercial products continue to drive growth. During the year the team honed its underwriting strategy in order to grow its footprint and retain its competitive edge in the directors and officers', technology errors and omissions (E&O) and general liability product lines. We also made good progress in entertainment, enhancing Hiscox One, the first integrated E&O, property and workers compensation offering for entertainment professionals.

The cyber market in the US is experiencing rapid growth with many new market entrants. We believe the marketplace will ultimately favour those carriers that possess the most experience in servicing these risks. We have been underwriting US cyber for 15 years but will not rest on our laurels. In 2016 we will launch an updated, comprehensive but simply-designed cyber product that reinforces our market position as a leading specialist insurer.

Our direct-to-consumer operations continue to grow apace, with policies in force now numbering over 120,000. Direct and partnership small business insurance is now our single biggest US line of business, and marketing has been an important component of its success. We are developing our brand around the strapline 'Encourage Courage'. To promote this we have sponsored the Tough Mudder fitness challenge across the US and created the Courageous Leaders web series. We hope that, in time, our US brand presence will match that of our UK business.

In 2016 we celebrate ten years of Hiscox USA. It has achieved critical mass, now provides the Group with a robust and sustainable profit stream, and has delivered 18% compound organic growth in the last five years. We have established teams of experts in key states, including an exploratory team in Dallas in 2015, and a growing brand. We will not stop there; we see real opportunities despite competitive markets, and will continue investing in new talent, IT and our brand in 2016.

Hiscox Guernsey
Hiscox Guernsey comprises our Guernsey-based kidnap and ransom, private fine art and executive security underwriting operations with sales offices in London and Miami.

Across the globe, market conditions remain very competitive. Premiums decreased slightly by 1.9% to US$103.6 million (2014: US$105.6 million). A new team in Miami is driving growth, offsetting reductions elsewhere. An investment in IT is also paying off. Our business partners are increasingly looking for e-trading solutions, and our new platform delivers a more efficient process between producers, brokers and underwriters.

We have combined the different teams from across the Group that focus on special risks, including kidnap and ransom, private client fine art and executive security, into a single structure which is now branded Hiscox Special Risks. Led from Guernsey, the division will include teams in London, Munich, Paris, New York, Los Angeles and Miami. We believe that will allow us to provide better service and up-to-date products to corporate and personal customers in the increasingly volatile world in which we live.

DirectAsia
In early 2014 Hiscox acquired DirectAsia, a direct-to-consumer business with operations in Singapore, Hong Kong and Thailand that sells predominantly motor insurance. The business is developing as expected.

Singapore performed solidly in a competitive pricing environment. Hong Kong made good progress too, despite the challenges of a small motor insurance market and low average premiums. We continue to make particularly good progress in Thailand, where we see strong growth potential and where our brand-building work has been well received. Investment in a new TV campaign, supported by print and social media marketing, has moved brand awareness to 37%, driving 500% growth in premium income.

DirectAsia has clear priorities, a strong plan, and a growing customer base. As anticipated, Hiscox's disciplined approach to underwriting and focus on brand-building has complemented the existing expertise within the team.

Hiscox London Market

Our London Market business delivered a strong profit of £59.9 million (2014: £62.6 million), and increased gross written premiums by 14.6% to £585.2 million (2014: £510.8 million). Much of this increase reflects exchange rate fluctuations, with premium growth being 8.5% on a constant currency basis. The business achieved a combined ratio of 85.7% (2014: 84.2%) a good result despite the impact of price reductions. Its biggest source of growth came through our partner White Oak, a specialist automotive and equipment underwriter. It contributed 5.0% of growth, while new products and teams delivered 4.2% and core London Market lines reduced by 0.7%.

The London Market remains competitive. Customers are getting used to lower prices and brokers are fighting to increase their declining margin. Our response is to continue improving our relationship with brokers, supporting facilities and quota-share agreements where we have the right degree of underwriting control and we see margin.

Hiscox London Market has also benefited from market dislocation resulting from M&A activity, as leading underwriting talent joins our ranks. This has allowed us to strengthen our existing cargo team and establish new teams in product recall, and US general liability in London, and property in Miami.

Looking at each division in turn:

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

This area had another excellent year due to careful risk selection and a general lack of catastrophes. We focused on retaining small-ticket commercial and household business, written through binding authorities with long-standing US partners. Continuing pressure on big-ticket traded business meant the team needed to remain extremely disciplined as it dealt with market challenges and looked for new opportunities. The launch of flood cover for the newly deregulated US market is one example of such an opportunity. The private sector can offer wider terms and coverage than the government-backed National Flood Insurance Program, giving consumers a more accurately priced and responsive product. It is ironic that London Market firms have an appetite for flood exposure, whilst in the UK the Government has pushed the domestic industry to create a mutualised and distorted approach to tackling this risk.

Marine and Energy
Challenging trading conditions continue to depress the marine and energy market and our business in this sector shrank by 12.2%. Upstream energy was already under pressure but the substantial drop in the price of oil has further affected this account as pressure grows on clients' budgets. The team has actively reduced exposure where the margins are unreasonable. Our marine and energy liability business did well to maintain its position in 2015, mainly due to our increased appetite as market conditions held up. However given overall conditions, we expect existing marine and energy lines to reduce in future, except for cargo business which has been reinvigorated with some new hires.

Casualty
This business grew by over 39% as a result of our investment in new talent and new lines of business over a number of years. During the year, the team launched a new cyber product that covers medium-to-large sized businesses for extortion threats and cyber breaches. The directors and officers' team won 'Underwriting Team of the Year' at the 2015 Insurance Day awards. A new team was also brought on board to focus on US general liability.

Aerospace and Specialty
This division includes our aviation, space, contingency, terrorism, kidnap and ransom, political risks and personal accident business.

Despite a series of aviation losses in recent years, including the Germanwings and Metrojet disasters in 2015, this market is under extreme pricing pressure. The team is navigating their way through turbulent conditions with opportunities seized in the more profitable manufacturers and airports business. Our political risks business has been hit by falling oil prices and political unrest in Ukraine, where we reserved claims for net £16 million at year end.

Our terrorism business has felt the impact of facilities in the market where brokers are bundling risks together to make them easier to place. We participated where we saw margin and opportunity.

The personal accident team recruited last year is making a strong impact, delivering profitable growth in a specialist line we are keen to lead. Similarly, our new product recall team has made a good start. Other lines including contingency and kidnap and ransom are holding steady and delivering strong profits driven by good risk selection.

Alternative Distribution
Adapting to changes in distribution is key in the current environment. The role of the alternative distribution division is to facilitate innovation in the use of technology and specialist data to serve different markets. Its biggest business is the underwriting of specialist automotive and equipment, including extended warranty through White Oak. This business now represents 28% of our London Market income. Given its importance we increased our equity stake in White Oak from 10% to 30% in 2015, and continue to have representation on its Board.

Hiscox MGA
Early in 2015, we acquired R&Q Marine Services, the mega-yacht and general marine leisure managing general agent. This furthers our capabilities to meet the needs of high net worth customers and acts as a vehicle through which we can act for Hiscox and other London-based carriers where the client's requirements exceed our risk appetite. We have re-branded the business Hiscox MGA and included within it our Miami-based terrorism and fine art teams. Our Miami offering has expanded to include property underwritten for Hiscox and others, and in 2016 we will include Middle East terrorism and a south of France-based yacht underwriter.

Our London Market business remains a cornerstone of expertise, energy and profit within Hiscox, but it is one player among many and so at times depends on the broader market's centrality and collaboration. We are supportive at a conceptual level of the London Market Group's (LMG) efforts to promote London and modernise its infrastructure. We are not idle bystanders; several of our senior executives serve on various committees that help shape the LMG's initiatives and in 2016 I will be joining a London Market Target Operating Model steering committee to drive a focus on implementing a few narrow priorities. I am delighted it will be chaired by Inga Beale, CEO of Lloyd's, as we believe that Lloyd's has the responsibility, financial resources, accountability and power to lead the London Market – not for its own benefit, but for the benefit of all.

Hiscox Re

Hiscox Re largely comprises the Group's reinsurance businesses across the world and Insurance Linked Security (ILS) activity.

Hiscox Re had an impressive year, delivering a 46.6% combined ratio (2014: 49.8%) as the team avoided some of the larger losses that impacted the market. The business grew by 8.2% to £383.4 million (2014: £354.3 million), 2.9% in local currency. Good growth in international, specialty and healthcare, along with income from Kiskadee, helped to offset the reductions in US property catastrophe reinsurance. We've experienced another year of low losses, a combination of fewer catastrophes and the team's strong risk selection. The benign claims environment continues to put pressure on rates. Last year's important 1/1 renewals saw rates fall by 12% and this year they fell again by 5%.

Our focus on product innovation is paying off, adding US$70 million in premium since the start of 2015. This includes new cyber products and takeout quota shares which either expand a clients' original product or support an existing business when internal appetites are reached. Product development has evolved, it is about asking how we can help support clients' broad aims and responding from there.

We continue to leverage third party capital through quota share arrangements (with other insurers) and through ILS activity (with capital markets investors). This gives us the ability to remain agile and relevant as we can offer larger lines and bespoke reinsurance solutions to a broad spectrum of clients.

In two years, our ILS business including our flagship Kiskadee funds has grown to be a significant brand in the market. In 2015, we also launched Cardinal Re Ltd, a Bermuda-domiciled Special Purpose Insurer designed to transform collateralised insurance and reinsurance risk into a security more suited for capital market investors. Kiskadee Investment Managers' assets under management are on track to reach US$1 billion in 2016.

Claims

Claims are where all our promises to customers are tested. When faced with storms Desmond, Eva and Frank in the UK, our claims team responded with typical effectiveness. Staff from the new major and complex loss team, visited those insureds who were most severely impacted by the storms, providing help with alternative accommodation and emergency payments. The October storms in the South of France proved to be equally destructive and the positive feedback from the claims management demonstrated that the Hiscox service and efficiency is provided consistently across our teams.

In the London Market, Hiscox was ranked number one by brokers in the 2015 Gracechurch annual survey of claims performance, for overall best service. Hiscox UK was awarded 'personal lines claims initiative of the year' at the Insurance Times' Claims Excellence Awards 2015, in recognition of our team's improvement of customer satisfaction from the already high level of 95% to 98% as part of our effort to create customers for life.

Reserve releases of £205.9 million were up from £172.2 million last year. This demonstrates our continued cautious approach to reserving, with the majority of the release coming from shorter tail lines and the earlier years of longer tail lines where we are confident that we will not be subject to any further claims development.

Marketing

In 2015 we spent £44.5 million on marketing and brand-building activity across the Group (2014: £31.8 million). This was focused on our key retail businesses with incremental marketing investment accelerating the growth of our direct-to-consumer lines across the world. In the UK we have succeeded in establishing Hiscox as a retail brand. Our on-going 'small and the brave' small business campaign is maintaining brand awareness at a historic high of 76% and our home marketing has helped to deliver an 82% increase in new direct home customers. Our ambition is to replicate this in our other direct businesses. Our USA marketing campaign 'Encourage Courage' and our 'Where Happier Matters' campaign in Asia are all steps towards this goal.

We continue to support the arts through corporate sponsorship such as Sculpture in the City, and on growing our presence in York to support wider activities that celebrate our new office and promote us as a major local employer.

IT

As Hiscox grows, having an efficient reliable infrastructure is becoming ever more important. In early 2016 we reached the halfway point in the replacement of our UK retail systems with the launch of our new UK direct commercial platform. With all of our UK direct business now operating from this platform, we should see the same benefits across direct commercial that we saw when direct home migrated to the platform last year - sharper pricing, better customer responsiveness and greater efficiency. This £45 million, four year programme remains broadly on track and work is well underway to adapt the system for the next phase, UK broker channel commercial.

We are also beginning the process of looking at system replacement in both the USA and mainland Europe, and we expect to make decisions on when and how to move to new operating platforms for these businesses during the course of 2016. In addition to these large projects, work has been undertaken to strengthen our cyber defenses.

Keeping our existing IT estate functional and operational is the less visible part of our IT team’s work, but they have performed this task well.

Investments

We have accepted in recent years that the contribution of investment income to the Group’s profits is likely to be lower than that which prevailed before the financial crisis. As such we have set out our stall to accept what the market will reasonably give us from a conservative portfolio based around cash and short term bonds with a small allocation to risk assets which over time should provide some extra growth. With the year now behind us it is clear that income from these asset classes was hard to come by and in that context our result for 2015 is acceptable. Our investments, before derivatives, made £33.7 million (2014: £56.4 million) equating to a return of 1.0% (2014: 1.8%). The outcome in recent years has been boosted by capital gains; from bonds in some years, equities in others and occasionally both. In 2015 there were few tailwinds and the bond returns of 0.9% were much closer to the yields on the underlying portfolios. Our risk assets portfolio delivered 4.0% which is lower than of late but still represents a useful contribution to the overall result. It was another year where successful stock and sector selection made a difference and on the whole the funds that we are invested in avoided the energy, mining and mineral sectors which did most of the damage to the benchmark indices.

If 2015 was relatively benign in the insurance world, the same cannot be said for investments. Not only are we learning to live with structurally lower interest rates but there is also a marked pick up in outbreaks of volatility. Who remembers the Swiss devaluation at the beginning of the year and the Greek crisis of the summer? These have now given way to the consequences of an unexpected decline in commodity prices and the reality of a slowing China transitioning from an economy driven by exports to one of domestic consumption. The cracks have been papered over by the support of Central Banks since the financial crisis but there is a growing feeling that they are reacting to events rather than anticipating them. With this volatility comes illiquidity and we are more aware than ever that we must be prepared, in the case of bonds, to hold what we own to maturity and in the case of equities to accept periods of negative returns. In an increasingly short term world we need to take a long-term view. The early weeks of 2016 have seen sharp declines in equity prices as well as weakness in the higher-yielding areas of the bond market that we have avoided since 2011. Our priority as ever with the investment portfolio is to pay claims and support the business but we do have some dry powder should the current turmoil throw up some compelling opportunities.

Capital management

At the start of 2015 we returned £192 million of capital to shareholders. We have today announced that we will be returning 16.0p per share in addition to our normal dividend. Cumulative dividends and capital returns since 2012 will then total £750 million. This year we are retaining a greater proportion of our earnings so that we can fund the growth that we can foresee in our retail business.

In 2015 we completed a subordinated debt issue which raised £275 million of debt. This counts towards Tier 2 capital for rating agency purposes. We have used the proceeds of the bond issue to reduce the drawn portion of our Group letter of credit from US$529.5 million to US$71.9 million. We have reduced our group Letter of Credit to US$500 million and will regard it as a standby facility to be utilised in the event of a rapid hardening of the market following a large event or to provide short-term capital flexibility in response to other events such as exchange rate movements. In our experience, responding rapidly to market dislocations is key to success and the Letter of Credit will give us the flexibility to do so, whilst having a low cost when undrawn.

Solvency II came into effect on 1 January 2016. Hiscox's Lloyd’s business received internal model approval as part of the Lloyd’s internal model approval process. Our UK carrier is operating using the standard formula. At a Group level we have both our own Hiscox economic capital model, and as a Bermuda-domiciled and regulated group, the

Bermuda Solvency Capital Requirement. Our available group capital resources remain comfortably above our regulatory requirement.

The board is committed to being well-capitalised relative to regulatory capital models, but also has to meet clients expectations as to rating. Our goal is to be a mid-point of the ‘A’ range on Standard & Poor’s or ‘A’ on A.M Best. This gives us protection from the minimum level we need to trade in the most credit sensitive parts of our business. The capital requirements for this level of rating are more conservative than the regulatory requirements, hence the comfortable buffer held.

Outlook

In 2015 good sector selection, good underwriting and good fortune delivered good results for shareholders. We cannot count on good fortune at every turn, so in 2016 we will focus on sector selection, disciplined underwriting, marketing to drive profitable growth, and expense discipline. Our bigger-ticket businesses are more likely to retreat, with growth coming from our new teams and in specialty retail across the world. To this we will add a focus on efficiency as we reap the benefits of investments made in the UK, scale economies in the US, and expense discipline elsewhere. Our breadth of capability will set us apart in what will be a challenging environment.

Bronek Masojada
29 February 2016

Consolidated income statement

For the year ended 31 December 2015

	Note	**2015 Total £000**	2014 Total £000
Income			
Gross premiums written	4	**1,944,220**	1,756,260
Outward reinsurance premiums		**(372,376)**	(412,850)
Net premiums written	4	**1,571,844**	1,343,410
Gross premiums earned		**1,828,334**	1,674,982
Premiums ceded to reinsurers		**(393,318)**	(358,723)
Net premiums earned	4	**1,435,016**	1,316,259
Investment result	7	**35,381**	56,212
Other revenues	9	**17,156**	19,956
Revenue		**1,487,553**	1,392,427
Expenses			
Claims and claim adjustment expenses		**(685,897)**	(645,145)
Reinsurance recoveries		**113,444**	113,477
Claims and claim adjustment expenses, net of reinsurance	17	**(572,453)**	(531,668)
Expenses for the acquisition of insurance contracts		**(344,283)**	(318,616)
Operational expenses	9	**(361,215)**	(310,853)
Net foreign exchange gains		**15,153**	4,974
Total expenses		**(1,262,798)**	(1,156,163)
Results of operating activities		**224,755**	236,264
Finance costs		**(9,662)**	(6,418)
Share of profit from associates after tax		**1,007**	1,229
Profit before tax		**216,100**	231,075
Tax expense	19	**(6,205)**	(14,923)
Profit for the year (all attributable to owners of the Company)		**209,895**	216,152
Earnings per share on profit attributable to owners of the Company			
Basic	20	**72.8p**	67.4p
Diluted	20	**70.5p**	64.5p

The related notes 1 to 22 are an integral part of this document.

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	2015 Total £000	2014 Total £000
Profit for the year	**209,895**	216,152
Other comprehensive income		
Items never reclassified to profit and loss		
Remeasurements of the employee retirement benefit obligation	**28,236**	(22,759)
Income tax relating to components of other comprehensive income	**(6,762)**	5,470
	21,474	(17,289)

Items that may be reclassified to profit and loss:		
Exchange differences on translating foreign operations	**34,478**	34,019
Income tax relating to components of other comprehensive income	**-**	-
	34,478	34,019
Other comprehensive income net of tax	**55,952**	16,730
Total comprehensive income for the year (all attributable to owners of the Company)	**265,847**	232,882

The related notes 1 to 22 are an integral part of this document.

Consolidated balance sheet

At 31 December 2015

	Note	**2015** £000	2014 £000
Assets			
Intangible assets		**126,222**	105,946
Property, plant and equipment		**46,509**	29,497
Investment in associates		**13,525**	10,670
Deferred tax		**35,147**	33,490
Deferred acquisition costs		**271,517**	230,373
Financial assets carried at fair value	12	**2,921,585**	2,828,847
Reinsurance assets	11,17	**538,810**	525,345
Loans and receivables including insurance receivables	13	**619,563**	556,259
Current tax asset		**3,243**	8,031
Cash and cash equivalents	16	**727,880**	650,651
Total assets		**5,304,001**	4,979,109
Equity and liabilities			
Shareholders' equity			
Share capital		**19,030**	19,913
Share premium		**15,231**	10,417
Contributed surplus		**89,864**	89,864
Currency translation reserve		**91,178**	56,700
Retained earnings		**1,312,660**	1,276,446
Equity attributable to owners of the Company		**1,527,963**	1,453,340
Non-controlling interest		**866**	866
Total equity		**1,528,829**	1,454,206
Employee retirement benefit obligation		**75**	32,166
Deferred tax		**29,814**	26,390
Insurance liabilities	17	**3,048,362**	2,835,199
Financial liabilities	12	**275,679**	7,109
Current tax		**4,884**	32,379
Trade and other payables	18	**416,358**	591,660
Total liabilities		**3,775,172**	3,524,903
Total equity and liabilities		**5,304,001**	4,979,109

The related notes 1 to 22 are an integral part of this document.

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Note	Share capital £000	Share premium £000	Contributed surplus £000	Currency translation reserve £000	Retained earnings £000	Non controlling interest £000	Total equity £000
Balance at 1 January 2014		20,854	4,953	89,864	22,681	1,271,109	-	1,409,461
Profit for the year (all attributable to owners of the company)		-	-	-	-	216,152	-	216,152
Other comprehensive income/(expense) net of tax (all attributable to owners of the company)		-	-	-	34,019	(17,289)	-	16,730
Employee share options:								
Equity settled share based payments		-	-	-	-	14,439	-	14,439
Proceeds from shares issued		74	2,669	-	-	-	-	2,743
Deferred and current tax on employee share options		-	-	-	-	1,874	-	1,874
C/D Share Scheme:								
Return of capital, special distribution	21	-	(35)	-	-	(126,049)	-	(126,084)
Final dividend equivalent	21	-	-	-	-	(49,728)	-	(49,728)
Share consolidation and sub division		(1,032)	1,032	-	-	-	-	-
Shares purchased by Trust		-	-	-	-	(10,593)	-	(10,593)
Acquisition of DirectAsia		-	-	-	-	-	866	866
Scrip dividends	21	17	1,798	-	-	-	-	1,815
Dividends paid to owners of the Company	21	-	-	-	-	(23,469)	-	(23,469)
Balance at 31 December 2014		19,913	10,417	89,864	56,700	1,276,446	866	1,454,206
Profit for the year (all attributable to owners of the company)		-	-	-	-	209,895	-	209,895
Other comprehensive income net of tax (all attributable to owners of the company)		-	-	-	34,478	21,474	-	55,952
Employee share options:								
Equity settled share based payments		-	-	-	-	17,726	-	17,726
Proceeds from shares issued		29	1,400	-	-	-	-	1,429
Deferred and current tax on employee share options		-	-	-	-	5,761	-	5,761
E/F Share Scheme:								
Return of capital, special distribution	21	-	(32)	-	-	(141,422)	-	(141,454)
Final dividend equivalent	21	-	-	-	-	(48,105)	-	(48,105)
Share consolidation and sub division		(930)	930	-	-	-	-	-
Shares purchased by Trust		-	-	-	-	(6,712)	-	(6,712)
Scrip dividends	21	18	2,516	-	-	-	-	2,534
Dividends paid to owners of the Company	21	-	-	-	-	(22,403)	-	(22,403)
Balance at 31 December 2015		**19,030**	**15,231**	**89,864**	**91,178**	**1,312,660**	**866**	**1,528,829**

The related notes 1 to 22 are an integral part of this document

Consolidated statement of cash flows

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Profit before tax		**216,100**	231,075
Adjustments for:			
Interest and equity dividend income		**(40,951)**	(45,146)
Interest expense		**9,662**	6,418
Net fair value losses/(gains) on financial assets		**8,538**	(12,121)
Depreciation, amortisation and impairment		**22,734**	12,857
Charges in respect of share based payments		**17,726**	14,439
Other non-cash movements		**(782)**	(497)
Effect of exchange rate fluctuations on cash presented separately		**(971)**	6,740
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		**47,125**	174,158
Financial assets carried at fair value		**(43,374)**	(171,076)
Financial liabilities carried at fair value		**(7,093)**	6,880
Other assets and liabilities		**56,877**	(27,943)
Interest received		**40,768**	43,292
Equity dividends received		**1,027**	1,702
Interest paid		**(8,453)**	(5,990)
Cash paid to the defined benefit pension scheme		**-**	(200)
Current tax paid		**(27,757)**	(62,563)
Cash derecognised on deconsolidation of Kiskadee Funds		**(342,655)**	-
Cash flows from subscriptions received in advance		**123,000**	169,928
Net cash flows from operating activities		**71,521**	341,953
Cash flows from the sale and purchase of subsidiaries		**(7,375)**	(2,627)
Cash flows from the sale and purchase of associates		**(2,089)**	(1,687)
Cash flows from the purchase of property, plant and equipment		**(19,272)**	(11,727)
Cash flows from the purchase of intangible assets		**(30,952)**	(27,580)
Net cash flows from investing activities		**(59,688)**	(43,621)
Proceeds from the issue of ordinary shares		**1,429**	2,743
Shares repurchased		**(6,712)**	(10,593)
Proceeds from long-term debt issue, net of fees		**273,909**	-
Distributions made to owners of the Company	21	**(209,428)**	(197,466)
Net cash flows from financing activities		**59,198**	(205,316)
Net increase in cash and cash equivalents		**71,031**	93,016
Cash and cash equivalents at 1 January		**650,651**	564,375
Net increase in cash and cash equivalents		**71,031**	93,016
Effect of exchange rate fluctuations on cash and cash equivalents		**6,198**	(6,740)
Cash and cash equivalents at 31 December		**727,880**	650,651

The purchase, maturity and disposal of financial assets is part of the Group's insurance activities and is therefore classified as an operating cash flow. The purchase, maturity and disposal of derivative contracts is also classified as an operating cash flow. Included within cash and cash equivalents held by the Group are balances totaling £125,626,000 (2014: £142,617,000) not available for immediate use by the Group outside of the Lloyd's Syndicate within which they are held. Additionally £172,000,000 (2014: £nil) is pledged cash against Funds at Lloyd's. At December 2014, cash and cash equivalents includes £169,928,000 for subscriptions received in advance by the Kiskadee Diversified and Select ILS funds that remained uninvested at that time.

The related notes 1 to 22 are an integral part of this document.

Notes to the consolidated financial statements

1. General information

The financial information set out in this statement is extracted from the Group's consolidated financial statements for the year ended 31 December 2015. The auditors have reported on those 2015 financial statements which include comparative amounts for 2014. Their report was unqualified.

The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent Company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, Asia and USA with over 2,200 staff.

The Company is registered and domiciled in Bermuda and on 12 December 2006 its ordinary shares were listed on the London Stock Exchange. As such it is required to prepare its annual audited financial information in accordance with Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority (FCA), in addition to the Bermuda Companies Act 1981. The first two pronouncements issued by the FCA require the Group to prepare financial statements which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes 1 to 22 in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union.

The consolidated financial statements for the year ended 31 December 2015 include all of the Group's subsidiary companies and the Group's interest in associates. All amounts relate to continuing operations. The financial statements were approved for issue by the Board of Directors on 29 February 2016.

2. Significant accounting policies

Except as described below, the accounting policies applied in these consolidated financial statements are consistent with the prior year. The consolidated financial statements as at, and for the year ended 31 December 2015 were compliant with International Financial Reporting Standards as adopted by the European Union and in accordance with the provisions of the Bermuda Companies Act 1981.

Changes in accounting policies

A number of new standards, amendments to standards and interpretations, as adopted by the European Union, are effective for annual periods beginning on or after 1 January 2015. They have been applied in preparing these consolidated financial statements. There were no new standards, amendments or interpretations that had a material impact on the Group.

The amendments included minor changes to the following standards:

IAS 19: Defined Benefit Plans: Employee Contributions
Annual Improvements to IFRSs 2010 – 2012 Cycle
– IFRS 2: Share-based Payments
– IFRS 3: Business Combinations
– IFRS 8: Operating Segments
– IFRS 13: Fair Value Measurement
– IAS 16: Property, Plant and Equipment;
– IAS 24: Related Party Disclosures
– IAS 38: Intangible Assets
Annual Improvements to IFRSs 2011 – 2013 Cycle
– IFRS 13: Fair Value Measurement

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016 and have not been applied in preparing these financial statements.

- IFRS 4 Phase II will replace IFRS Phase I and is expected to include a number of significant changes to the measurement of insurance contracts and as such adoption of a final standard will likely have a significant impact on the results of the Group. In addition, the IASB has stated they will allow approximately three full years from the date of any final standard to actual implementation, therefore 2020 is likely to be the earliest date for the adoption of a new standard.
– IFRS 9: Financial Instruments; Classification and Measurement. The new standard is effective for annual periods beginning on or after 1 January 2018, although it is likely to be deferred for insurers to better align with the implementation date of IFRS 4 Phase II. A full impact analysis is expected to be completed at least 12 months prior to the effective date of the standard.

2.1. Statement of compliance

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

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

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

2.2. Basis of preparation

The financial statements are presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated.

They are compiled on a going concern basis and prepared on the historical cost basis except that pension scheme assets included in the measurement of the employee retirement benefit obligation, and financial instruments including derivative instruments, are measured at fair value. Employee retirement benefit obligations are determined using actuarial analysis.

The balance sheet of the Group is presented in order of increasing liquidity. The accounting policies have been applied consistently by all Group entities and to all periods presented, solely for the purpose of producing the consolidated Group financial statements.

The Group has financial assets and cash of over £3.6 billion. The portfolio is predominantly invested in liquid short dated bonds and cash to ensure significant liquidity to the Group and to reduce risk from the financial markets. In addition the Group has significant borrowing facilities in place.

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

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

The consolidated financial statements include the assets, liabilities and results of the Group up to 31 December each year. The financial statements of subsidiaries are included in the consolidated financial statements only from the date that control commences until the date that control ceases.

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

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

2.3. Reporting of additional performance measures

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

3. Financial risk

Credit risk

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

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

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

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

The largest counterparty exposure within AAA rating at 31 December 2015 and 2014 is with the German Government. For the AA rating it is with the US Treasury at both 31 December 2015 and 2014. A significant proportion of ‘other/non-rated’ assets are rated BBB and BB at 31 December 2015 and 2014. At 31 December 2015 and 2014, the Group held no material debt and fixed income securities that were past due or impaired beyond their reported fair values. For the current period and prior period, the Group did not experience any material defaults on debt securities.

The Group’s AAA rated reinsurance assets include fully collateralised positions at 31 December 2015 and 2014.

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

	2015	2014
	%	%
Government issued bonds and instruments	**33**	30
Agency and government supported debt	**12**	12
Asset backed securities	**8**	9
Mortgage backed instruments – agency	**3**	4
Mortgage backed instruments – non-agency	**2**	2
Mortgage backed instruments – commercial	**3**	6
Corporate bonds	**37**	34
Lloyd’s deposits and bond funds	**2**	3

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

Liquidity risk

A significant proportion of the Group’s investments are in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The deposits with credit institutions largely comprise short-dated certificates for which an active market exists and which the Group can easily access. The Group’s exposure to equities is concentrated on shares and funds that are traded on internationally recognised stock exchanges.

The main focus of the investment portfolio is on high-quality short duration debt and fixed income securities, and cash. There are no significant holdings of investments with specific repricing dates. Notwithstanding the regular interest receipts and also the Group’s ability to liquidate these securities and the majority of its other financial instrument assets for cash in a prompt and reasonable manner, the contractual maturity profile of the fair value of these securities at 31 December was as follows:

	Debt and fixed income securities	**Deposits with credit institutions**	**Cash and cash equivalents**	**2015 total**	2014 total
	£000	£000	£000	**£000**	£000
Less than one year	517,306	-	727,880	**1,245,186**	1,170,663
Between one and two years	832,087	4,713	-	**836,800**	534,990
Between two and five years	920,271	1,971	-	**922,242**	1,073,685
Over five years	345,350	-	-	**345,350**	423,877
Total	2,615,014	6,684	727,880	**3,349,578**	3,203,215

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

4. Operating segments

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

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

- **Hiscox Retail** brings together the results of the UK and Europe, and Hiscox International being the US, Guernsey and Asia retail business divisions. Hiscox UK and Europe underwrite European personal and commercial lines of business through Hiscox Insurance Company Limited, together with the fine art and non-US household insurance business written through Syndicate 33. In addition, the UK includes elements of specialty and international employees and officers' insurance written by Syndicate 3624. Hiscox International comprises the specialty and fine art lines written through Hiscox Insurance Company (Guernsey) Limited, and the motor business written via DirectAsia, together with US commercial, property and specialty business written by Syndicate 3624 and Hiscox Insurance Company Inc. via the Hiscox USA business division.
- **Hiscox London Market** comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage, auto extended warranty and aviation business.
- **Hiscox Re** is the Reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda, London and Paris. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are also included. The segment also captures the performance and fee income of the Kiskadee Funds, as described in note 2.3 of the consolidated financial statements.
- **Corporate Centre** comprises the investment return, finance costs and administrative costs associated with Group management activities. Corporate Centre also includes the majority of foreign currency items on economic hedges and intragroup borrowings. These relate to certain foreign currency items on economic hedges and intragroup borrowings, further details of these can be found in note 22. Corporate Centre forms a reportable segment due to its investment activities which earn significant external returns.

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

a. Profit before tax by segment

					Year ended 31 December 2015
	Hiscox Retail	**Hiscox London Market**	**Hiscox Re**	**Corporate centre**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Gross premiums written	**975,635**	**585,173**	**383,412**	**-**	**1,944,220**
Net premiums written	**919,686**	**427,170**	**224,988**	**-**	**1,571,844**
Net premiums earned	**870,459**	**383,883**	**180,674**	**-**	**1,435,016**
Investment result	**17,225**	**6,977**	**4,664**	**6,515**	**35,381**
Other revenues	**9,004**	**7,520**	**(149)**	**781**	**17,156**
Revenue	**896,688**	**398,380**	**185,189**	**7,296**	**1,487,553**
Claims and claim adjustment expenses, net of reinsurance	**(341,244)**	**(182,912)**	**(48,297)**	**-**	**(572,453)**
Expenses for the acquisition of insurance contracts	**(225,148)**	**(113,543)**	**(5,592)**	**-**	**(344,283)**
Operational expenses	**(249,454)**	**(49,014)**	**(40,694)**	**(22,053)**	**(361,215)**
Foreign exchange (losses)/gains	**(8,183)**	**6,681**	**8,327**	**8,328**	**15,153**
Total expenses	**(824,029)**	**(338,788)**	**(86,256)**	**(13,725)**	**(1,262,798)**
Results of operating activities	**72,659**	**59,592**	**98,933**	**(6,429)**	**224,755**
Finance costs	**-**	**(52)**	**(1,472)**	**(8,138)**	**(9,662)**
Share of profit of associates after tax	**661**	**346**	**-**	**-**	**1,007**
Profit before tax	**73,320**	**59,886**	**97,461**	**(14,567)**	**216,100**

	Hiscox Retail	Hiscox London Market	Hiscox Re	Corporate centre	Total
					Year ended 31 December 2014
	£000	£000	£000	£000	£000
Gross premiums written	891,115	510,825	354,320	-	1,756,260
Net premiums written	825,878	336,895	180,637	-	1,343,410
Net premiums earned	790,721	332,497	193,041	-	1,316,259
Investment result	25,934	8,719	9,348	12,211	56,212
Other revenues	6,643	6,283	6,777	253	19,956
Revenue	823,298	347,499	209,166	12,464	1,392,427
Claims and claim adjustment expenses, net of reinsurance	(325,806)	(159,864)	(45,998)	-	(531,668)
Expenses for the acquisition of insurance contracts	(205,748)	(93,569)	(19,299)	-	(318,616)
Operational expenses	(209,213)	(40,597)	(39,623)	(21,420)	(310,853)
Foreign exchange (losses)/gains	(5,121)	9,044	2,682	(1,631)	4,974
Total expenses	(745,888)	(284,986)	(102,238)	(23,051)	(1,156,163)
Results of operating activities	77,410	62,513	106,928	(10,587)	236,264
Finance costs	-	(46)	(1,365)	(5,007)	(6,418)
Share of profit of associates after tax	655	182	-	392	1,229
Profit before tax	78,065	62,649	105,563	(15,202)	231,075

The Group's wholly owned subsidiary, Hiscox Syndicates Limited, oversees the operation of Syndicate 33 at Lloyd's. The Group's percentage participation in Syndicate 33 can fluctuate from year to year and consequently presentation of the results at the 100% level removes any distortions arising therefrom.

b. 100% operating results by segment

	Hiscox Retail	**Hiscox London Market**	**Hiscox Re**	**Corporate centre**	**Total**
					Year ended 31 December 2015
	£000	**£000**	**£000**	**£000**	**£000**
Gross premiums written	**998,088**	**729,175**	**437,777**	**-**	**2,165,040**
Net premiums written	**938,255**	**535,986**	**249,680**	**-**	**1,723,921**
Net premiums earned	**889,128**	**485,232**	**206,669**	**-**	**1,581,029**
Investment result	**17,420**	**9,338**	**5,465**	**6,515**	**38,738**
Other revenues	**3,873**	**1,421**	**(3,993)**	**781**	**2,082**
Claims and claim adjustment expenses, net of reinsurance	**(343,290)**	**(228,701)**	**(53,787)**	**-**	**(625,778)**
Expenses for the acquisition of insurance contracts	**(230,341)**	**(138,624)**	**(6,322)**	**-**	**(375,287)**
Operational expenses	**(249,369)**	**(58,957)**	**(46,115)**	**(22,053)**	**(376,494)**
Foreign exchange (losses)/gains	**(8,154)**	**10,092**	**9,893**	**8,328**	**20,159**
Results of operating activities	**79,267**	**79,801**	**111,810**	**(6,429)**	**264,449**

					Year ended 31 December 2014
	Hiscox Retail	Hiscox London Market	Hiscox Re	Corporate centre	Total
	£000	£000	£000	£000	£000
Gross premiums written	914,372	647,094	421,599	-	1,983,065
Net premiums written	844,471	434,133	215,534	-	1,494,138
Net premiums earned	808,876	427,342	229,343	-	1,465,561
Investment result	26,191	11,722	10,364	12,211	60,488
Other revenues	2,618	-	1,136	253	4,007
Claims and claim adjustment expenses, net of reinsurance	(330,554)	(202,670)	(50,434)	-	(583,658)
Expenses for the acquisition of insurance contracts	(211,407)	(120,417)	(23,760)	-	(355,584)
Operational expenses	(208,961)	(49,242)	(44,048)	(21,420)	(323,671)
Foreign exchange (losses)/gains	(5,196)	12,713	4,080	(1,631)	9,966
Results of operating activities	81,567	79,448	126,681	(10,587)	277,109

100% ratio analysis

					Year ended 31 December 2015
	Hiscox Retail	**Hiscox London Market**	**Hiscox Re**	**Corporate centre**	**Total**
Claims ratio (%)	**38.6**	**47.1**	**26.0**	**-**	**39.6**
Expense ratio (%)	**54.0**	**40.7**	**25.4**	**-**	**46.1**
Combined ratio excluding foreign exchange impact (%)	**92.6**	**87.8**	**51.4**	**-**	**85.7**
Foreign exchange impact (%)	**0.9**	**(2.1)**	**(4.8)**	**-**	**(0.7)**
Combined ratio (%)	**93.5**	**85.7**	**46.6**	**-**	**85.0**

					Year ended 31 December 2014
	Hiscox Retail	Hiscox London Market	Hiscox Re	Corporate centre	Total
Claims ratio (%)	40.9	47.4	22.0	-	39.8
Expense ratio (%)	52.0	39.8	29.6	-	44.9
Combined ratio excluding foreign exchange impact (%)	92.9	87.2	51.6	-	84.7
Foreign exchange impact (%)	0.6	(3.0)	(1.8)	-	(0.8)
Combined ratio (%)	93.5	84.2	49.8	-	83.9

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

	Year to 31 December 2015				Year ended 31 December 2014			
	Hiscox Retail	**Hiscox London Market**	**Hiscox Re**	**Corporate centre**	Hiscox Retail	Hiscox London Market	Hiscox Re	Corporate centre
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
At 100% level								
1% change in claims or expense ratio	**8,891**	**4,852**	**2,067**	**-**	8,089	4,273	2,293	-
At Group level								
1% change in claims or expense ratio	**8,705**	**3,839**	**1,807**	**-**	7,907	3,325	1,930	-

5. Net asset value per share

	2015		2014	
	Net asset value (total equity)	**NAV per share**	Net asset value (total equity)	NAV per share
	£000	**p**	£000	p
Net asset value	**1,528,829**	**545.0**	1,454,206	462.5
Net tangible asset value	**1,402,607**	**500.0**	1,348,260	428.8

The net asset value per share is based on 280,516,658 shares (2014: 314,419,567), being the shares in issue at 31 December, less those held in treasury and those held by the Group's Employee Benefit Trust. Net tangible assets comprise total equity excluding intangible assets.

6. Return on equity

	2015	2014
	£000	£000
Profit for the year (all attributable to owners of the Company)	**209,895**	216,152
Opening shareholders' equity	**1,454,206**	1,409,461
Adjusted for the time weighted impact of capital distributions and issuance of shares	**(146,028)**	(142,812)
Adjusted opening shareholders' equity	**1,308,178**	1,266,649
Annualised return on equity (%)	**16.0**	17.1

7. Investment result

The total investment result for the Group before taxation comprises:	2015	2014
	£000	£000
Investment income including interest receivable	**40,951**	45,146
Net realised gains/(losses) on financial investments at fair value through profit or loss	**2,968**	(1,055)
Net fair value (losses)/gains on financial investments at fair value through profit or loss	**(10,239)**	12,264
Investment result – financial assets	**33,680**	56,355
Net fair value gains/(losses) on derivative financial instruments and borrowings (note 14)	**1,701**	(143)
Total result	**35,381**	56,212

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

8. Analysis of return on financial investments

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

	2015	2014
	%	**%**
Sterling	**2.1**	2.7
US Dollar	**0.8**	1.5
Other	**0.6**	1.5

ii. Investment return:

	2015		2014	
	£000	**%**	£000	%
Debt and fixed income securities	**21,585**	**0.9**	36,714	1.5
Equities and shares in unit trusts	**10,410**	**4.0**	17,604	7.6
Deposits with credit institutions/cash and cash equivalents	**1,685**	**0.4**	2,037	0.4
	33,680	**1.0**	56,355	1.8

9. Other revenues and operational expenses

	2015	2014
	£000	£000
Agency related income	**9,117**	8,060
Profit commission	**10,000**	9,965
Other underwriting income*	**(4,196)**	1,136
Other income	**2,235**	795
Other revenues	**17,156**	19,956
Wages and salaries	**124,466**	108,622
Social security costs	**21,884**	19,551
Pension cost – defined contribution	**8,432**	8,112
Pension cost – defined benefit	**1,825**	660
Share based payments	**17,726**	14,439
Marketing expenses	**44,499**	31,829
Investment expenses	**4,267**	4,192
Depreciation, amortisation and impairment	**22,734**	12,857
Other expenses	**115,382**	110,591
Operational expenses	**361,215**	310,853

* In accordance with IAS 32, any changes in the fair value of the third-party investment in Kiskadee Funds, classified as a financial liability, are recognised as fair value gains and losses through profit or loss. At the point of derecognition of the Funds at 1 July 2015, the Group recognised a loss of £6,374,000 which is included in other underwriting income above.

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

10. Net foreign exchange gains

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

	2015	2014
	£000	£000
Exchange gains recognised in the consolidated income statement	**15,153**	4,974
Exchange gains classified as a separate component of equity	**34,478**	34,019
Overall impact of foreign exchange related items on net assets	**49,631**	38,993

The above excludes profits or losses on foreign exchange derivative contracts which are included within the investment result and are outlined in note 14.

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

	2015	2014
	£000	£000
Opening balance sheet impact of non-retranslation of non-monetary items	**1,608**	(4,790)
Gain included within profit representing the non-retranslation of non-monetary items	**1,842**	6,398
Closing balance sheet impact of non-retranslation of non-monetary items	**3,450**	1,608

11. Reinsurance assets

	2015	2014
	£000	£000
Reinsurers' share of insurance liabilities	**539,540**	526,085
Provision for non-recovery and impairment	**(730)**	(740)
Reinsurance assets (note 17)	**538,810**	525,345

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 13). The Group recognised a gain during the year of £10,000 (2014: gain £41,000) in respect of impaired balances.

12. Financial assets and liabilities

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

	2015	2014
	£000	£000
Debt and fixed income securities	**2,615,014**	2,526,179
Equities and shares in unit trusts	**259,705**	252,916
Deposits with credit institutions	**6,684**	26,385
Total investments	**2,881,403**	2,805,480
Insurance linked fund	**40,045**	22,888
Derivative financial instruments (note 14)	**137**	479
Total financial assets carried at fair value	**2,921,585**	2,828,847

	2015	2014
	£000	£000
Third-party investment in Kiskadee Funds	**-**	7,033
Derivative financial instruments (note 14)	**16**	76
Total financial liabilities carried at fair value	**16**	7,109
Long-term debt	**273,909**	-
Accrued interest on long-term debt	**1,754**	-
Total financial liabilities carried at amortised cost	**275,663**	-
Total financial liabilities	**275,679**	7,109

On 24 November 2015, the Group issued £275 million 6.125 per cent 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 cent per annum payable annually in arrears starting 24 November 2016 up until the first call date in November 2025, and thereafter at a floating rate of interest equal to three-month LIBOR plus 5.076 per cent payable quarterly in arrears on each floating interest payment date. The fair value of the long-term debt is estimated as £275.7 million and is classified in Level 1 of the fair value hierarchy.

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

	2015	2014
	£000	£000
Sterling	**579,879**	653,126
US Dollars	**1,973,501**	1,823,380
Euro and other currencies	**328,023**	328,974
Total investments	**2,881,403**	2,805,480

13. Loans and receivables including insurance receivables

	2015	2014
	£000	£000
Gross receivables arising from insurance and reinsurance contracts	**538,652**	482,641
Provision for impairment	**(2,175)**	(2,131)
Net receivables arising from insurance and reinsurance contracts	**536,477**	480,510
Due from contract holders, brokers, agents and intermediaries	**405,284**	349,955
Due from reinsurance operations	**131,193**	130,555
	536,477	480,510
Prepayments and accrued income	**8,130**	9,068
Other loans and receivables:		
Net profit commission receivable	**26,139**	25,116
Accrued interest	**8,637**	9,448
Share of Syndicate's other debtors balances	**13,173**	12,952
Other debtors including related party amounts	**27,007**	19,165
Total loans and receivables including insurance receivables	**619,563**	556,259

There is no significant concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors. The Group has recognised a loss of £44,000 (2014: loss of £849,000) for the impairment of receivables during the year ended 31 December 2015. The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

14. Derivative financial instruments

The Group entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2015. The Group had the right and intention to settle each contract on a net basis. The assets and liabilities of these contracts at 31 December 2015 all mature within one year of the balance sheet date and are detailed below.

31 December 2015

	Gross contract notional amount	Fair value of assets	Fair value of liabilities	**Net balance sheet position**
Derivative financial instrument included on balance sheet	**£000**	**£000**	**£000**	**£000**
Foreign exchange forward contracts	11,610	81	(16)	**65**
Interest rate futures contracts	31,031	56	-	**56**
Credit default swaps	-	-	-	**-**
The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below				
Gross fair value of assets		12,765	367	**13,132**
Gross fair value of liabilities		(12,684)	(383)	**(13,067)**
Total		81	(16)	**65**

31 December 2014

Derivative financial instrument included on balance sheet	Gross contract notional amount £000	Fair value of assets £000	Fair value of liabilities £000	Net balance sheet position £000
Foreign exchange forward contracts	25,875	479	(76)	403
Interest rate futures contracts	31,421	-	-	-
Credit default swaps	1,639	-	-	-
The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below				
Gross fair value of assets		19,596	3,003	22,599
Gross fair value of liabilities		(19,117)	(3,079)	(22,196)
Total		479	(76)	403

Foreign exchange forward contracts

During the current and prior year the Group entered into a series of conventional over the counter forward contracts in order to secure translation gains made on Euro, US Dollar and other non-Pound Sterling denominated monetary assets. The contracts require the Group to forward sell a fixed amount of the relevant currency for Pound Sterling at pre-agreed future exchange rates. The Group made a gain on these forward contracts of £1,940,000 (2014: gain of £1,941,000) as included in note 7.

There was no initial purchase cost associated with these instruments.

Interest rate future contracts

During the year the Group continued short selling a number of government bond futures and sovereign futures denominated in a range of currencies to informally hedge substantially all of the interest rate risk on specific long portfolios of the matching currencies' denominated corporate bonds. All contracts are exchange traded and the Group made a loss on these futures contracts of £239,000 (2014: loss of £2,078,000) as included in note 7.

Equity index options

The Group did not purchase equity options during 2015 or 2014.

15. Fair value measurements

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

As at 31 December 2015	Level 1	Level 2	Level 3	**Total**
Financial assets	£000	£000	£000	**£000**
Debt and fixed income securities	**836,950**	**1,778,064**	**-**	**2,615,014**
Equities and shares in unit trusts	**-**	**246,065**	**13,640**	**259,705**
Deposits with credit institutions	**6,684**	**-**	**-**	**6,684**
Insurance linked funds	**-**	**-**	**40,045**	**40,045**
Derivative financial instruments	**-**	**137**	**-**	**137**
Total	**843,634**	**2,024,266**	**53,685**	**2,921,585**

Financial liabilities

Derivative financial instruments	**-**	**16**	**-**	**16**
Total	**-**	**16**	**-**	**16**

As at 31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Debt and fixed income securities	682,940	1,843,239	-	2,526,179
Equities and shares in unit trusts	-	239,238	13,678	252,916

Deposits with credit institutions	26,385	-	-	26,385
Insurance linked funds	-	-	22,888	22,888
Derivative financial instruments	-	479	-	479
Total	709,325	2,082,956	36,566	2,828,847
Financial liabilities				
Third-party investment in Kiskadee Funds	-	-	7,033	7,033
Derivative financial instruments	-	76	-	76
Total	-	76	7,033	7,109

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

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

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

Investments in mutual funds comprise a portfolio of stock investments in trading entities which are invested in various quoted investments. The fair value of shares in unit trusts are based on the net asset value of the fund as reported by independent pricing sources or the fund manager.

Included within Level 1 of the hierarchy are certain Government bonds, Treasury bills, exchange traded equities and the long-term debt which are all measured based on quoted prices in active markets. The fair value of the long-term debt that is measured at amortised cost, is estimated at £275.7 million and is considered as Level 1 in the fair value hierarchy.

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

Level 3 contains investments in a limited partnership, unquoted equity securities and an insurance linked fund which have limited observable inputs on which to measure fair value. Unquoted equities are carried at fair value. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant and no further analysis has been performed. At 31 December 2014, the Group had an investment in a third party insurance linked fund that specialised in catastrophe reinsurance opportunities. The fund was partially redeemed in January 2015 with remaining redemption shares issued which paid out when the underwriting contracts expired on 30 June 2015. At 31 December 2015 the insurance linked funds of £40,045,000 represents the Group's investment in the Kiskadee Funds.

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 funds. The majority of the assets of the funds are cash and cash equivalents.. Significant inputs and assumptions in calculating the fair value of assets and liabilities associated with reinsurance contracts written by the Kiskadee Funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the Kiskadee Funds if reasonably different inputs and assumptions were used and has found no significant changes in the valuation.

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

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

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

31 December 2015

	Financial assets			Financial liabilities
	Equities and shares in unit trusts	Insurance linked fund	Total	Third party investment in Kiskadee Funds

	£000	**£000**	**£000**	**£000**
Balance at 1 January	**13,678**	**22,888**	**36,566**	**7,033**
Fair value gains or losses through profit or loss*	**(230)**	**2,189**	**1,959**	**6,374**
Foreign exchange gains	**283**	**2,959**	**3,242**	**(3,968)**
Purchases	**52**	**-**	**52**	**264,306**
Recognition/derecognition on deconsolidation	**-**	**35,362**	**35,362**	**(273,745)**
Settlements	**(143)**	**(23,353)**	**(23,496)**	**-**
Closing balance	**13,640**	**40,045**	**53,685**	**-**
Unrealised gains and losses in the year on securities held at the end of the year	**(257)**	**2,201**	**1,944**	**-**

31 December 2014

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

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

16. Cash and cash equivalents

	2015	2014
	£000	£000
Cash at bank and in hand	**601,301**	400,245
Short-term deposits	**126,579**	39,220
Cash held by special purpose vehicle	**-**	41,258
Subscriptions received in advance	**-**	169,928
	727,880	650,651

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

Following a significant inflow of capital from third-party investors during 2015, the Group has determined that it no longer meets the criteria for consolidation of the Kiskadee Funds and SPIs from 1 July 2015 as defined in IFRS 10. As a result, since 1 July 2015 the Group no longer recognises any assets or liabilities held by these vehicles including the cash held by special purpose vehicles or the subscriptions received in advance as described below.

The cash held by special purpose vehicles consists of underlying interests held by the Kiskadee Funds which were consolidated by the Group at 31 December 2014 but in which the Group had an interest of less than 100%.

Subscriptions received in advance consist of cash received as at 31 December 2014 by the two Kiskadee Funds and not yet invested at the balance sheet date.

17. Insurance liabilities and reinsurance assets

	2015	2014

	£000	£000
Gross		
Claims reported and claims adjustment expenses	**824,397**	825,017
Claims incurred but not reported	**1,213,699**	1,142,847
Unearned premiums	**1,010,266**	867,335
Total insurance liabilities, gross	**3,048,362**	2,835,199
Recoverable from reinsurers		
Claims reported and claims adjustment expenses	**118,322**	129,134
Claims incurred but not reported	**247,155**	239,185
Unearned premiums	**173,333**	157,026
Total reinsurers' share of insurance liabilities	**538,810**	525,345
Net		
Claims reported and claims adjustment expenses	**706,075**	695,883
Claims incurred but not reported	**966,544**	903,662
Unearned premiums	**836,933**	710,309
Total insurance liabilities, net	**2,509,552**	2,309,854

The gross claims reported, the claims adjustment expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2015 and 2014 are not material.

Claims development tables

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

The top half of each table illustrates how estimates of ultimate claim costs for each accident year have changed at successive year ends. The bottom half reconciles cumulative claim costs to the amounts still recognised as liabilities. A reconciliation of the liability at the 100% level to the Group's share, as included in the balance sheet, is also shown.

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

Accident year	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	**2015 £000**	**Total £000**
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year	613,965	820,758	1,171,389	871,290	1,050,390	1,346,120	1,135,921	914,316	1,002,432	1,086,715	10,013,296
one year later	586,774	731,504	989,227	722,476	896,516	1,223,229	1,013,078	803,558	852,952	-	7,819,314
two years later	565,700	694,409	963,518	663,564	834,064	1,185,540	937,629	716,413	-	-	6,560,837
three years later	534,113	704,700	921,366	656,334	820,684	1,194,990	935,543	-	-	-	5,767,730
four years later	542,438	699,387	883,940	655,016	799,344	1,177,983	-	-	-	-	4,758,108
five years later	531,663	668,173	848,564	651,969	788,035	-	-	-	-	-	3,488,404
six years later	518,941	651,304	839,083	637,232	-	-	-	-	-	-	2,646,560
seven years later	513,482	634,993	826,272	-	-	-	-	-	-	-	1,974,747
eight years later	511,115	630,485	-	-	-	-	-	-	-	-	1,141,600
nine years later	509,517	-	-	-	-	-	-	-	-	-	509,517
Current estimate of cumulative claims	509,517	630,485	826,272	637,232	788,035	1,177,983	935,543	716,413	852,952	1,086,715	8,161,147
Cumulative payments to date	(495,101)	(593,238)	(793,010)	(567,489)	(647,246)	(970,104)	(674,576)	(492,040)	(449,650)	(221,461)	(5,903,915)
Liability recognised at 100% level	14,416	37,247	33,262	69,743	140,789	207,879	260,967	224,373	403,302	865,254	2,257,232
Liability recognised in respect of prior accident years at 100% level											116,296
Total gross liability to external parties at 100% level											**2,373,528**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2015.

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

Accident year	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	**2015 £000**	**Total £000**
Current estimate of cumulative claims	509,517	630,485	826,272	637,232	788,035	1,177,983	935,543	716,413	852,952	1,086,715	8,161,147
Less: attributable to external Names	(107,966)	(124,235)	(157,347)	(109,941)	(120,709)	(178,161)	(123,416)	(80,299)	(94,391)	(129,160)	(1,225,625)
Group's share of current ultimate claims estimate	401,551	506,250	668,925	527,291	667,326	999,822	812,127	636,114	758,561	957,555	6,935,522
Cumulative payments to date	(495,101)	(593,238)	(793,010)	(567,489)	(647,246)	(970,104)	(674,576)	(492,040)	(449,650)	(221,461)	(5,903,915)
Less: attributable to external Names	104,367	116,544	151,987	98,428	97,773	143,032	91,978	49,728	45,632	17,696	917,165
Group share of cumulative payments	(390,734)	(476,694)	(641,023)	(469,061)	(549,473)	(827,072)	(582,598)	(442,312)	(404,018)	(203,765)	(4,986,750)
Liability for 2006 to 2015 accident years recognised on Group's balance sheet	10,817	29,556	27,902	58,230	117,853	172,750	229,529	193,802	354,543	753,790	1,948,772
Liability for accident years before 2006 recognised on Group's balance sheet											89,324
Total Group liability to external parties included in the balance sheet – gross**											**2,038,096**

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

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

Accident year	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	**2015 £000**	**Total £000**
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year	547,475	716,600	816,672	721,233	833,980	1,043,574	830,401	796,559	827,058	888,780	8,022,332
one year later	539,615	650,572	729,073	602,776	734,104	969,415	731,379	704,190	722,306	-	6,383,430
two years later	522,043	627,838	724,013	576,104	692,095	928,640	678,036	632,967	-	-	5,381,736
three years later	479,118	598,170	680,906	577,334	675,455	925,491	655,337	-	-	-	4,591,811
four years later	493,795	595,009	645,733	570,022	658,476	920,449	-	-	-	-	3,883,484
five years later	480,198	567,690	638,019	565,730	655,457	-	-	-	-	-	2,907,094
six years later	473,881	563,220	630,606	553,901	-	-	-	-	-	-	2,221,608
seven years later	474,232	549,438	618,979	-	-	-	-	-	-	-	1,642,649
eight years later	471,817	546,300	-	-	-	-	-	-	-	-	1,018,117
nine years later	470,004	-	-	-	-	-	-	-	-	-	470,004
Current estimate of cumulative claims	470,004	546,300	618,979	553,901	655,457	920,449	655,337	632,967	722,306	888,780	6,664,480
Cumulative payments to date	(468,372)	(514,985)	(594,754)	(489,224)	(524,814)	(783,148)	(467,934)	(427,117)	(369,309)	(175,735)	(4,815,392)
Liability recognised at 100% level	1,632	31,315	24,225	64,677	130,643	137,301	187,403	205,850	352,997	713,045	1,849,088
Liability recognised in respect of prior accident years at 100% level											84,169
Total net liability to external parties at 100%											**1,933,257**

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2015.

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

Accident year	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	**2015 £000**	**Total £000**
Current estimate of cumulative claims	470,004	546,300	618,979	553,901	655,457	920,449	655,337	632,967	722,306	888,780	6,664,480
Less: attributable to external Names	(99,367)	(107,475)	(109,892)	(87,871)	(89,266)	(127,761)	(71,176)	(65,478)	(75,387)	(97,318)	(930,991)
Group's share of current ultimate claims estimate	370,637	438,825	509,087	466,030	566,191	792,688	584,161	567,489	646,919	791,462	5,733,489
Cumulative payments to date	(468,372)	(514,985)	(594,754)	(489,224)	(524,814)	(783,148)	(467,934)	(427,117)	(369,309)	(175,735)	(4,815,392)
Less: attributable to external Names	99,193	100,729	106,275	75,818	67,037	109,870	47,985	38,096	35,063	12,188	692,254
Group share of cumulative payments	(369,179)	(414,256)	(488,479)	(413,406)	(457,777)	(673,278)	(419,949)	(389,021)	(334,246)	(163,547)	(4,123,138)
Liability for 2006 to 2015 accident years recognised on Group's balance sheet	1,458	24,569	20,608	52,624	108,414	119,410	164,212	178,468	312,673	627,915	1,610,351
Liability for accident years before 2006 recognised on Group's balance sheet											62,268
Total Group liability to external parties included in the balance sheet – net**											**1,672,619**

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

Movement in insurance claims liabilities and reinsurance claims assets

Year ended 31 December

	Gross	**Reinsurance**	**2015 Net**	Gross	Reinsurance	2014 Net
	£000	**£000**	**£000**	£000	£000	£000
Total at beginning of year	**(1,967,864)**	**368,319**	**(1,599,545)**	(1,853,062)	359,946	(1,493,116)
Claims and claims adjustment expenses for the year	**(685,897)**	**113,444**	**(572,453)**	(645,145)	113,477	(531,668)
Cash paid for claims settled in the year	**673,083**	**(129,606)**	**543,477**	591,796	(124,194)	467,602
Exchange differences and other movements	**(57,418)**	**13,320**	**(44,098)**	(61,453)	19,090	(42,363)
Total at end of year	**(2,038,096)**	**365,477**	**(1,672,619)**	(1,967,864)	368,319	(1,599,545)

Claims reported and claims adjustment expenses	**(824,397)**	**118,322**	**(706,075)**	(825,017)	129,134	(695,883)
Claims incurred but not reported	**(1,213,699)**	**247,155**	**(966,544)**	(1,142,847)	239,185	(903,662)
Total at end of year	**(2,038,096)**	**365,477**	**(1,672,619)**	(1,967,864)	368,319	(1,599,545)

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

Year ended 31 December

			2015			2014
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£000	**£000**	**£000**	£000	£000	£000
Current year claims and claims adjustment expenses	**(943,824)**	**165,507**	**(778,317)**	(845,086)	141,189	(703,897)
Over provision in respect of prior year claims and claims adjustment expenses	**257,927**	**(52,063)**	**205,864**	199,941	(27,712)	172,229
Total claims and claims handling expense	**(685,897)**	**113,444**	**(572,453)**	(645,145)	113,477	(531,668)

18. Trade and other payables

	2015	2014
	£000	£000
Creditors arising out of direct insurance operations	**20,208**	11,969
Creditors arising out of reinsurance operations	**210,654**	248,267
	230,862	260,236
Share of Syndicate's other creditors' balances	**11,095**	3,212
Social security and other taxes payable	**12,266**	9,782
Subscription received in advance	**-**	169,928
Other creditors	**11,654**	11,968
	35,015	194,890
Reinsurers' share of deferred acquisition costs	**33,211**	30,215
Accruals and deferred income	**117,270**	106,319
Total	**416,358**	591,660

19. Tax expense

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

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

	2015	2014
	£000	£000
Current tax expense	**9,642**	62,172
Deferred tax credit	**(3,437)**	(47,249)
Total tax charged to the income statement	**6,205**	14,923

20. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year, excluding ordinary shares purchased by the Group and held in treasury as own shares.

	2015	2014
Profit for the year attributable to the Company's equity holders (£000)	**209,895**	216,152
Weighted average number of ordinary shares (thousands)	**288,209**	320,554
Basic earnings per share (pence per share)	**72.8p**	67.4p

Diluted

Diluted earnings per share is calculated adjusting for the assumed conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options. 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.

	2015	2014
Profit for the year attributable to Company's equity holders (£000)	**209,895**	216,152
Weighted average number of ordinary shares in issue (thousands)	**288,209**	320,554
Adjustments for share options (thousands)	**9,603**	14,315
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**297,812**	334,869
Diluted earnings per share (pence per share)	**70.5p**	64.5p

Diluted earnings per share has been calculated after taking account of 8,872,744 (2014: 13,527,726) options and awards under employee share option and performance plan schemes and 730,477 (2014: 787,419) options under SAYE schemes.

21. Dividends paid to owners of the Company

	2015	2014
	£000	£000
Interim dividend for the year ended :		
– 31 December 2015 of 8.0p (net) per share	**22,403**	-
– 31 December 2014 of 7.5p (net) per share	**-**	23,469
	22,403	23,469

The final dividend for the year ended 31 December 2014 was paid as part of the E/F Share Scheme (2013: C/D Share Scheme). 243,449,661 E and 77,251,864 F Shares of 60p each were issued, of which 15p per share was in lieu of a final dividend for 2014 of a cash value of £48,105,000. During 2014, the final dividend equivalent for the year ended 31 December 2013 was settled as 261,555,693 C Shares and 93,647,894 D Shares of 50p each, of which 14p per share was issued in lieu of a final cash dividend of £49,728,000.

The interim dividends for 2015 and 2014 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 2015 was paid in cash of £20,202,000 (2014: £22,049,000) and 274,455 shares for the scrip dividend (2014: 270,917).

The Board proposes to pay a second interim dividend of 32.0p per ordinary share comprising a final dividend equivalent for the year ended 31 December 2015 of 16.0p together with an additional return of capital of 16.0p. The final dividend equivalent together with the interim dividend of 8.0p represent a total dividend for 2015 of 24.0p per ordinary share.

22. Foreign currency items on intragroup borrowings

The Group has loan arrangements denominated in US Dollars and Euros, in place between certain Group companies. In most cases, as one party to each arrangement has a functional currency other than the US Dollar or the Euro, foreign exchange gains or losses arise which are not eliminated through the income statement on consolidation. Implicit offsetting (losses)/gains are reflected instead on retranslation of the counterparty company's closing balance sheet through other comprehensive income and into the Group's currency translation reserve within equity.

Impact as at 31 December 2015

	Consolidated income statement 2015	Consolidated other comprehensive income 2015	Total impact on equity 2015
	£000	**£000**	**£000**
Unrealised translation (losses)/gains on intragroup borrowings	**(1,888)**	**1,888**	**-**
Total (losses)/gains recognised	**(1,888)**	**1,888**	**-**

Impact as at 31 December 2014

	Consolidated income statement 2014	Consolidated other comprehensive income 2014	Total impact on equity 2014
	£000	£000	£000
Unrealised translation gains/(losses) on intragroup borrowings	677	(677)	-
Total gains/(losses) recognised	677	(677)	-

Note:
The Annual Report and Accounts for 2015 will be available to shareholders no later than 18 March 2016. Copies of the Report may be obtained by writing to the Company Secretary, Hiscox Ltd, Wessex House, 45 Reid Street, Hamilton HM12, Bermuda. A copy of this and other announcements can be found at www.hiscoxgroup.com.