



Hiscox Ltd  
Interim Statement  
2020



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### Disclaimer in respect of forward-looking statements

This interim statement may contain forward-looking statements based on current expectations of, and assumptions made by, the Group's management. The Group is exposed to a multitude of risks and uncertainties and therefore cannot accept any obligation to publicly revise or update forward-looking statements as a result of future events or the emergence of new information regarding past events, except to the extent legally required. Therefore undue reliance should not be placed on any forward-looking statements.

## Corporate highlights

# \$2,235.5m

Gross premiums written (\$m)

30 June 2020	2,235.5
31 Dec 2019	4,030.7
30 June 2019	2,337.5

### Group key performance indicators

Gross premiums written \$2,235.5 million  
(2019: \$2,337.5 million)

Net premiums earned \$1,328.2 million  
(2019: \$1,313.8 million)

(Loss)/profit before tax \$(138.9) million  
(2019: \$168.0 million)

Earnings per share (\$) (50.2)¢  
(2019: 51.2¢)

Earnings per share (£) (39.8)p  
(2019: 39.6p)

Interim dividend 0.00¢ per share  
(2019: 13.75¢)

Net asset value per share (\$) 712.4¢  
(2019: 817.0¢)

Net asset value per share (£) 576.5p  
(2019: 641.9p)

Group combined ratio 114.6%  
(2019: 98.8%)

Return on equity (annualised) (12.7)%  
(2019: 13.3%)

Investment return 2.5%  
(2019: 4.8%)

Foreign exchange (losses)/gains \$(13.6) million  
(2019: \$15.6 million)

Reserve releases \$63.0 million  
(2019: \$26.0 million)

### Operational highlights

Operationally resilient, with over 95% of employees working remotely.

Long-term growth story continues for Hiscox Retail in challenging economic conditions.

Growth in four of five Retail businesses.

1.3 million Retail customers.

Rates up 13% in Hiscox London Market, up 11% in Hiscox Re & ILS.

Strategy provides opportunities for profitable growth in every segment.

## Chairman's statement

As we approach the wind season, we are strongly capitalised, diversified and well positioned to capture opportunities in all of our markets.

After three successive years of heavy natural catastrophe losses, 2020 has brought a catastrophe of a different kind. The outbreak of the first global pandemic of the modern era has touched every part of the economy, and changed the way we live, work and interact with each other. Our industry has weathered impacts on both the asset and liability side of its balance sheet, and its role as a global risk sharing mechanism has been drawn sharply into focus yet again, with insurers collectively paying out billions in claims.

Hiscox has set aside \$232 million for claims arising from COVID-19 in the first half, and delivered a pre-tax loss for the Group of \$138.9 million for the period (2019: profit of \$168.0 million).

While the Group's gross premiums written reduced by 4% in constant currency to \$2,235.5 million (2019: \$2,337.5 million) in the first six months of 2020, the underlying picture is more nuanced. In challenging conditions, Hiscox Retail delivered a strong underlying performance, with four of our five Retail businesses delivering growth and the segment contributing more than \$100 million in profits excluding net claims relating to COVID-19. Following an expected decline in new business written in April and May, as economies were placed on pause by governments around the world, trading improved in June, with non-COVID-19 claims in line with expectations.

COVID-19 has added further impetus to an already hardening market in big-ticket lines. In Hiscox London Market, our underwriters have done well to capture strong rate increases, up 13% in aggregate, and grow in the areas where rates are strongest, more than offsetting reductions in property binders and general liability business. In reinsurance, we have remained cautious, keeping our powder dry as we expect improvements in pricing, terms and conditions to continue. Portfolio

action in both businesses is beginning to have an impact, but will take time to show through in the P&L.

The COVID-19 crisis has shown us very clearly that the future of insurance is digital, not only in how we run our business, but how we reach our customers. Our long-term investment in digital infrastructure is delivering here, particularly in the London Market and in Hiscox USA where we are leading the way in digital distribution and generating efficiencies.

The magnitude of what many in the industry suggest may be the largest insured loss in history is gradually becoming apparent, and as a result we expect a continued contraction of risk appetites along the entire (re)insurance chain. As we approach the wind season, we are strongly capitalised, diversified and well positioned to capture opportunities in all of our markets.

### Dividend, balance sheet and capital management

In the face of unprecedented economic uncertainty, prudent capital management is critical to ensure we are able to continue to serve our customers, pay valid claims and grow where opportunity permits. We have taken a range of proactive management actions, both before the onset of the pandemic and since, to further strengthen Hiscox's robust balance sheet and position us for growth.

In April we announced the decision to withdraw the 2019 final dividend and that the Group will not propose an interim dividend payment, or conduct any further share buybacks in 2020. The decision was not taken lightly by the Board, who are acutely aware of the importance of dividends as a source of income for our fellow shareholders, including many private shareholders and those who own shares through pension funds. The Board is committed to return to paying a dividend as soon as possible, and will re-evaluate the position at the year-end. The Executive Directors will not be taking any cash bonuses until the dividend is reinstated.

## Chairman's statement continued

We are strongly capitalised, uniquely diversified and well positioned to capture opportunities in all of our markets.

To provide additional capital relief and further reduce volatility, we purchased more than \$100 million of additional catastrophe reinsurance in the form of industry loss warranties. We are also accelerating a range of operational initiatives which are on track to deliver over \$60 million of expense efficiencies ahead of our business plan in 2020. At the half-way point we have achieved a \$38 million expense saving against our business plan expectations. These actions are tactical in nature and should mostly be considered as one-off, having been assisted by reduced travel, recruitment and economic activity during the global lockdown.

In May, the Group successfully raised £375 million through a non-pre-emptive placing of new ordinary shares equivalent to 19.48% of the issued share capital immediately prior to the placing. The proceeds of the placing will be used to respond to growth opportunities in the London Market and in reinsurance, and to further strengthen our capital buffers.

The Group remains strongly capitalised against both our regulatory and rating agency requirements, and is able to withstand a combination of severe downside scenarios. Our Group regulatory solvency ratio at the end of June is 230% which is sufficient for us to weather a severe US windstorm in addition to the upper end of our UK business interruption risk scenario provided in our first quarter trading statement on 5 May, while retaining our A ratings which were reiterated by S&P and Fitch in May.

### Rates

In the third consecutive year of rate improvement at Lloyd's, momentum in Hiscox London Market has accelerated further, with aggregate rates up 13% year-to-date across the portfolio. Rates are up in nearly every line, including US public company directors and officers' (D&O) which is up 81%, US general liability up 31%, cargo up 23%, major property up 16% and

commercial and household property up 11% and 12% respectively. Renewed discipline in the market is combining with a global contraction of risk appetite to drive rates up, and submissions to London are increasing as risks fail to find a home with local carriers.

In reinsurance, where pricing has been underwhelming and we have remained disciplined, the market has begun to harden considerably and rates are up 11% across the portfolio year-to-date. After encouraging signs at the Japanese renewals in April, where we achieved an aggregate 38% increase on wind layers, we saw further evidence of the market's upward trajectory at June's Florida renewal, with the team achieving a blended increase of 29% across the portfolio. This trend continued in July, and with the vast bulk of the book written for the year, we look ahead to January with anticipation.

In Hiscox Retail, which is inherently less cyclical, conditions are also improving. In our US portfolio, rates are up 5% as the US admitted market reduces its risk appetite, driving business into the excess and surplus lines market. Rates in our US excess and surplus lines portfolio are up 9% in aggregate and we are pushing rate increases and tightening terms and conditions across all of our lines. In the UK and Europe, pricing has been stable, but the effects of capacity withdrawal in certain markets are becoming apparent, creating new opportunities for growth.

### COVID-19 exposure

We have reserved \$232 million net for claims from COVID-19, including \$150 million for claims from event cancellation and abandonment, media and entertainment and other segments including travel as disclosed in our first quarter trading statement. The additional \$82 million includes amounts set aside for: Hiscox London Market, Hiscox UK and Hiscox Europe property business; UK and Europe travel bonds; and third-party claims in US

In the first half we passed another milestone, reaching 1.3 million Retail customers globally.

allied health. It is too early to fully estimate any impact for Hiscox Re, although we are materially underweight in European exposure.

UK business interruption insurance and the FCA test case

Hiscox, like other insurers, has been clear that our standard UK property policies do not provide cover for business interruption as a result of the general measures taken by the UK Government in response to a pandemic. This position has been disputed by some policyholders and business interruption has become a defining issue for the industry during the COVID-19 pandemic.

The Financial Conduct Authority (FCA), the UK's conduct regulator for financial services firms, has brought an expedited test case before the UK courts on behalf of policyholders to seek clarity on the application of cover for business interruption under a wide range of wordings from a number of insurance providers.

Resolving contract disputes through the legal system is a tried and tested route which is why Hiscox, alongside seven other insurers, agreed to participate in the FCA test case in order to provide certainty for customers and brokers as quickly as possible. The test case will address what triggers cover under the policies and, if there is any cover, its scope; however it won't address issues of quantum and the adjustment of individual claims. We await the Judgment from the test case, which is expected in mid-September, and when the process is complete, including any appeals, we will of course abide by the final outcome.

Notwithstanding that we do not consider this to be a covered loss, and significant uncertainties around the final Judgment exist, we provided a risk scenario in our first quarter trading statement on 5 May. The scenario takes into account our view of the number of customers

either ordered to close or with premises materially impacted, savings likely to be made by customers on their normal business expenses and various forms of government relief available to businesses, adjusting for wider business trends resulting from reduced economic activity. Based on this scenario, our analysis suggests a range of modelled outcomes between £10 million and £250 million net of reinsurance. Since publishing this risk scenario, we have undertaken further analysis which confirmed our confidence in this range of modelled outcomes, after taking into account the three points noted above and also the impact of different closure periods for affected businesses.

The outcome of the FCA test case may also have an impact on our inwards reinsurance portfolio written by Hiscox Re & ILS, as some of its clients are primary insurers operating in the UK market which may be impacted by this Judgment; however, given the uncertainty and the range of interdependent outcomes, we are currently unable to accurately estimate the quantum of any potential liabilities.

COVID-19 response

We are committed to continuing our support of the international response to this pandemic, and to helping our people, our customers and society through a very challenging period.

We currently have over 95% of our more than 3,400 employees around the world working from home, and we are supporting them through flexible working and the provision of mental health and well-being services. We are standing by our employees by retaining all current roles through this time, and we are not furloughing any staff. We have also continued to pay contract staff and suppliers who work in our offices during the lockdown. In addition to paying claims that are covered by

our policies, we have taken action to assist our customers by alleviating some of the financial pressure they are facing. Our Retail businesses across the globe have implemented a range of actions locally, including extending credit terms, providing payment hibernation, premium rebates and discounts, as well as automatic extensions and extending cover to ensure customers remain protected when they need it most.

In response to the pandemic to date, we have given over \$7 million to good causes around the world. The Hiscox Foundations in the UK and USA have committed £1 million and \$1 million respectively to support national and regional initiatives in aid of vulnerable groups. We have also established partnerships with organisations aiming to improve SME access to funding and critical business resources, including Business in the Community in the UK and the Women's Business Development Center in the USA. We were also proud to lead the Bermuda (re)insurance market in raising nearly \$1 million for the local hospital.

Like other industry events, COVID-19 requires an industry response, and I was pleased to work with the Association of British Insurers to create The COVID-19 Support Fund, which aims to provide fast financial support to a host of community-based charities through the Charities Aid Foundation and partners including the National Emergencies Trust and Business in the Community. Hiscox was one of the founding supporters of the Fund, which is the largest non-government fundraise in support of COVID-19 in the UK to date, with over £83 million in voluntary contributions pledged so far against an ambitious target of £100 million, as we collectively support some of those hardest hit by the crisis.

Pandemic is not the first systemic risk that has faced the insurance industry; however, it is one that the industry cannot underwrite on its own. Protection gap schemes

Hiscox Retail		
	2020 \$m	2019 \$m
Gross premiums written	1,175.2	1,154.6
(Loss)/profit before tax*	(73.5)	137.7
Combined ratio (%)*	115.7	95.0
*The comparatives are on a previously reported basis and reflect the impact of foreign exchange gains and losses. See note 6 of the condensed consolidated interim financial statements for further details.		

already exist for other systemic risks such as flood and terrorism that would otherwise be uninsurable, and Hiscox will continue to support industry efforts to develop effective solutions in all our markets, such as those recently proposed by Lloyd's of London.

Hiscox Retail

Hiscox Retail comprises our retail businesses around the world; Hiscox UK, Hiscox Europe, Hiscox USA, Hiscox Special Risks and Hiscox Asia. In this segment, our specialist knowledge and retail products differentiate us and our ongoing investment in the brand, distribution and technology helps us build a strong market position in an increasingly digital world.

The Retail segment represents more than half of our business on a gross basis, and more than three-quarters on a net basis. We have been building this business globally for over 30 years and it is a real differentiator for the Group when allied with our big-ticket businesses. During 2019, Hiscox Retail wrote over \$2.2 billion of premium globally, of which about one quarter, more than half a billion, was direct and partnerships business. Arguably, this makes Hiscox the biggest digital commercial insurer in the world, which makes me very proud.

Hiscox Retail delivered a strong performance in challenging conditions, growing its top line by 4% in constant currency, driven by growth in four of its five business units. While new business flow contracted in April as economic activity slowed down following government action to stop the spread of COVID-19, there were encouraging signs of a recovery in June. Nevertheless, we expect the economic uncertainty caused by the pandemic to impact growth for the balance of 2020.

The long-term growth prospects for Hiscox Retail remain undiminished. In the first half we passed another milestone, reaching 1.3 million Retail



customers globally, including over 700,000 in our direct-to-consumer businesses.

Hiscox Retail's result has been materially impacted by claims from COVID-19, with claims from event cancellation and abandonment, media and entertainment and other segments including travel falling within the segment. Excluding the net COVID-19 related losses, the claims experience was in line with expectations, and the business delivered underlying profits in excess of \$100 million.

#### *Hiscox UK*

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

Gross premiums written reduced by 2% in constant currency to \$363.3 million (2019: \$378.5 million) as good growth in January and February driven by our broker commercial business and underwriting partnerships was offset by a contraction following the outbreak of COVID-19.

New business flow has been impacted by reduced economic activity; however, this trend slowed in June as the UK economy began to gradually re-open. A substantial portion of the premium shortfall is attributable to sectors, such as hospitality and events, which have been most impacted by the measures taken by the UK Government in response to the pandemic.

Premium volumes will continue to be moderately impacted by measures we have implemented to help our customers through what remains a very challenging period for businesses, including payment hibernation, premium rebates and discounts.

Excluding the impact of COVID-19, both the art and private client book – which was impacted by 500 claims totalling £10 million from Storms Dennis and Ciara in February – and the professions and specialty commercial book, have reported a favourable claims experience.

The operational resilience of the business has been tested during this period, and it is pleasing to see that service standards are holding up well despite the increased claims volume, as the additional people we have deployed to the front line continue to serve our customers efficiently.

The team has done well to implement a new online first notification of loss system successfully and ahead of schedule, enabling customers to notify us of losses quickly and easily online. Our commitment to innovating in product and distribution is ongoing, and a partnership now under way with accounting software provider, Free Agent, is the first of its kind in the UK to offer insurance products within accounting software.

It will take some time for us to determine and respond to the impact on our brand in the UK resulting from the business interruption dispute, but we look forward to the certainty the FCA test case will provide. We believe the best way to safeguard our brand is by doing what we have always done well; paying covered claims swiftly and fairly, and providing the best support and service to our brokers and customers. I see my colleagues across the Group, but particularly in the UK, go the extra mile to help our customers every day and I am confident the team will deliver here.

#### *Hiscox Europe*

Hiscox Europe provides personal lines cover, including high-value household, fine art and classic car; as well as commercial insurance for small- and medium-sized businesses.

The business delivered a strong performance, growing gross premiums by 10% in constant currency to \$263.4 million (2019: \$245.1 million), with strong retention overcoming a decline in new business as a result of the Continent-wide lockdown.

The varied duration and severity of lockdowns among European nations is observable in the performance of each of the individual European countries.

Germany and Benelux delivered strong double-digit growth, driven in Germany by cyber, technology and media and in Benelux by a strong performance in Belgium, which grew 14%.

France and Spain were most significantly impacted by their respective lockdowns, reporting subdued growth. We expect to see a bounce back as the economies re-open, and will continue to focus on successful partnerships with banks and other carriers, as well as technology and insurtech companies.

Ireland's commercial lines book, a strong growth driver early in the year, has seen a material decline in new business in line with the reduction in economic activity during the lockdown. In line with other local insurers and Insurance Ireland members, the team has been supporting customers affected by COVID-19 with extended credit terms, premium adjustments and other financial measures.

Excluding the impact of COVID-19, the claims experience for Europe was benign.

Despite the challenging remote working conditions, the team has been able to keep the delivery of a new core IT platform on track. The new system will be key to us reaching our ambitions for our European businesses.

#### *Hiscox USA*

Hiscox USA underwrites small- to mid-market commercial risks through brokers and directly to businesses online and over the telephone. We also partner with other insurers who sell Hiscox products.

Gross premiums written increased by 3% to \$452.0 million (2019: \$437.1 million), with good retention in both our direct and partnerships and broker channels compensating for a drop off in new business.

The direct and partnerships channel continues to grow as the US economy begins to recover and we have seen an accelerated pick-up in the use of digital applications. After suffering an expected decline between March and May, the direct channel had its best ever month in June, an increase of more than 20% on the prior year.

In the broker channel, we are exercising discipline in allied health and entertainment. This action will impact short-term growth but preserve profitability.

We have seen continued rate improvement in excess and surplus lines, with the most significant improvements in general liability, E&O, terrorism and cyber, while terms and conditions continue to tighten.

The implementation of our new policy administration system for the direct and partnerships business remains on track to complete as planned by early next year. The new technology is critical to enabling

the direct-to-consumer business to scale over the long-term, which is key to our ambition to be the country's leading online small business insurer.

Underwriting and claims management action taken in response to increased claims activity in some US casualty business is delivering as expected and we are pleased with our progress. Work to in-source a large part of our legal claims capability is on track and claims settlement periods – a key barometer for overall claims costs in our US business – continue to improve, and we expect to complete the in-sourcing in 2021. Having taken an increasingly cautious approach to prior year reserve development and current year loss picks, claims in US casualty lines are progressing in line with our expectations.

#### *Hiscox Special Risks*

Hiscox Special Risks underwrites kidnap and ransom, security risks, personal accident, classic car, jewellery and fine art. Hiscox Special Risks has teams in London, Guernsey, Atlanta, Cologne, Munich, Paris, Madrid, New York, Los Angeles and Miami.

Gross premiums written were \$72.3 million (2019: \$67.0 million), growing by 8% in constant currency in the first half on the back of a strong renewal performance.

We continue to innovate in product and distribution and our broadened distribution strategy focusing on portfolios and partnerships is delivering good results. We have seen early success in adapting our specialised products to sell alongside more commoditised insurance products with selected partners, including a recently-launched trucking insurance product with a kidnap and ransom add-on for companies crossing the US-Mexico border.

#### *Hiscox Asia*

Our brand in Asia, DirectAsia, is a direct-to-consumer business in Singapore and Thailand that sells predominantly motor insurance.

The business grew gross written premiums by 27% in constant currency to \$24.2 million (2019: \$18.6 million). Thailand continued its strong momentum despite the impact of COVID-19, with success in its direct-to-consumer operations as well as through partnerships.

**Hiscox London Market**

	2020 \$m	2019 \$m
Gross premiums written	508.0	484.6
Profit before tax*	7.6	34.4
Combined ratio (%)*	107.4	103.3

\*The comparatives are on a previously reported basis and reflect the impact of foreign exchange gains and losses. See note 6 of the condensed consolidated interim financial statements for further details.

In Singapore, headwinds from the Singaporean Government's response to COVID-19 continue to impact premium growth. The partnerships channel has shown encouraging signs since re-opening in June; however, top-line growth is expected to remain subdued for the remainder of the year.

**Hiscox London Market**

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

Gross premiums written in Hiscox London Market increased by 5% in constant currency to \$508.0 million (2019: \$484.6 million), as conditions continue to improve and we push material rate increases through the majority of lines. In the third consecutive year of rate improvement at Lloyd's, momentum has accelerated further, with aggregate rates up 13% year-to-date across the portfolio. While it is not yet a universally hard market in the traditional sense, strong momentum encouraged by market discipline and a reduction of risk appetite from many market participants continues to drive rates up and create opportunities for those who are well capitalised and able to take advantage.

The public company D&O market has seen rate increases on renewal business of 81%, with more business finding its way to London as US commercial carriers' risk appetites contract further in the face of COVID-19-induced uncertainty. We are currently receiving more than four times the premium for the same amount of risk as two years ago, and remain focused on carefully selecting individual risks, with the benefits of re-positioning the portfolio in 2018 beginning to show through in the results. With more markets retreating, we see further opportunity for profitable growth.

Elsewhere, lines such as general liability, cargo and major property continue to show strong double-digit rate increases and the majority of lines are rate adequate.

We continue to take action to improve profitability in the property book, where we are reducing exposure in household and commercial binders which have continued to contribute to higher attritional losses. We have non-renewed contracts, increased rate, reduced overall limit, and shifted the geographical focus of the binder book; however, while the underlying signs are positive, the 12-month terms on binder contracts means that we will not see the full benefits reflected in the financials until 2021 and 2022.

For Hiscox London Market, it has been an active first half for large claims, even excluding the impact of COVID-19. The business reported above average large losses, including a large individual marine liability loss, as well as claims from old years of account for D&O and political risks. However, the business did avoid material exposure to some notable market claims during the period, including the largest D&O loss in recent history.

In July, we launched a new variable consortium, in partnership with RKH Reinsurance Brokers, with a maximum line of over \$20 million for a wide range of challenging general liability risks such as wildfire, trucking and construction. As a market first, it enables Hiscox to bind capacity on behalf of other consortium members, while allowing them to flex their line up to a selected maximum on a risk-by-risk basis. The variable structure provides the flexibility to respond to more challenging and specialist risks, and offers brokers access to a meaningful amount of capacity from a single underwriting source, increasing the efficiency of the placement process.

The transition to a new way of trading for our London Market team has been relatively seamless since Lloyd's

closed its trading floor in March for the first time in more than 300 years. We continue to lead the way in electronic trading at Lloyd's through our CEO Bronek's Chairmanship of PPL, the market's electronic trading initiative. Prior to the lockdown we already bound over 70% of business written at Lloyd's electronically, and this figure is now over 80%. Our underwriting, operations and claims teams are to be commended for continuing to provide such high-quality service to our brokers and customers.

Having already increased the stamp capacity for Hiscox Syndicate 33 by 19% to £1.7 billion for 2020, the business is well capitalised and well positioned to grow as rates across the market improve further.

**Hiscox Re & ILS**

The Hiscox Re & ILS segment comprises the Group's reinsurance businesses in London and Bermuda and insurance-linked security (ILS) activity written through Hiscox ILS.

Gross premiums written reduced by 21% in constant currency to \$552.3 million (2019: \$698.3 million), the result of a reduced catastrophe bet in response to rate inadequacy and less deployable capital from third-party capital providers.

In US property catastrophe and excess of loss business, our underwriters in London and Bermuda held their nerve, remaining disciplined and reducing exposure materially. At the April renewals in Japan, the international team secured strong rate increases in line with our new view of typhoon risk after two active years for Japanese windstorm losses. The mid-year renewals, where we achieved strong rate increases in Florida of 29%, provided the latest data point for a forthcoming hard market in reinsurance. A chain reaction of capital contraction has created stress in the primary and retro markets, which sees the market finely poised for a turn.

**Hiscox Re & ILS**

	2020 \$m	2019 \$m
Gross premiums written	552.3	698.3
(Loss)/profit before tax*	(15.0)	14.0
Combined ratio (%)*	123.6	111.3

\*The comparatives are on a previously reported basis and reflect the impact of foreign exchange gains and losses. See note 6 of the condensed consolidated interim financial statements for further details.

Hiscox ILS assets under management remain at \$1.5 billion; however, with some of the capital being withheld as reserves for prior-year loss events, total deployable capital is approximately \$1 billion. We have received a redemption request from one of our ILS investors, which will reduce the amount of third-party capital available to underwrite against in January, but we are well capitalised and able to retain more attractively priced risk on our own balance sheet.

Excluding the impact of COVID-19, the claims experience has been normal, with some natural catastrophes and man-made losses. Prior-year catastrophes in Japan and North America are performing well, and we remain conservatively reserved.

**Investments**

The investment return for the first six months of 2020 is \$84.6 million (2019: \$147.5 million), 2.5% (2019: 4.8%) net of fees. Assets under management at 30 June 2020 were \$7,467 million (2019: \$6,592 million).

On the back of unprecedented support from central banks and fiscal policymakers, financial markets recovered significantly in the second quarter, and as such our mid-year investment return has improved materially from the first quarter.

Our cautious risk positioning ahead of the pandemic enabled us to take advantage of market uncertainty by topping up our allocation to risk assets through March and April. Incremental increases to our holdings in equities, high-yield debt and emerging market debt have all performed well in the recent market rally, and have made good contributions to year-to-date returns.

With US one- to three-year investment grade credit spreads having already retraced much of their widening in the first quarter by the end of June, we are comfortable

to maintain our current level of risk at this juncture.

As government bond yields continue to decline and credit spreads narrow, the yield to maturity on our fixed income portfolio is now at its lowest ever point at less than 1%, which of course serves to reduce future expected returns.

### People

The value of having good people is never more apparent than in a crisis, and I am incredibly proud of the way our people across the world have responded to the challenges put before them during this one.

Being forced into full-time remote working almost overnight is difficult enough, and that so many of our people have been able to remain effective under trying conditions, variously juggling roles as a colleague, parent, nurse, chef, entertainer and educator is a testament to their adaptability.

Our front-line underwriting, claims handling and customer support teams have gone the extra mile to ensure our customers, brokers and partners receive the same high quality of service they expect from Hiscox. Their middle- and back-office colleagues have provided the support necessary to ensure our high standards have held up across the Group.

That we have been so operationally resilient is largely down to the tireless work of our global IT teams, under the leadership of our CIO Ian Penny, who have made the transition to remote working pretty much seamless. Our investment in systems and technology is key to powering our future, and the importance of the people ensuring our resilience cannot be overstated.

We have been fortunate over many years to have been able to cultivate talented people and promote from within, and I am very pleased that this tradition has continued with the appointment of Russ Findlay as Group Chief Marketing Officer.

Russ has been with Hiscox since 2013, most recently serving as Chief Marketing Officer for Hiscox USA. In his new role, Russ will lead our 125-strong global marketing team and be responsible for our global marketing and brand-building activity. I congratulate Russ on his appointment as custodian of our strong brand that punches above its weight.

After 17 years with Hiscox including four years in Bermuda, Mike Krefta, Chief Executive Officer of Hiscox Re & ILS, is leaving us in early 2021 to return to the UK. Mike has held a variety of analyst and underwriting roles across the Group including in Hiscox Re & ILS, where he became CUO before taking the reins as CEO in 2017. Since then, he has grown the business to nearly \$900 million of premium, established Hiscox in the ILS market, and led our ESG initiative. I would like to thank him for his energy and commitment to the Group and wish him well for the future.

### Outlook

Having been in the business of risk for 47 years, one might expect to become somewhat immune to surprises, but some events have the ability to shock and amaze. COVID-19 has proven to be thus.

What one does become used to, however, is responding to such events, and our management team has risen to the challenges presented by this pandemic.

We have managed well as a business to handle simultaneous shocks to both our assets and liabilities; however, one thing we are not used to handling is our reputation for paying valid claims fairly and promptly being called into question. We are actively assisting the FCA to bring a prompt resolution to disputes around business interruption coverage in the UK, and we will abide by the final outcome.

Across Hiscox, we look ahead to the second half with confidence and optimism. The underlying business is strong. We are well diversified, with opportunities for profitable growth across our three divisions.

In Retail, we expect growth to continue as our digital platforms deliver efficiencies and new customers. In our big-ticket businesses, rates are rising rapidly and we are anticipating excellent trading conditions ahead.

We may be on the doorstep of the hardest market in many years, and we have the experience, distribution and firepower to grow.



**Robert Childs**  
Chairman  
3 August 2020

## Additional performance measures

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

### Premium growth in local currency

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

### Combined claims and expense ratios

The combined claims and expense ratios are common measures enabling comparability across the insurance industry, that measure the relevant underwriting profitability of the business by reference to its costs as a proportion of its net earned premium. The Group calculates the combined ratio as if the Group owned all of the business, including the proportion of Syndicate 33 that the Group does not own (Group-controlled income). The Group does this to enable comparability from period to period as the business mix may change in a segment between insurance carriers, and this enables the Group to measure all of its underwriting businesses on an equal measure. The calculation is discussed further in note 6, operating segments. The combined ratio is calculated as the sum of the claims ratio and the expense ratio excluding foreign exchange gains/(losses).

### Return on equity (ROE)

Use of return on equity is common within the financial services industry, and the Group uses ROE as one of its key performance metrics. While the measure enables the Group to compare itself against other

peer companies in the immediate industry, it is also a key measure internally where it is used to compare the profitability of business segments, and underpins the performance-related pay and pre-2018 share-based payment structures. The ROE is shown in note 8, along with an explanation of the calculation.

### Net asset value (NAV) per share and net tangible asset value per share

The Group uses NAV per share as one of its key performance metrics, including using the movement of NAV per share in the calculation of the options vesting of awards granted under performance share plans (PSP) from 2018 onwards. This is a widely used key measure for management and also for users of the financial statements to provide comparability across peers in the market. Net tangible asset value comprises total equity excluding intangible assets. NAV per share and net tangible asset value per share are shown in note 7, along with an explanation of the calculation.

### Prior-year developments

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

## Condensed consolidated interim income statement

For the six-month period ended 30 June 2020

	Note	Reviewed six months to 30 June 2020 \$m	Reviewed six months to 30 June 2019 \$m	Audited year to 31 Dec 2019 \$m
<b>Income</b>				
Gross premiums written	6	2,235.5	2,337.5	4,030.7
Outward reinsurance premiums		(821.4)	(870.1)	(1,351.9)
Net premiums written		1,414.1	1,467.4	2,678.8
Gross premiums earned		1,939.5	1,891.9	3,931.9
Premiums ceded to reinsurers		(611.3)	(578.1)	(1,296.3)
Net premiums earned		1,328.2	1,313.8	2,635.6
Investment result	9	84.6	147.5	223.0
Other income	10	22.9	25.8	53.1
Total income		1,435.7	1,487.1	2,911.7
<b>Expenses</b>				
Claims and claim adjustment expenses		(1,349.9)	(1,194.1)	(3,206.7)
Reinsurance recoveries		426.5	510.3	1,630.6
Claims and claim adjustment expenses, net of reinsurance		(923.4)	(683.8)	(1,576.1)
Expenses for the acquisition of insurance contracts		(435.7)	(468.3)	(944.9)
Reinsurance commission income		145.5	130.6	283.9
Operational expenses	10	(324.6)	(295.0)	(593.5)
Net foreign exchange (losses)/gains		(13.6)	15.6	8.5
Total expenses		(1,551.8)	(1,300.9)	(2,822.1)
Results of operating activities		(116.1)	186.2	89.6
Finance costs	11	(22.8)	(18.2)	(36.6)
Share of profit of associates after tax		—	—	0.1
<b>(Loss)/profit before tax</b>		<b>(138.9)</b>	<b>168.0</b>	<b>53.1</b>
Tax expense	12	(11.6)	(22.9)	(4.2)
<b>(Loss)/profit for the period (all attributable to owners of the Company)</b>		<b>(150.5)</b>	<b>145.1</b>	<b>48.9</b>
Earnings per share on (loss)/profit attributable to owners of the Company				
Basic	14	(50.2)¢	51.2¢	17.2¢
Diluted	14	(49.7)¢	50.2¢	16.9¢

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

## Condensed consolidated interim statement of comprehensive income

For the six-month period ended 30 June 2020

	Note	Reviewed six months to 30 June 2020 \$m	Reviewed six months to 30 June 2019 \$m	Audited year to 31 Dec 2019 \$m
(Loss)/profit for the period		(150.5)	145.1	48.9
<b>Other comprehensive income</b>				
Items that will not be reclassified to the income statement:				
Remeasurements of the net defined benefit obligation	20	(47.2)	—	(16.5)
Income tax effect		12.7	—	3.4
		(34.5)	—	(13.1)
Items that may be reclassified subsequently to the income statement:				
Exchange losses on translating foreign operations		(5.4)	(13.3)	(1.0)
Income tax effect		—	—	—
		(5.4)	(13.3)	(1.0)
<b>Other comprehensive income net of tax</b>		<b>(39.9)</b>	<b>(13.3)</b>	<b>(14.1)</b>
<b>Total comprehensive income for the year (all attributable to owners of the Company)</b>		<b>(190.4)</b>	<b>131.8</b>	<b>34.8</b>

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



## Condensed consolidated interim balance sheet

As at 30 June 2020

	Note	Reviewed 30 June 2020 \$m	Reviewed 30 June 2019 \$m	Audited 31 Dec 2019 \$m
<b>Assets</b>				
Goodwill and intangible assets		284.3	231.3	278.0
Property, plant and equipment		120.4	130.7	128.4
Investments in associates		8.0	8.6	8.6
Deferred tax		80.5	56.2	76.9
Deferred acquisition costs		493.5	486.4	456.1
Financial assets carried at fair value	16	5,518.8	5,316.6	5,539.0
Reinsurance assets	13	3,582.6	2,845.5	3,386.9
Loans and receivables including insurance receivables		1,922.2	1,775.4	1,556.3
Current tax asset		0.2	–	4.7
Cash and cash equivalents		2,026.5	1,110.5	1,115.9
<b>Total assets</b>		<b>14,037.0</b>	<b>11,961.2</b>	<b>12,550.8</b>
<b>Equity and liabilities</b>				
Shareholders' equity				
Share capital	17	38.7	34.0	34.1
Share premium	17	517.9	65.9	70.5
Contributed surplus		184.0	184.0	184.0
Currency translation reserve		(331.7)	(338.6)	(326.3)
Retained earnings		2,020.7	2,375.4	2,226.3
<b>Equity attributable to owners of the Company</b>		<b>2,429.6</b>	<b>2,320.7</b>	<b>2,188.6</b>
Non-controlling interest		1.1	1.1	1.1
<b>Total equity</b>		<b>2,430.7</b>	<b>2,321.8</b>	<b>2,189.7</b>
Employee retirement benefit obligation	20	103.4	32.2	55.1
Deferred tax		–	9.2	0.4
Insurance liabilities	13	8,588.3	7,366.8	8,094.5
Financial liabilities	16	1,156.5	713.8	728.8
Current tax		55.2	46.5	62.0
Trade and other payables		1,702.9	1,470.9	1,420.3
<b>Total liabilities</b>		<b>11,606.3</b>	<b>9,639.4</b>	<b>10,361.1</b>
<b>Total equity and liabilities</b>		<b>14,037.0</b>	<b>11,961.2</b>	<b>12,550.8</b>

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

## Condensed consolidated interim statement of changes in equity

For the six-month period ended 30 June 2020

	Reviewed							
	Share capital \$m	Share premium \$m	Contributed surplus \$m	Currency translation reserve \$m	Retained earnings \$m	Equity attributable to owners of the Company \$m	Non-controlling interest \$m	Total \$m
<b>For the six-month period ended 30 June 2020</b>								
Balance at 1 January 2020	34.1	70.5	184.0	(326.3)	2,226.3	2,188.6	1.1	2,189.7
Loss for the period (all attributable to owners of the Company)	–	–	–	–	(150.5)	(150.5)	–	(150.5)
Other comprehensive income net of tax (all attributable to owners of the Company)	–	–	–	(5.4)	(34.5)	(39.9)	–	(39.9)
Employee share options:								
Equity settled share-based payments	–	–	–	–	8.7	8.7	–	8.7
Deferred and current tax on employee share options	–	–	–	–	(5.4)	(5.4)	–	(5.4)
Net movements of treasury shares held by Trust	–	–	–	–	(23.9)	(23.9)	–	(23.9)
Shares issuance	4.6	447.4	–	–	–	452.0	–	452.0
<b>Balance at 30 June 2020</b>	<b>38.7</b>	<b>517.9</b>	<b>184.0</b>	<b>(331.7)</b>	<b>2,020.7</b>	<b>2,429.6</b>	<b>1.1</b>	<b>2,430.7</b>
	Share capital \$m	Share premium \$m	Contributed surplus \$m	Currency translation reserve \$m	Retained earnings \$m	Equity attributable to owners of the Company \$m	Non-controlling interest \$m	Total \$m
<b>For the six-month period ended 30 June 2019</b>								
Balance at 1 January 2019	34.0	57.6	184.0	(325.3)	2,307.6	2,257.9	1.1	2,259.0
Profit for the period (all attributable to owners of the Company)	–	–	–	–	145.1	145.1	–	145.1
Other comprehensive income net of tax (all attributable to owners of the Company)	–	–	–	(13.3)	–	(13.3)	–	(13.3)
Employee share options:								
Equity settled share-based payments	–	–	–	–	7.2	7.2	–	7.2
Proceeds from shares issued	–	2.1	–	–	–	2.1	–	2.1
Deferred and current tax on employee share options	–	–	–	–	1.9	1.9	–	1.9
Shares issued in relation to Scrip Dividend	–	6.2	–	–	–	6.2	–	6.2
Dividends paid to owners of the Company	–	–	–	–	(86.4)	(86.4)	–	(86.4)
<b>Balance at 30 June 2019</b>	<b>34.0</b>	<b>65.9</b>	<b>184.0</b>	<b>(338.6)</b>	<b>2,375.4</b>	<b>2,320.7</b>	<b>1.1</b>	<b>2,321.8</b>

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

## Condensed consolidated interim statement of changes in equity continued

For the year ended 31 December 2019

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

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

## Condensed consolidated interim cash flow statement

For the six-month period ended 30 June 2020

	Note	Reviewed six months to 30 June 2020 \$m	Reviewed six months to 30 June 2019 \$m	Audited year to 31 Dec 2019 \$m
(Loss)/profit before tax		(138.9)	168.0	53.1
Adjustments for:				
Net foreign exchange losses/(gains)		13.6	(15.6)	(8.5)
Interest and equity dividend income	9	(59.3)	(60.4)	(123.7)
Interest expense	11	22.8	18.2	36.6
Net fair value losses/(gains) on financial assets		17.3	(73.4)	(70.8)
Depreciation, amortisation and impairment	10	25.0	22.7	44.6
Charges in respect of share-based payments	10	8.7	7.2	3.6
Changes in operational assets and liabilities:				
Insurance and reinsurance contracts		40.1	28.3	414.3
Financial assets carried at fair value		(66.2)	(207.5)	(405.0)
Financial liabilities carried at fair value		(0.2)	(0.8)	(0.5)
Financial liabilities carried at amortised cost		0.4	–	0.8
Other assets and liabilities		191.4	18.8	14.3
Cash paid to the pension fund		(3.7)	(3.6)	(3.6)
Interest received		59.5	56.6	130.8
Equity dividends received		0.8	3.4	1.1
Interest paid		(9.0)	(3.9)	(36.4)
Current tax paid		(7.3)	(10.3)	(11.2)
<b>Net cash flows from operating activities</b>		<b>95.0</b>	<b>(52.3)</b>	<b>39.5</b>
Purchase of property, plant and equipment		(17.0)	–	(6.4)
Purchase of intangible assets		(31.9)	(42.4)	(90.9)
<b>Net cash flows from investing activities</b>		<b>(48.9)</b>	<b>(42.4)</b>	<b>(97.3)</b>
Proceeds from the issue of ordinary shares		452.0	2.1	3.6
Shares repurchased		(23.9)	–	–
Distributions made to owners of the Company	15	–	(80.2)	(111.6)
Proceeds from drawdown of short-term borrowings		614.4	–	–
Repayments of short-term borrowings		(144.4)	–	–
Principal elements of lease payments		(4.9)	(6.8)	(15.5)
<b>Net cash flows from financing activities</b>		<b>893.2</b>	<b>(84.9)</b>	<b>(123.5)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>939.3</b>	<b>(179.6)</b>	<b>(181.3)</b>
Cash and cash equivalents at 1 January		1,115.9	1,288.8	1,288.8
Net increase/(decrease) in cash and cash equivalents		939.3	(179.6)	(181.3)
Effect of exchange rate fluctuations on cash and cash equivalents		(28.7)	1.3	8.4
<b>Cash and cash equivalents at end of period</b>	19	<b>2,026.5</b>	<b>1,110.5</b>	<b>1,115.9</b>

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

# Notes to the condensed consolidated interim financial statements

## 1 General information

Hiscox Ltd (the 'Company') is a public limited company registered and domiciled in Bermuda. The condensed consolidated interim financial statements for the Company as at, and for the six months ended, 30 June 2020 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates. The Chairman's statement accompanying these condensed consolidated interim financial statements forms the Interim Management Report for the half year ended 30 June 2020.

The Directors of Hiscox Ltd are listed in the Group's 2019 Report and Accounts. A list of current Directors is maintained and available for inspection at the registered office of the Company located at Chesney House, 96 Pitts Bay Road, Pembroke HM 08, Bermuda.

## 2 Basis of preparation

These condensed consolidated interim financial statements for the six months to 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting, as endorsed by the European Union, and the Disclosure Rules and Transparency Rules issued by the Financial Conduct Authority.

The accounting policies applied in the condensed consolidated interim financial statements are the same as those applied in Hiscox Ltd's 2019 consolidated financial statements except for the changes described below.

These condensed consolidated interim financial statements are unaudited but have been reviewed by the auditor, PricewaterhouseCoopers Ltd. They should be read in conjunction with the audited consolidated financial statements of the Group as at, and for the year ended, 31 December 2019.

In preparing these condensed consolidated interim financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2019. We have considered the impacts of COVID-19 to our judgements in Note 3, and there are no changes to the significant estimates and judgements.

The Group continues to monitor and respond to the COVID-19 pandemic, in particular in relation to the impact related to our operations, insurance claims, reinsurance assets and investments on the Group's capital and liquidity positions:

- The Group responded quickly to the expected lockdown in each location and transitioned to a remote working structure within a few days. The Group's IT infrastructure supported over 95% of our more than 3,400 employees around the world working from home with no significant impact on trading capabilities or business processes.
- The current estimate of insurance claims related to COVID-19 is \$232 million net of reinsurance which has been reflected in the interim consolidated financial statements. This loss estimate along with other insurance claims are continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant and are also updated for expectations of prospective future developments.
- The Group utilises a broad, high-quality panel of reinsurers across multiple treaties and actively monitors its credit risk exposure and concentration risk. To date, the Group has not experienced any defaults.
- The Group's investments portfolio remains heavily weighted toward government issued and investment grade corporate debts with minimum exposure to unlisted equity investment. During the first half of 2020, the Group took an action to increase its liquidity position by investing in short-term deposits and similar cash and cash equivalents.

The capital raised from the share issuance in May 2020, while predominantly held to better position the business for future growth opportunities, also provides additional strength to the capital and liquidity positions in light of the continued uncertainty from COVID-19.

As part of the consideration of the appropriateness of adopting the going concern basis, the Directors used a stress test to assess the robustness of the Group's capital and liquidity. The stress tests included a risk scenario where the Group's insurance claims arising from COVID-19 were to increase materially. The Group's capital and liquidity position remain strong even after taking into account this modelled risk scenario.

Based on this assessment, the Directors have an expectation that the Company and the Group have adequate resources to continue in operational

## Notes to the condensed consolidated interim financial statements continued

existence over a period of at least 12 months from the date of approval of the condensed consolidated interim financial statements. For this reason, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

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

These condensed consolidated interim financial statements were approved on behalf of the Board of Directors by the Chief Executive, Bronek Masojada and the Chairman, Robert Childs. Accordingly, the Interim Statement 2020 was approved for issue on Monday, 3 August 2020.

### 2.1 New and amended accounting standards adopted by the Group

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

### Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial statements, but may impact future periods should the Group enter into any business combinations.

### Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or

amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

### Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of, nor is there expected to be any future impact to, the Group.

### Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

### 2.2. Recent organisational changes

The Kiskadee Cadence Fund was launched in December 2019 to achieve attractive risk-adjusted returns by investing primarily in a worldwide reinsurance and retrocession portfolio. The fund is a segregated account of Kiskadee ILS Fund SAC Ltd, which is managed by Hiscox Re Insurance Linked Strategies Ltd, the wholly owned subsidiary of the Group. The Group determined that it does control this entity and hence the fund is consolidated.

### 3 Financial, insurance and other risk management

#### Operational risk

The COVID-19 pandemic has required the Group's ongoing focus on safeguarding the well-being of its employees and their families, serving its clients, and preserving operational continuity. At one point, the Group had over 95% of our more than 3,400 employees around the world working from home, and it continues to support them through flexible working and the provision of mental health and well-being services. This has also meant that internal processes, capability of people and IT systems have been put to the test. The Group has adapted to the changes in the operational environment and business processes have continued to be carried out effectively and efficiently.

The Group demonstrated resilience in the first six months to 30 June 2020, underscoring the benefits of its business model, disciplined risk management and ongoing investment in technology and infrastructure. The measures the Group has implemented to adapt to the COVID-19 pandemic have proven largely effective in addressing the relevant challenges and operational risks and some of these measures represent an acceleration of longer-term plans.

#### Insurance risk

The insurance risks are consistent with those disclosed within the 2019 Annual Report on pages 123 to 126. The Group continues to assess, review and monitor its underwriting and reserve risk.

In addressing specific aspects of the impact of the COVID-19 pandemic to Hiscox in relation to insurance risk, the Group focuses on:

- existing exposures, reinsurance coverage and, from a forward-looking perspective, the underwriting functions develop a projection of exposures taking account changes to coverage including exclusions and incorporating rate changes; the assessment is undertaken on a portfolio-by-portfolio basis across the Group's geographic footprint;
- handling claims arising from the COVID-19 pandemic in a fair, consistent and efficient way, and actively settling claims for event cancellation and abandonment, media and entertainment and other segments including travel.

The Group has reserved \$232 million net of reinsurance for claims from COVID-19, including \$150 million for claims from event cancellation and abandonment, media and entertainment and other segments including travel as disclosed in our first quarter trading statement. The additional \$82 million includes amounts set aside for estimated losses arising in Hiscox London Market,

Hiscox Re & ILS and some liability claims in the USA. Consistent with other insurance claims estimates, this loss estimate is continually evaluated, based on entity-specific historical experience and contemporaneous developments observed in the wider industry when relevant, and are also updated for expectations of prospective future developments. The ultimate costs of claims are always uncertain, increasingly so at present given the impact of the COVID-19 pandemic. A heightened level of uncertainty around the estimates of the ultimate cost of COVID-19-related claims will persist for a period and different outcomes to those assumed in assessing the ultimate cost of claims are possible.

#### UK business interruption insurance and the FCA test case

Hiscox, like other insurers, has been clear in previous public statements that our standard UK property policies do not provide cover for losses as a result of the general measures taken by the UK Government to control the spread of a pandemic. This position has been disputed by some policyholders and business interruption cover has become an important issue for the insurance industry during the COVID-19 pandemic.

The Financial Conduct Authority (FCA), the UK's conduct regulator for financial services firms, has brought an expedited test case before the UK courts on behalf of policyholders to seek clarity on the application of cover for business interruption under a wide range of policy wordings from a number of insurance providers.

Resolving disputes through the legal system is a tried and tested route which is why Hiscox, alongside seven other insurers, agreed to participate in the FCA test case in order to provide certainty for customers and brokers as quickly as possible. This test case will address whether there is any cover under the policies and if so, its scope; however, it will not address issues of quantum and the adjustment of individual claims. Hiscox awaits the Judgment from the test case, and when the process is complete, including any appeals, it will abide by the outcome.

Notwithstanding that we do not consider this to be a covered loss, and significant uncertainties around the final Judgment exist, we provided a risk scenario in our first quarter trading statement on 5 May 2020. The scenario takes into account (i) our view of the number of customers either ordered to close or with premises materially impacted, (ii) savings likely to be made by customers on their normal business expenses and various forms of government relief available to businesses, and (iii) adjusting for wider business trends resulting from reduced economic activity. Based on this scenario, our analysis suggests a range of modelled outcomes

between £10 million and £250 million net of reinsurance. Since publishing this risk scenario, we have undertaken further analysis which confirmed our confidence in this range of modelled outcomes, after taking into account the three points noted above and also the impact of different closure periods for affected businesses.

The outcome of the FCA test case may also have an impact on our inwards reinsurance portfolio written by Hiscox Re & ILS, as some of its clients are primary insurers operating in the UK market which may be impacted by this Judgment; however, it is too early to accurately estimate the quantum of any liabilities. Hiscox Re & ILS has operated a strategy which means that it is significantly underweight on its inwards exposure to UK and European clients.

Our own outwards reinsurance programme provides substantial protection and is purchased from a high quality and diverse panel of reinsurers.

#### Financial risk

The Group continues to monitor all aspects of its financial risk appetite and the resultant exposure taken with caution.

#### Reliability of fair value

As detailed in note 16, the Group's investment allocation is broadly comparable to that at 31 December 2019 as outlined in the 2019 Annual Report. The Group also continues to be mindful of the processes required for establishing the reliability of fair values obtained for some classes of financial assets affected by ongoing periods of diminished liquidity. In order to assist users, the Group has disclosed the measurement attributes of its investment portfolio in a fair value hierarchy in note 18 in accordance with IFRS 13 *Fair Value Measurement*. At 30 June 2020, only 1.8% (2019: 1.4%) of the Group's investments are categorised as Level 3 representing an immaterial proportion of the Group's investments.

#### Equity price risk

The equity price risks are consistent with those disclosed within the 2019 Annual Report on page 127. The Group's equity holding is limited to a relatively small and controlled proportion of the overall investment portfolio and the equity and investment funds involved are diversified over a number of companies and industries. The fair value of equity assets in the Group's balance sheet at 30 June 2020 was \$587 million (2019: \$486 million).

#### Interest rate risk

The interest rate risks are broadly consistent with those disclosed within the 2019 Annual Report on

page 127. The fair value of the Group's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. When market interest rates decrease, similar to the situation observed in the first six months to 30 June 2020, the fair value of the Group's debt and fixed income investments would tend to increase and vice versa if credit spreads remained constant. The fair value of debt and fixed income assets in the Group's balance sheet at 30 June 2020 was \$4,854 million (2019: \$4,990 million).

#### Credit risk

The credit risks are consistent with those disclosed within the 2019 Annual Report on pages 127 to 129. The COVID-19 pandemic has caused economic disruption around the world with many businesses and individuals forced to cease business activity in light of government lockdowns. As a result, the risk that counterparties fail to meet their financial obligations as they fall due has increased.

As at 30 June 2020, the Group has not experienced an increase in defaults but continues to monitor this closely.

The Group Credit Committee assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance as well as detailed analysis from the Group's internal credit analysis team including details of recent payment history and the status of any ongoing negotiations between Group companies and these third parties. As at 30 June 2020, 99.4% (31 December 2019: 99.5%) of the Group's reinsurance assets are rated BBB or higher or fully collateralised.

Individual operating units maintain records of the payment history for significant brokers and contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where counterparties are both debtors and creditors of the Group, and obtaining collateral from unrated counterparties.

The Group also mitigates counterparty credit risk by concentrating debt and fixed income investments in high-quality instruments, including a particular emphasis on government bonds issued mainly by North American countries and the European Union. As at 30 June 2020, 98.3% (31 December 2019: 99.1%) of the Group's investments are rated BBB or higher.

#### Liquidity risk

The liquidity risks are consistent with those disclosed



within the 2019 Annual Report on pages 129 to 130. There has been an increase in claims in 2020 which are mainly attributed to COVID-19 as described in the insurance risk section above. Many of these claims will be settled in 2020 meaning that cash will need to be available to pay these losses.

The Group has actively monitored and taken actions to further strengthen the liquidity position.

In April 2020, the Group announced the decision to withdraw the 2019 final dividend and that the Group will not propose an interim dividend payment, or conduct any further share buybacks in 2020.

In May 2020, the Group successfully raised £375 million through a non-pre-emptive placing of new ordinary shares. The proceeds of the placing will be used to respond to growth opportunities in the London Market and in reinsurance, and to further strengthen our capital buffers.

During the first six months to 30 June 2020, the Group has drawn down \$462 million cash from its revolving credit facility in order to maximise access to liquidity during a period of uncertainty and significant volatility in financial markets.

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

#### Currency risk

The currency risk is consistent as described within the 2019 Annual Report on pages 130 to 132. The Group remains susceptible to fluctuations in rates of foreign exchange, in particular between US Dollars and Sterling. The estimated impact of a 10% strengthening or weakening of Sterling against the US Dollar on (loss)/profit before tax:

Effect on (loss)/profit before tax	\$m
<b>As at 30 June 2020</b>	
10% strengthening of GBP	31
10% weakening of GBP	(25)
<b>As at 30 June 2019</b>	
10% strengthening of GBP	14
10% weakening of GBP	(11)

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

#### Capital risk management

Our capital risk management approach is consistent with the disclosures described within the 2019 Annual Report on page 132. In the face of unprecedented economic uncertainty, prudent capital management is critical to ensure the Group is able to continue to serve its customers, pay valid claims and grow where opportunity permits. The Group has taken a range of proactive management actions, both before the onset of the pandemic and since, to further strengthen Hiscox's robust balance sheet and position it for growth:

- withdrawing the 2019 final dividend and not proposing an interim dividend payment, or conduct any further share buybacks in 2020;
- issuing new equity in May 2020;
- purchasing additional catastrophe reinsurance in the form of industry loss warranties;
- accelerating a range of operational initiatives which are on track to deliver \$60-90 million of expense efficiencies ahead of the business plan in 2020.

As a result, at 30 June 2020, the Group remains strongly capitalised against both our regulatory and rating agency requirements. The Group's available capital on an IFRS basis was \$2,495 million (2019: \$2,276 million), comprising net tangible asset value of \$2,146 million (2019: \$1,912 million) and subordinated debt of \$349 million (2019: \$364 million).

#### 4 Seasonality and weather

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

#### 5 Related-party transactions

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

#### 6 Operating segments

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

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

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

the ILS funds, along with the gains and losses made as a result of the Group's investment in the funds.

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

In 2020, the Group has further refined how it manages and evaluates the performance of the different businesses segments. All foreign exchange gains and losses are therefore allocated to, and managed by, Corporate Centre. To align external reporting to management reporting, the foreign exchange gains and losses are presented in the segmental reporting within Corporate Centre. Comparative figures have been re-presented to reflect this management view, along with the previously reported figures where the foreign exchange gains and losses were allocated to each segment to aid comparability. This change has no effect on the Group IFRS results or financial position.

All amounts reported overleaf 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 loss or profit before tax.

## 6 Operating segments continued

	Six months ended 30 June 2020					Six months ended 30 June 2019					Year ended 31 December 2019				
	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m
Gross premiums written	1,175.2	508.0	552.3	–	2,235.5	1,154.6	484.6	698.3	–	2,337.5	2,196.3	967.9	866.5	–	4,030.7
Net premiums written	1,016.5	266.0	131.6	–	1,414.1	1,020.9	246.9	199.6	–	1,467.4	1,957.5	504.6	216.7	–	2,678.8
Net premiums earned	963.9	248.0	116.3	–	1,328.2	937.7	262.6	113.5	–	1,313.8	1,895.1	527.9	212.6	–	2,635.6
Investment result	46.0	24.2	14.4	–	84.6	81.4	41.5	24.6	–	147.5	133.9	50.6	38.5	–	223.0
Other income	13.4	4.6	4.8	0.1	22.9	14.5	2.9	8.3	0.1	25.8	29.0	9.0	12.7	2.4	53.1
Total income	1,023.3	276.8	135.5	0.1	1,435.7	1,033.6	307.0	146.4	0.1	1,487.1	2,058.0	587.5	263.8	2.4	2,911.7
Claims and claim adjustment expenses, net of reinsurance	(639.5)	(164.6)	(119.3)	–	(923.4)	(431.0)	(163.6)	(89.2)	–	(683.8)	(929.7)	(356.1)	(290.3)	–	(1,576.1)
Expenses for the acquisition of insurance contracts	(217.2)	(65.9)	(7.1)	–	(290.2)	(251.3)	(77.8)	(8.6)	–	(337.7)	(497.0)	(147.9)	(16.1)	–	(661.0)
Operational expenses	(239.5)	(38.6)	(23.6)	(22.9)	(324.6)	(215.2)	(32.7)	(37.5)	(9.6)	(295.0)	(460.9)	(59.2)	(63.6)	(9.8)	(593.5)
Net foreign exchange (losses)/gains	–	–	–	(13.6)	(13.6)	–	–	–	15.6	15.6	–	–	–	8.5	8.5
Total expenses	(1,096.2)	(269.1)	(150.0)	(36.5)	(1,551.8)	(897.5)	(274.1)	(135.3)	6.0	(1,300.9)	(1,887.6)	(563.2)	(370.0)	(1.3)	(2,822.1)
Results of operating activities	(72.9)	7.7	(14.5)	(36.4)	(116.1)	136.1	32.9	11.1	6.1	186.2	170.4	24.3	(106.2)	1.1	89.6
Finance costs	(0.6)	(0.1)	(0.5)	(21.6)	(22.8)	(0.7)	(0.4)	(0.8)	(16.3)	(18.2)	(1.2)	(1.0)	(1.4)	(33.0)	(36.6)
Share of profit of associates after tax	–	–	–	–	–	–	–	–	–	–	–	–	–	0.1	0.1
(Loss)/profit before tax	(73.5)	7.6	(15.0)	(58.0)	(138.9)	135.4	32.5	10.3	(10.2)	168.0	169.2	23.3	(107.6)	(31.8)	53.1
100% ratio analysis*															
Claims ratio (%)	68.5	67.0	94.7	–	70.7	45.3	62.8	79.3	–	53.3	48.9	66.3	132.8	–	60.4
Expense ratio (%)	47.2	40.4	28.9	–	43.9	50.0	41.2	34.5	–	46.1	50.4	39.3	37.1	–	46.4
Combined ratio (%)**	115.7	107.4	123.6	–	114.6	95.3	104.0	113.8	–	99.4	99.3	105.6	169.9	–	106.8

As previously reported†

Net foreign exchange gains/(losses)	2.3	1.9	3.7	7.7	15.6	9.2	7.1	13.8	(21.6)	8.5
Profit/(loss) before tax	137.7	34.4	14.0	(18.1)	168.0	178.4	30.4	(93.8)	(61.9)	53.1
100% ratio analysis*										
Claims ratio (%)	45.3	62.8	79.3	–	53.3	48.9	66.3	132.8	–	60.4
Expense ratio (%)	49.7	40.5	32.0	–	45.5	49.8	38.1	31.1	–	45.3
Combined ratio (%)**	95.0	103.3	111.3	–	98.8	98.7	104.4	163.9	–	105.7

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

†See note 6 on page 23 for further details.

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

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

	Six months ended 30 June 2020					Six months ended 30 June 2019					Year ended 31 December 2019				
	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m	Hiscox Retail \$m	Hiscox London Market \$m	Hiscox Re & ILS \$m	Corporate Centre \$m	Total \$m
Net premiums earned	980.9	340.4	142.5	–	1,463.8	956.4	354.6	163.5	–	1,474.5	1,934.4	721.6	249.4	–	2,905.4
Claims and claim adjustment expenses, net of reinsurance	(672.3)	(228.0)	(135.0)	–	(1,035.3)	(433.4)	(222.6)	(129.7)	–	(785.7)	(945.5)	(478.6)	(331.3)	–	(1,755.4)
Expenses for the acquisition of insurance contracts	(221.9)	(88.3)	(14.8)	–	(325.0)	(259.0)	(105.5)	(14.6)	–	(379.1)	(509.2)	(205.1)	(20.7)	–	(735.0)
Operational expenses	(241.1)	(49.3)	(26.3)	–	(316.7)	(218.6)	(40.4)	(41.9)	–	(300.9)	(464.9)	(78.2)	(71.6)	–	(614.7)

**7 Net asset value (NAV) per share**

	30 June 2020		30 June 2019		31 Dec 2019	
	Net asset value (total equity) \$m	NAV per share cent	Net asset value (total equity) \$m	NAV per share cent	Net asset value (total equity) \$m	NAV per share cent
Net asset value	2,430.7	712.4	2,321.8	817.0	2,189.7	768.2
Net tangible asset value	2,146.4	629.1	2,090.5	735.6	1,911.7	670.6

The NAV per share is based on 341,188,521 shares (30 June 2019: 284,193,001; 31 December 2019: 285,051,997), being the shares in issue at 30 June, less those held in treasury and those held by the Group Employee Benefit Trust. Net tangible assets comprise total equity excluding goodwill and other intangible assets. The NAV per share expressed in pence is 576.5 pence (30 June 2019: 641.9 pence; 31 December 2019: 580.1 pence).

**8 Return on equity (ROE)**

	Six months to 30 June 2020* \$m	Six months to 30 June 2019 \$m	Year to 31 Dec 2019 \$m
(Loss)/profit for the period	(150.5)	145.1	48.9
Opening total equity	2,189.7	2,259.0	2,259.0
Adjusted for the time weighted impact of capital distributions and issuance of shares	111.1	(6.6)	(52.3)
Adjusted opening total equity	2,300.8	2,252.4	2,206.7
Annualised return on equity (%)	(12.7)	13.3	2.2

\*Six months to 30 June 2020 number reflects the impact of share issuance. See note 17 for further details.

The ROE is calculated by using profit or loss for the period divided by the adjusted opening total equity. The adjusted opening total equity represents the equity on 1 January of the relevant year as adjusted for time-weighted aspects of capital distributions and issuing of shares or treasury share purchases during the period. The time-weighted positions are calculated on a daily basis with reference to the proportion of time from the transaction to the end of the period. The Company annualises the ROE by using a standard compound formula for the half-year periods, being the profit or loss for the period divided by the adjusted opening total equity, to the power of two to annualise for a full-year comparison.

**9 Investment result***i) Analysis of investment result*

The total investment result for the Group before taxation comprises:

	Six months to 30 June 2020 \$m	Six months to 30 June 2019 \$m	Year to 31 Dec 2019 \$m
Investment income including interest receivable	59.3	60.4	123.7
Net realised gains on financial investments at fair value through profit or loss	45.6	16.6	34.4
Net fair value (losses)/gains on financial investments at fair value through profit or loss	(17.3)	73.9	73.0
Investment result – financial assets	87.6	150.9	231.1
Fair value losses on derivative financial instruments	(0.5)	(0.5)	(2.2)
Investment expenses	(2.5)	(2.9)	(5.9)
Total result	84.6	147.5	223.0

**9 Investment result continued***ii) Annualised investment return*

	Six months to 30 June 2020		Six months to 30 June 2019		Year to 31 Dec 2019	
	Return \$m	Yield %	Return \$m	Yield %	Return \$m	Yield %
Debt and fixed income securities	93.1	3.8	100.9	4.4	161.8	3.4
Equities and investment funds	(10.6)	(4.2)	46.5	22.5	61.4	13.3
Deposits with credit institutions/cash and cash equivalents	5.1	0.7	3.5	0.6	7.9	0.7
Investment return – financial assets	87.6	2.5	150.9	4.8	231.1	3.6

**10 Other income and operational expenses**

	Six months to 30 June 2020 \$m	Six months to 30 June 2019 \$m	Year to 31 Dec 2019 \$m
Agency-related income	15.0	14.6	28.6
Profit commission	–	0.7	3.9
Other underwriting income	–	1.9	0.9
Other income	7.9	8.6	19.7
Other income	22.9	25.8	53.1
Wages and salaries	113.9	97.2	192.3
Social security costs	18.4	17.1	33.9
Pension cost – defined contribution	6.4	7.8	16.7
Pension cost – defined benefit	3.5	–	1.0
Share-based payments	8.7	7.2	3.6
Temporary staff costs	20.6	22.4	49.6
Travel and entertainment	4.4	10.1	20.6
Legal and professional	29.7	13.8	40.7
Office costs	10.3	9.5	12.7
Computer costs	28.9	30.4	70.4
Marketing expenses	30.8	41.3	88.9
Depreciation, amortisation and impairment	25.0	22.7	44.6
Other expenses	24.0	15.5	18.5
Operational expenses	324.6	295.0	593.5

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

*Impairment assessments of goodwill and other intangible assets*

The recent development of the pandemic, with reduced global economic activity, a surge in insurance claims and the global political response to try to contain transmission of the virus indicate the potential for impairments.

As a result, the Group performed an impairment test as at 30 June 2020, with the updated recoverable values derived from amended forecasts and a discount rate based on the weighted average cost of capital for the Group.

Following the completion of the impairment assessments, management concluded all of these assets are recoverable except for rights to customer contractual relationship related to events business in the UK, where the impairment charge amounted to \$0.2 million.

To test the segment's sensitivity to variances, management flexed the key assumptions within a reasonably expected range. Within this range, goodwill and other intangible assets recoveries were stress tested and remain supportable across all cash-generating units or assets.

## 11 Finance costs

	Six months to 30 June 2020 \$m	Six months to 30 June 2019 \$m	Year to 31 Dec 2019 \$m
Interest charge associated with long-term debt	14.0	14.4	28.7
Interest and expenses associated with bank borrowing facilities	6.8	1.4	3.2
Interest and charges associated with Letters of Credit	1.2	1.2	2.0
Other interest expenses*	0.8	1.2	2.7
	22.8	18.2	36.6

\*Including interest expense on lease liabilities of \$0.8 million (30 June 2019: \$0.9 million; 31 December 2019: \$1.8 million).

As at 30 June 2020, the total amount drawn by way of Letter of Credit to support the Funds at Lloyd's requirement was \$266.0 million (30 June 2019: \$50.0 million; 31 December 2019: \$50.0 million). During the period, the Group drew cash under its revolving credit facility in order to maximise access to liquidity during a period of uncertainty and significant volatility in financial markets. As at 30 June 2020, the total amount of cash drawn was \$462 million (30 June 2019: nil, 31 December 2019: nil).

## 12 Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled. The amount charged in the condensed consolidated income statement comprise the following:

	Six months to 30 June 2020 \$m	Six months to 30 June 2019 \$m	Year to 31 Dec 2019 \$m
Current tax expense	10.4	18.3	29.0
Deferred tax charge/(credit)	1.2	4.6	(24.8)
<b>Total tax charged to the income statement</b>	<b>11.6</b>	<b>22.9</b>	<b>4.2</b>

The current tax charge of \$10.4 million arises on taxable profits (i.e. after adjusting for non-deductible expenses, etc.) recognised in jurisdictions in which the Group anticipates a net profit for the year; and includes the adjustments in respect of prior year.

## 13 Insurance liabilities and reinsurance assets

	Six months to 30 June 2020 \$m	Six months to 30 June 2019 \$m	Year to 31 Dec 2019 \$m
<b>Gross</b>			
Claims and claim adjustment expenses outstanding including IBNR	6,503.0	5,211.3	6,276.0
Unearned premiums	2,085.3	2,155.5	1,818.5
<b>Total insurance liabilities, gross</b>	<b>8,588.3</b>	<b>7,366.8</b>	<b>8,094.5</b>
<b>Recoverable from reinsurers</b>			
Claims and claim adjustment expenses outstanding including IBNR	2,915.4	2,144.6	2,921.0
Unearned premiums	667.2	700.9	465.9
<b>Total reinsurers' share of insurance liabilities</b>	<b>3,582.6</b>	<b>2,845.5</b>	<b>3,386.9</b>
<b>Net</b>			
Claims and claim adjustment expenses outstanding including IBNR	3,587.6	3,066.7	3,355.0
Unearned premiums	1,418.1	1,454.6	1,352.6
<b>Total insurance liabilities, net</b>	<b>5,005.7</b>	<b>4,521.3</b>	<b>4,707.6</b>

Net claims and claim adjustment expenses include releases of \$63.0 million (30 June 2019: \$26.0 million; 31 December 2019: \$25.9 million) related to reserves established in prior reporting periods. The insurance claims related to COVID-19 are discussed in more detail in Note 3. The development of net claims reserves by accident years are detailed on the opposite page.

## 13 Insurance liabilities and reinsurance assets continued

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

Accident year ending 31 December <sup>†</sup>	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	Total \$m
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year <sup>†</sup>	1,462.5	1,153.7	1,102.1	1,148.3	1,225.0	1,445.0	1,819.0	1,770.8	1,763.3	1,074.0	13,963.7
one period later <sup>†</sup>	1,345.9	1,015.2	977.8	1,008.8	1,132.2	1,312.1	1,609.8	1,816.5	1,738.7		11,957.0
two periods later <sup>†</sup>	1,292.7	940.8	877.7	915.5	1,040.3	1,243.8	1,595.7	1,788.1			9,694.6
three periods later <sup>†</sup>	1,290.5	905.1	813.1	862.1	1,034.1	1,259.1	1,577.8				7,741.8
four periods later <sup>†</sup>	1,282.0	896.2	808.2	836.4	1,033.2	1,252.0					6,108.0
five periods later <sup>†</sup>	1,230.1	916.3	783.9	815.1	1,040.5						4,785.9
six periods later <sup>†</sup>	1,194.4	906.8	783.1	811.3							3,695.6
seven periods later <sup>†</sup>	1,162.0	887.3	783.7								2,833.0
eight periods later <sup>†</sup>	1,144.1	875.3									2,019.4
nine periods later <sup>†</sup>	1,142.3										1,142.3
Current estimate of cumulative claims	1,142.3	875.3	783.7	811.3	1,040.5	1,252.0	1,577.8	1,788.1	1,738.7	1,074.0	12,083.7
Cumulative payments to date	(1,132.3)	(794.2)	(739.5)	(697.6)	(829.8)	(986.5)	(1,220.7)	(1,067.0)	(652.3)	(75.7)	(8,195.6)
Liability recognised at 100% level	10.0	81.1	44.2	113.7	210.7	265.5	357.1	721.1	1,086.4	998.3	3,888.1
Liability recognised in respect of prior accident years at 100% level											144.8
<b>Total net liability to external parties at 100% level</b>											<b>4,032.9</b>

\*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 30 June 2020.

<sup>†</sup>With the exception of the most recent development data for each accident year, which only relates to the six months ending 30 June 2020, the term period refers to one full calendar year. This includes the run-off casualty loss portfolio transfer.

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

Accident year	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	2019 \$m	2020 \$m	Total \$m
Current estimate of cumulative claims	1,142.3	875.3	783.7	811.3	1,040.5	1,252.0	1,577.8	1,788.1	1,738.7	1,074.0	12,083.7
Less: attributable to external Names	(155.6)	(93.5)	(79.4)	(81.9)	(109.8)	(126.1)	(161.1)	(181.9)	(181.5)	(121.6)	(1,292.4)
Group share of current ultimate claims estimate	986.7	781.8	704.3	729.4	930.7	1,125.9	1,416.7	1,606.2	1,557.2	952.4	10,791.3
Cumulative payments to date	(1,132.3)	(794.2)	(739.5)	(697.6)	(829.8)	(986.5)	(1,220.7)	(1,067.0)	(652.3)	(75.7)	(8,195.6)
Less: attributable to external Names	149.3	83.3	73.4	73.3	86.8	96.5	129.0	113.2	74.8	0.6	880.2
Group share of cumulative payments	(983.0)	(710.9)	(666.1)	(624.3)	(743.0)	(890.0)	(1,091.7)	(953.8)	(577.5)	(75.1)	(7,315.4)
Liability for 2011 to 2020 accident years recognised on Group's balance sheet	3.7	70.9	38.2	105.1	187.7	235.9	325.0	652.4	979.7	877.3	3,475.9
Liability for accident years before 2011 recognised on Group's balance sheet											111.7
<b>Total Group liability to external parties included in the balance sheet, net<sup>†</sup></b>											<b>3,587.6</b>

<sup>†</sup>This represents the claims element of the Group's insurance liabilities and reinsurance assets.



**13 Insurance liabilities and reinsurance assets continued**

A reconciliation of the gross premium written to net premium earned is as follows:

	Six months to 30 June 2020 \$m	Six months to 30 June 2019 \$m	Year to 31 Dec 2019 \$m
Gross premium written	2,235.5	2,337.5	4,030.7
Outward reinsurance premium	(821.4)	(870.1)	(1,351.9)
Net premium written	1,414.1	1,467.4	2,678.8
Change in gross unearned premium reserves	(296.0)	(445.6)	(98.8)
Change in reinsurers' share of unearned premium reserves	210.1	292.0	55.6
Change in net unearned premium reserves	(85.9)	(153.6)	(43.2)
Net premiums earned	1,328.2	1,313.8	2,635.6

**14 Earnings per share****Basic**

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

	Six months to 30 June 2020*	Six months to 30 June 2019	Year to 31 Dec 2019
(Loss)/profit for the period attributable to owners of the Company (\$m)	(150.5)	145.1	48.9
Weighted average number of ordinary shares in issue (thousands)	299,614	283,346	284,015
Basic earnings per share (cent per share)	(50.2)¢	51.2¢	17.2¢
Basic earnings per share (pence per share)	(39.8)p	39.6p	13.5p

\*Six months to 30 June 2020 number reflects the impact of share issuance. See note 17 for further details.

**Diluted**

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

	Six months to 30 June 2020	Six months to 30 June 2019	Year to 31 Dec 2019
(Loss)/profit for the period attributable to owners of the Company (\$m)	(150.5)	145.1	48.9
Weighted average number of ordinary shares in issue (thousands)	299,614	283,346	284,015
Adjustment for share options (thousands)	3,013	5,717	4,361
Weighted average number of ordinary shares for diluted earnings per share (thousands)	302,627	289,063	288,376
Diluted earnings per share (cent per share)	(49.7)¢	50.2¢	16.9¢
Diluted earnings per share (pence per share)	(39.4)p	38.8p	13.3p

Diluted earnings per share has been calculated after taking account of outstanding options and awards under employee share option and performance plan schemes and also options under save as you earn schemes.

**15 Dividends paid to owners of the Company**

	Six months to 30 June 2020 \$m	Six months to 30 June 2019 \$m	Year to 31 Dec 2019 \$m
Final dividend for the year ended:			
31 December 2019 of nil (net) per share	–	–	–
31 December 2018 of 28.6¢ (net) per share	–	86.4	81.4
Interim dividend for the year ended:			
31 December 2019 of 13.75¢ (net) per share	–	–	39.5
	–	86.4	120.9

The final dividend for the year ended 31 December 2018 of 28.6¢ was paid in cash of \$75.2 million and 296,044 shares for the scrip dividend. The interim dividend for the year ended 31 December 2019 was paid in cash of \$36.4 million and 157,487 shares for the scrip dividend.

As announced on 8 April 2020, in order to help the Group serves the needs of businesses and households through the extraordinary challenges presented by COVID-19, and with the support of the regulators, the Hiscox Ltd Board has decided that the resolution to approve the 2019 final dividend of 29.6 cents per share, which was scheduled for payment on 10 June 2020, was not put to shareholders at the Annual General Meeting (AGM). The Board has also agreed that for 2020 the Group will not propose an interim dividend payment, or conduct any further share buybacks.

**16 Financial assets and liabilities****i) Analysis of financial assets carried at fair value**

	30 June 2020 \$m	30 June 2019 \$m	31 Dec 2019 \$m
Debt and fixed income securities	4,853.6	4,778.2	4,989.9
Equities and investment funds	587.0	478.4	486.4
Total investments	5,440.6	5,256.6	5,476.3
Insurance-linked funds	78.1	59.6	61.2
Derivative financial instruments	0.1	0.4	1.5
Total financial assets carried at fair value	5,518.8	5,316.6	5,539.0

**ii) Analysis of financial liabilities carried at fair value**

	30 June 2020 \$m	30 June 2019 \$m	31 Dec 2019 \$m
Derivative financial instruments	0.4	0.2	0.6
Total financial liabilities carried at fair value	0.4	0.2	0.6

**iii) Analysis of financial liabilities carried at amortised cost**

	30 June 2020 \$m	30 June 2019 \$m	31 Dec 2019 \$m
Long-term debt	677.4	697.0	725.6
Short-term borrowings	462.4	–	–
Accrued interest on long-term debt	16.3	16.6	2.6
Total financial liabilities carried at amortised cost	1,156.1	713.6	728.2

**16 Financial assets and liabilities continued***iv) Investment and cash allocation*

	30 June 2020		30 June 2019		31 Dec 2019	
	\$m	%	\$m	%	\$m	%
Debt and fixed income securities	4,853.6	65.0	4,778.2	75.1	4,989.9	75.7
Equities and investment funds	587.0	7.9	478.4	7.5	486.4	7.4
Deposits with credit institutions/cash and cash equivalents	2,026.5	27.1	1,110.5	17.4	1,115.9	16.9
Total	7,467.1		6,367.1		6,592.2	

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

The notes bear interest from and including 24 November 2015 at a fixed rate of 6.125% per annum annually in arrears starting 24 November 2016 up until the first call date in November 2025, and thereafter at a floating rate of interest equal to three-month LIBOR plus 5.076% payable quarterly in arrears on each floating interest payment date.

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

On 14 March 2018, the Group issued £275.0 million 2% notes due December 2022.

The notes bear interest from and including 14 March 2018 at a fixed rate of 2% per annum annually in arrears starting 14 December 2018 until maturity on 14 December 2022. On 14 March 2018, the notes were admitted for trading on the Luxembourg Stock Exchange's Euro MTF. The notes were rated BBB+ by both S&P and Fitch.

The interest accrued on the long-term debt was \$16.3 million at the balance sheet date (30 June 2019: \$16.6 million; 31 December 2018: \$2.6 million) and is included in financial liabilities.

*v) Total investments and cash allocation by currency*

	30 June 2020	30 June 2019	31 Dec 2019
	%	%	%
US Dollars	63.1	65.7	64.8
Sterling	26.5	23.4	22.1
Euro	7.5	8.3	8.7
Other currencies	2.9	2.6	4.4

**17 Shareholders equity**

On 6 May 2020, the Group announced the successful completion of the non-pre-emptive placing of new ordinary shares of 6.5 pence each in the capital of the Company announced on 5 May 2020. The capital raise of 57,693,425 new Ordinary Shares raised gross proceeds of approximately \$463 million or £375 million. The issuance represents, in aggregate, approximately 19.48% of the existing issued ordinary share capital of Hiscox prior to the capital raise. As a consequence the shareholders' equity of the Group and the available capital increased by approximately \$452 million and the total issued ordinary share capital of \$557 million.

**18 Fair value measurements**

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>As at 30 June 2020</b>				
<b>Financial assets</b>				
Debt and fixed income securities	1,205.9	3,647.7	–	4,853.6
Equities and investment funds	–	567.0	20.0	587.0
Insurance-linked funds	–	–	78.1	78.1
Derivative financial instruments	–	0.1	–	0.1
Total	1,205.9	4,214.8	98.1	5,518.8
<b>Financial liabilities</b>				
Derivative financial instruments	–	0.4	–	0.4
Total	–	0.4	–	0.4

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>As at 30 June 2019</b>				
<b>Financial assets</b>				
Debt and fixed income securities	1,384.1	3,394.1	–	4,778.2
Equities and investment funds	–	459.7	18.7	478.4
Insurance-linked funds	–	–	59.6	59.6
Derivative financial instruments	–	0.4	–	0.4
Total	1,384.1	3,854.2	78.3	5,316.6
<b>Financial liabilities</b>				
Derivative financial instruments	–	0.2	–	0.2
Total	–	0.2	–	0.2

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

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

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

**18 Fair value measurements continued**

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

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

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

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

Level 3 contains investments in a limited partnership and unquoted equity securities and an insurance-linked fund which have limited observable inputs on which to measure fair value. Unquoted equities, including equity instruments in limited partnerships, are carried at fair value. Fair value is determined to be net asset value for the limited partnerships, and for the equity holdings it is determined to be the latest available traded price. The effect of changing one or more of the inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant. At 30 June 2020, the insurance-linked fund of \$78.1 million (30 June 2019: \$59.6 million; 31 December 2019: \$61.2 million) represents the Group's investment in 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. Significant inputs and assumptions in calculating the fair value of the assets and liabilities associated with reinsurance contracts written by the Kiskadee Funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the Kiskadee Funds if reasonably different inputs and assumptions were used and has found no significant changes in the valuation.

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 period, there were no significant transfers made between Level 1, Level 2 or Level 3 of the fair value hierarchy.

**18 Fair value measurements continued**

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

	Financial assets		
	Equities and investment funds \$m	Insurance-linked funds \$m	Total \$m
<b>30 June 2020</b>			
Balance at 1 January	18.5	61.3	79.8
Fair value gains or losses through profit or loss	–	1.5	1.5
Net foreign exchange losses	(0.5)	(0.5)	(1.0)
Purchases	2.0	16.7	18.7
Settlements	–	(0.9)	(0.9)
<b>Closing balance</b>	<b>20.0</b>	<b>78.1</b>	<b>98.1</b>
<b>Unrealised gains and losses in the period on securities held at the end of the period</b>	<b>–</b>	<b>1.5</b>	<b>1.5</b>

	Financial assets		
	Equities and investment funds \$m	Insurance-linked funds \$m	Total \$m
<b>30 June 2019</b>			
Balance at 1 January	18.9	55.2	74.1
Fair value gains or losses through profit or loss	(0.2)	2.1	1.9
Net foreign exchange losses	–	(0.1)	(0.1)
Purchases	–	2.6	2.6
Settlements	–	(0.2)	(0.2)
<b>Closing balance</b>	<b>18.7</b>	<b>59.6</b>	<b>78.3</b>
<b>Unrealised gains and losses in the period on securities held at the end of the period</b>	<b>(0.2)</b>	<b>2.1</b>	<b>1.9</b>

	Financial assets		
	Equities and investment funds \$m	Insurance-linked funds \$m	Total \$m
<b>31 December 2019</b>			
Balance at 1 January	18.9	55.2	74.1
Fair value gains or losses through profit or loss	0.2	0.7	0.9
Net foreign exchange gains	0.5	–	0.5
Purchases	0.7	5.5	6.2
Settlements	(1.8)	(0.2)	(2.0)
<b>Closing balance</b>	<b>18.5</b>	<b>61.2</b>	<b>79.7</b>
<b>Unrealised gains and losses in the period on securities held at the end of the period</b>	<b>(0.1)</b>	<b>0.7</b>	<b>0.6</b>

**19 Condensed consolidated interim cash flow statement**

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

Included within cash and cash equivalents held by the Group are balances totalling \$251 million (30 June 2019: \$154 million; 31 December 2019: \$167 million) not available for immediate use by the Group outside of the Lloyd's Syndicates within which they are held. Additionally, \$6 million (30 June 2019: \$42 million; 31 December 2019: \$41 million) is pledged cash against Funds at Lloyd's, and \$0.1 million (30 June 2019: \$nil; 31 December 2019: \$0.3 million) is held within trust funds against reinsurance arrangements.

**20 Employee retirement benefit obligations**

The table below provides a reconciliation of the movement in the Group's net defined benefit liabilities position under IAS 19 from 1 January 2020 to 30 June 2020 and 31 December 2019.

	Six months to 30 June 2020 \$m	Year to 31 Dec 2019 \$m
Group net defined benefit liabilities at beginning of period/year	55.1	35.8
Third-party Names' share of liability at beginning of period/year	(10.5)	(6.6)
Re-measurements	47.2	16.5
Other movements	(6.9)	(1.1)
Third-party Names' share of liability at end of period/year	18.5	10.5
Group net defined benefit liabilities at end of period/year	103.4	55.1

Remeasurements include changes in actuarial assumptions, predominantly the application of a lower discount rate being applied to the scheme and the reduction in the fair value of scheme assets.

Other movements include regular contributions and exchange gains/losses.

**21 Post-balance sheet events**

Hiscox, like other insurers, has been clear in previous public statements that our standard UK property policies do not provide cover for losses as a result of the general measures taken by the UK Government to control the spread of a pandemic. This position has been disputed by some policyholders and business interruption cover has become an important issue for the insurance industry during the COVID-19 pandemic.

The Financial Conduct Authority (FCA), the UK's conduct regulator for financial services firms, has brought an expedited test case before the UK courts on behalf of policyholders to seek clarity on the application of cover for business interruption under a wide range of policy wordings from a number of insurance providers.

Resolving disputes through the legal system is a tried and tested route which is why Hiscox, alongside seven other insurers, agreed to participate in the FCA test case in order to provide certainty for customers and brokers as quickly as possible. This test case will address whether there is any cover under the policies and if so, its scope; however, it will not address issues of quantum and the adjustment of individual claims. We await the Judgment from the test case, and when the process is complete, including any appeals, we will abide by the outcome.

See note 3, financial, insurance and other risk management, for further details.

**Directors' responsibilities statement**

The Directors confirm, to the best of our knowledge, that the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the European Union and the Interim Statement includes a fair review of the information required by sections 4.2.7R and 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, being:

- an indication of important events during the first six months of the current financial year and their impact on the condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- related-party transactions that have taken place in the first six months of the current year and that have materially affected the consolidated financial position or performance of Hiscox Ltd during that period, and any changes in the related-party transactions described in the last annual report that could have such a material effect.

The individuals responsible for authorising the responsibility statement on behalf of the Board are the Chief Executive, Bronek Masojada and the Chairman, Robert Childs. Accordingly, the Interim Statement 2020 was approved for issue on Monday, 3 August 2020.



## Report on the condensed consolidated interim financial statements

### Our conclusion

We have reviewed Hiscox Ltd's condensed consolidated interim financial statements, defined below, in the Interim Statement 2020 of Hiscox Ltd for the six-month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### What we have reviewed

The condensed consolidated interim financial statements comprise:

- the condensed consolidated interim income statement for the six-month period ended 30 June 2020;
- the condensed consolidated interim statement of comprehensive income for the six-month period ended 30 June 2020;
- the condensed consolidated interim balance sheet as at 30 June 2020;
- the condensed consolidated interim statement of changes in equity for the six-month period ended 30 June 2020;
- the condensed consolidated interim cash flow statement for the six-month period ended 30 June 2020; and
- the explanatory notes to the condensed consolidated interim financial statements.

The condensed consolidated interim financial statements included in the Interim Statement 2020 have been prepared in accordance with International Accounting

Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the condensed consolidated interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual consolidated financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Responsibilities for the condensed consolidated interim financial statements and the review

### Our responsibilities and those of the Directors

The Interim Statement 2020, including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Statement 2020 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements in the Interim Statement 2020 based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements 2410,

'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the International Auditing and Assurance Standards Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.


We have read the other information contained in the Interim Statement 2020 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

**PricewaterhouseCoopers Ltd.**  
Chartered Professional Accountants  
Hamilton, Bermuda  
3 August 2020

Hiscox Ltd

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Together,  
build something  
better.