



# IFRS 17 education event

6 December 2022



All numbers are illustrative or indicative, unaudited and subject to change. No forecasts, KPI numbers or new targets issued.



# What we will cover today

- 
- Key messages and overview
  - Core IFRS 17 changes relevant to our business
  - Impact on numbers and key performance indicators
  - Timeline of events

## Key messages and overview

Paul Cooper, Group CFO

# Key messages

## Fundamentals unchanged

Economics of the business

No change in strategy. Strong business fundamentals.

Capital position and cash generation

Robust solvency position and cash generation. Expect no impact.

Reserves

No change in conservative reserving philosophy but more granular disclosures.

Group's earnings

Reduced volatility as changes to investment return arising from interest rate movements are now partially offset by discount rate on net insurance liabilities.

Shareholders' equity

Small net increase on transition, primarily due to discounting; no fundamental change in profitability.

Presentation and disclosures

New and more granular disclosures.

Key performance indicators (KPIs)

Revised reporting KPI definitions but no change to management focus and decision-making.

# Accounting policy choices

## Simplicity, relevance and consistency

	APPROACH	WHY	IMPACT
<b>Measurement approach</b>	Premium allocation approach (PAA) <b>G</b>	Simpler and closer to current accounting	Presentation and disclosure more familiar and easier to understand
<b>Transition</b>	Full retrospective approach <b>G</b>	Required by the standard	Modest restatement of opening equity
<b>IFRS 9 Investments</b>	Mark-to-market investments (at fair value through profit or loss)	Consistent with current accounting and the way we manage investments	None
<b>Discounting</b>	Current risk free rate plus illiquidity premium	Standard P&C approach	Using market observable data and less earnings volatility
<b>Risk adjustment <b>G</b></b>	Value at risk (percentile) and scenario (sensitivities on a range of outcomes) approach	Reflective of current reserving methodology	Minimal impact on undiscounted reserves, greater transparency on quantum
<b>Attributable expenses <b>G</b></b>	Defer acquisition expenses	Matching income with expenses	None
<b>Level of aggregation <b>G</b></b>	By reserving class	In line with how we manage our business	More granular level of onerous contract <b>G</b> recognition and enhanced disclosure

# IFRS 17 impacts

## No impact on regulatory capital, cash and dividends

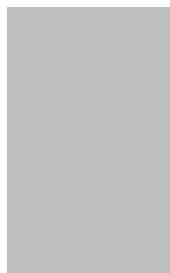
### BSCR ratio at 30 June 2022

IFRS 4

IFRS 17

200%

200%



### Fungible liquidity at 30 June 2022

IFRS 4

IFRS 17

In excess of \$1bn



### Ability to pay dividends unaffected

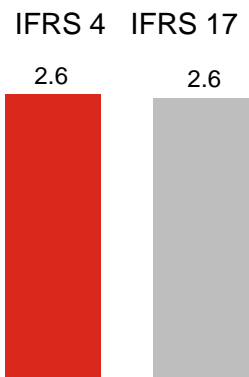


# IFRS 17 impacts

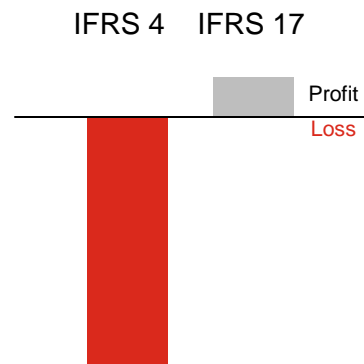
## Financial metrics

### Income statement metrics

#### Top-line (\$bn) 30 June 2022



#### (Loss)/Profit\*\* before tax 30 June 2022

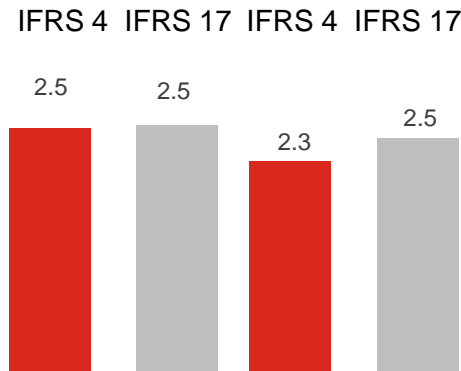


- Insurance contract written premium\* is slightly lower than GWP as reinstatement premiums **G** are reclassified from the top-line to claims

- Material impact on loss before tax at HY22 largely due to favorable interest rate and FX movements
- The improvement in performance relates predominantly to discounting benefit in reserves

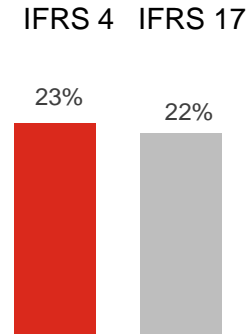
### Balance sheet metrics

#### Shareholders' equity (\$bn) 31 Dec 2021 30 June 2022



- Predominant driver of impact on shareholders' equity is discounting reserves

#### Leverage\*\*\* 31 December 2021



- Leverage ratio decreases by 1ppt due to the increase in shareholders' equity on transition with no changes to the valuation of borrowings

Note: unaudited, estimated and subject to change. Graphs are not to scale.

\*Will be the new alternative performance measure for 'top-line' under IFRS 17.

\*\*Loss before tax is driven by unrealised losses on bonds due to mark-to-market movements.

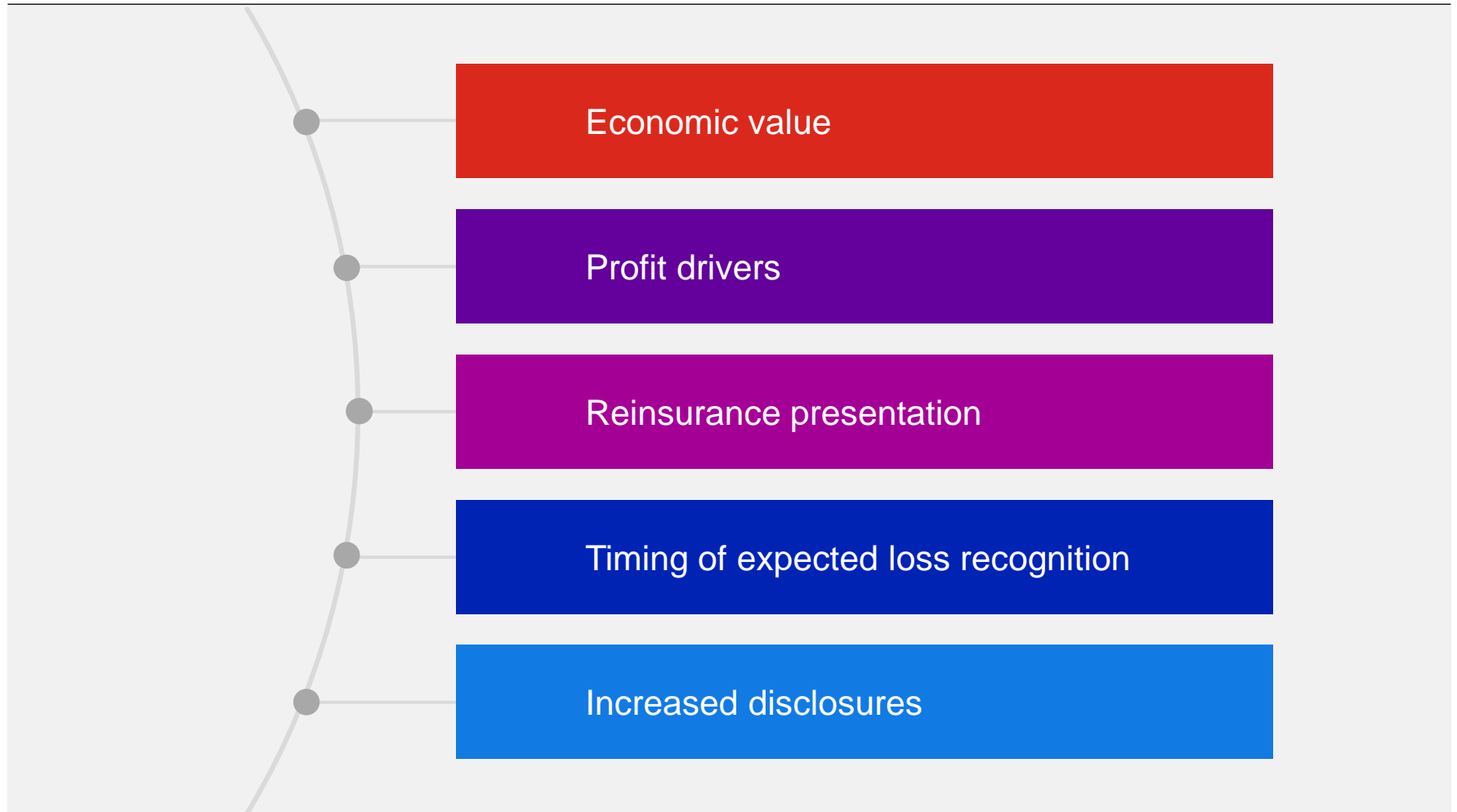
\*\*\*Defined as borrowings divided by borrowings plus shareholders' equity.



## Core IFRS 17 changes relevant to our business

Liz Breeze, CFO – Re & ILS and IFRS 17 Executive Sponsor

# Core IFRS 17 changes relevant to our business



# Economic value Discounting

- Claims now recorded at their present value reflecting the time value of money
- Discounting effect makes equity more stable as both assets and liabilities are revalued at current discount rates
- In a rising interest rate environment the balance sheet value of net insurance liabilities will decrease which will partially offset fair value reduction on the investment portfolio

**IFRS 17  
discount rate**

Discount rate that reflects the characteristics of the cash flows



**Risk-free rate**

Determined using swap curves for each settlement currency



**Illiquidity  
premium**

Determined with reference to spreads on corporate bonds

# Profit drivers

## Underwriting performance and net investment return

<b>Income statement</b>	<b>Insurance service result</b>
Insurance revenue	<ul style="list-style-type: none"> <li>Expected to be higher than IFRS 4 underwriting result due to discounting of incurred claims and, to a lesser extent, fewer expenses being included</li> </ul>
Insurance service expenses	<ul style="list-style-type: none"> <li>Represents the profit or loss arising from underwriting activities</li> </ul>
<b>Insurance service result before reinsurance contracts held</b>	<b>Net insurance finance and investment result</b>
Allocation of reinsurance premiums	<ul style="list-style-type: none"> <li>Return on investment portfolio, after the effect of time value of money and FX on net insurance liabilities</li> </ul>
Amounts recoverable from reinsurers for incurred claims	<ul style="list-style-type: none"> <li>Includes both realised and unrealised mark-to-market movements on investments</li> </ul>
<b>Net expense from reinsurance contracts held</b>	<ul style="list-style-type: none"> <li>Includes cost of discounting unwind on net insurance liabilities and impact of revaluing reserves due to changes in discount rate in the reporting period</li> </ul>
<b>Insurance service result</b>	<b>Other</b>
	<ul style="list-style-type: none"> <li>FX on non-insurance items are included in the other foreign exchange gains or losses line</li> </ul>
<b>Investment result</b>	
Net finance income/(expenses) from insurance contracts	
Net finance income/(expenses) from reinsurance contracts	
<b>Net insurance finance income/(expenses)</b>	
<b>Net insurance finance and investment result</b>	
Other income	
Other operational expenses*	
Other foreign exchange gain/(loss)	
<b>Profit/(loss) before tax</b>	

\*Non-attributable expenses.

# Reinsurance presentation

## Geographical changes

Reinsurance contracts are recognised, measured and presented separately from insurance contracts

Reinsurance contracts issued  
(inwards)

Reinsurance contracts held  
(outwards)

### Example: outwards reinsurance

Ceded reinsurance impact under IFRS 4	
Gross earned premium (A)	100
Ceded reinsurance premium (C)*	(30)
<i>Net premium earned</i>	<i>70</i>
Gross claims (B)	(60)
Claim recoveries (C)	20
<i>Net claims</i>	<i>(40)</i>
Expenses (B)	(20)
Reinsurance commission (C)**	3
<b>Underwriting result</b>	<b>13</b>

Ceded reinsurance impact under IFRS 17 (excl. discounting)	
Insurance service revenue (A)	100
Insurance service expense (B)	(80)
<i>Insurance service result before RI</i>	<i>20</i>
Allocation of reinsurance premium***	(23)
Recoveries from reinsurers****	16
<i>Net gain/(cost) from reinsurance (C)</i>	<i>(7)</i>
<b>Insurance service result</b>	<b>13</b>

### Key changes to presentation:

- Reinstatement premiums will be presented as claims
- Reinsurance commission (no longer on the face of the income statement) will be presented in other parts of premium income or claims recoveries
  - Profit commission† forms part of claims recoveries
  - Overrides†† are included in the reinsurance ceded premium

\*Ceding premium of -25, plus reinstatement premiums of -5.

\*\*Fixed commission of 2, plus variable commission of 1.

\*\*\*Ceding premium of -25, plus fixed commission of 2.

\*\*\*\*Claim recoveries of 20, less reinstatement premium of 5, plus variable commission of 1.

†Variable commission depending on the profitability of the contracts.

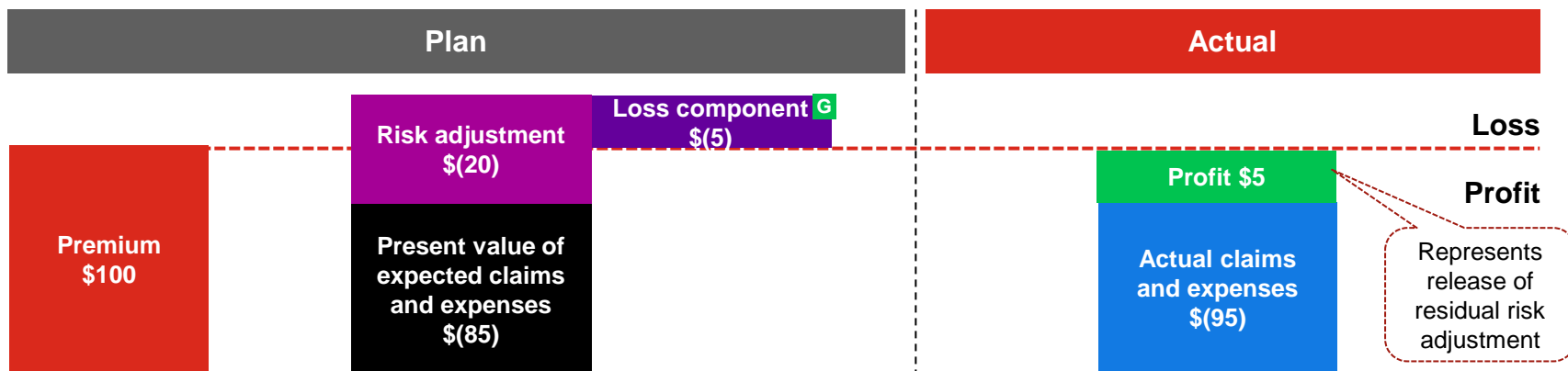
††Fixed commission to cover insurers' acquisition expenses.

# Timing of expected loss recognition

## An onerous contract does not mean unprofitable business

- Facts and circumstances based where the expected loss reserve is more than premium
- Not a material number for Hiscox
- Assessed at a group of contracts level by legal entity during planning phase
- Reassessed and remeasured twice a year
- Onerous contract includes a risk adjustment **G** which may or may not be utilised

### Illustrative example of onerous contract



# Analysis of change

## New disclosure

	Liability for Remaining Coverage <sup>G</sup>		Liability for Incurred Claims <sup>G</sup>	
	Excl. Loss Component	Loss Component	Estimates of PV of FCFs	Risk adjustment
<b>Opening liabilities</b>	X	X	X	X
<b>Changes in the income statement</b>				
<b>Insurance revenue</b>	(X)	-	-	-
<b>Insurance service expenses</b>	X	X	X	X
Incurred claims and other insurance service expenses	-	(X)	X	X
Amortisation of insurance acquisition cash flows	X	-	-	-
Losses and reversal of losses on onerous contracts	-	X	-	-
Adjustments to liabilities for incurred claims	-	-	X	X
<b>Insurance service result</b>	(X)	X	X	X
Net finance expenses from insurance contracts	X	X	X	X
Effect of movements in exchange rates	X	X	X	X
<b>Total changes in the income statement</b>	X	X	X	X
Investment components	(X)	-	X	-
<b>Cash flows</b>				
Premiums received	X	-	-	-
Claims and other insurance service expenses paid	-	-	(X)	(X)
Insurance acquisition cash flows	X	-	-	-
<b>Total cash flows</b>	X	-	(X)	(X)
<b>Closing liabilities</b>	X	X	X	X

The analysis of change will provide key insights as follows:

- Movements in risk adjustment through the year
- Prior year releases split between best estimate and risk adjustment
- Current year reserves split between best estimate and risk adjustment
- Movements in loss component, i.e. onerous contracts

The example on the slide covers inwards business, similar disclosures will also be available for outwards reinsurance

## Impact on numbers and key performance indicators

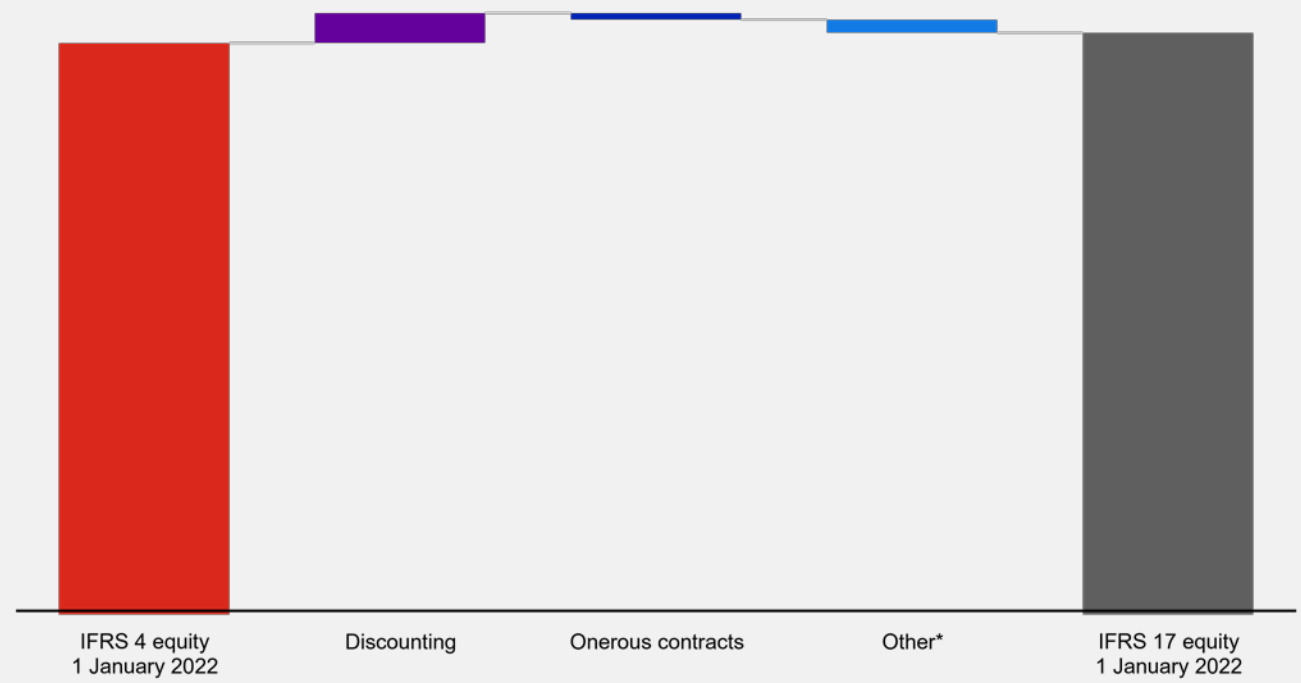
Paul Cooper, Group CFO



# Opening balance sheet

## Restatement of equity minimal

### Shareholders' equity as at 1 January 2022



- Marginal increase in shareholders' equity on transition
- Discounting is the main driver of increase

Note: unaudited, estimated and subject to change.

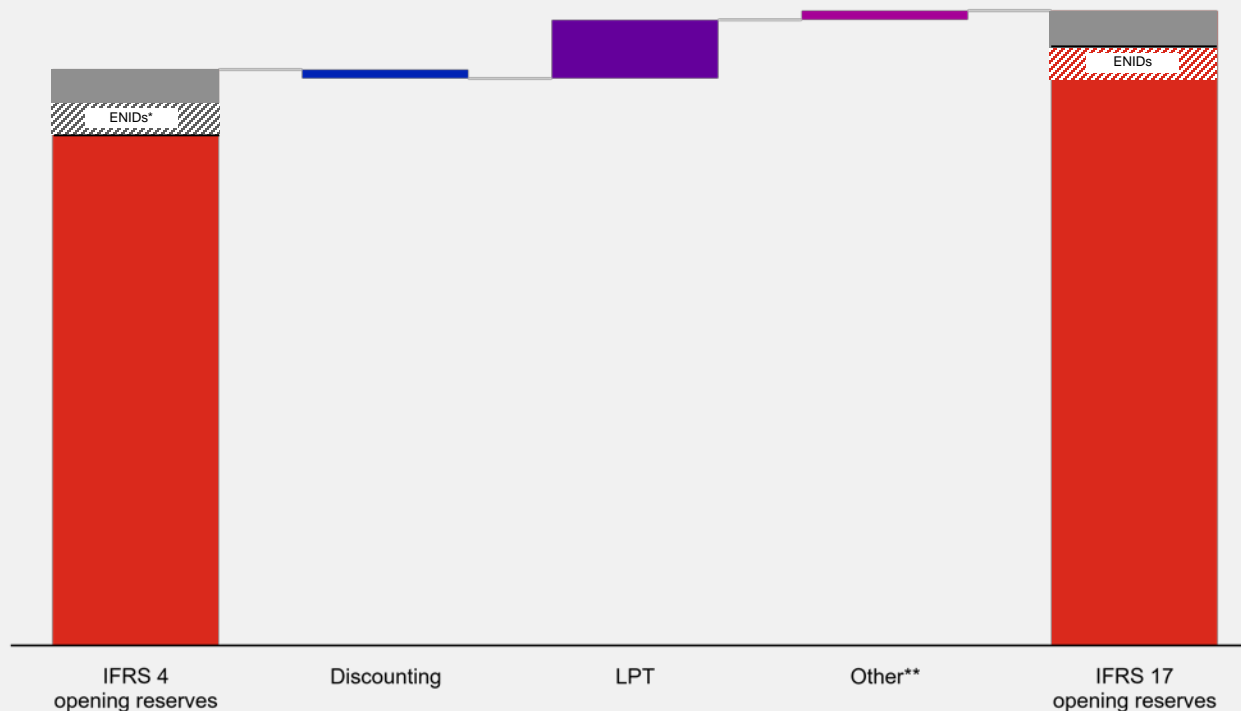
\*Includes FX, seasonal earnings, adjustment to reserves, non-performance risk and corporate income tax impact.

# Impact on net earned reserves

## Remain conservatively reserved

### Earned reserves as at 1 January 2022

- = Best estimate (including IBNR)
- = Margin/risk adjustment



- Key impact on earned reserves is LPT reclass from earned to unearned reserves
- Impact of other movements in earned reserves not material
- Risk adjustment replaces IFRS 4 reserve margin
- Maintain conservative reserving policy
- Not targeting a specific confidence level. Drivers of potential fluctuation in our reserves include large catastrophe events and other sources of uncertainty

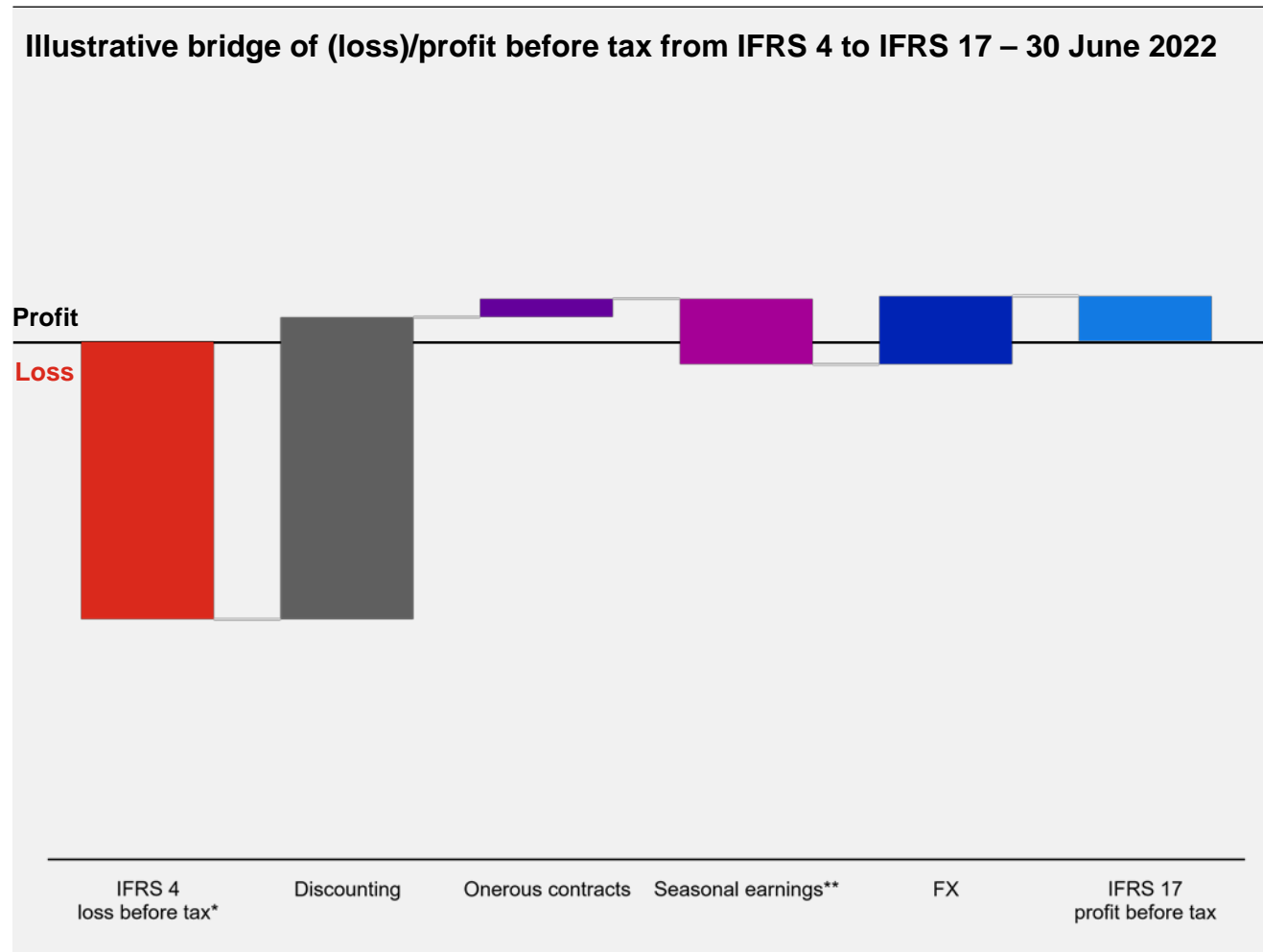
Note: unaudited, estimated and subject to change. Graph not to scale.

\*Events not in data.

\*\*Includes seasonal earnings, adjustment to reserves and non-performance risk.

# Impact on profit before tax

## Material at HY22 due to interest rate movements



- Significant benefit in the period from a steep increase in interest rates related to discounting of claim reserves
- Onerous contract benefit primarily arising from a reduction in exposure
- Negative impact from seasonality of natural catastrophe claims pattern in H1, reverses in H2 as it is earned out
- FX impact now also extends to unearned reserves

Note: unaudited, estimated and subject to change. Graph not to scale.

\*Loss before tax is driven by unrealised losses on bonds due to mark-to-market movements.

\*\*Represents a shift in earnings recognition pattern related to natural catastrophe business.

# Key performance indicators

## Limited impact under IFRS 17 post transition

	Current KPIs IFRS 4	New KPIs IFRS 17	Impact
<b>Growth</b>	Gross written premium (GWP)	Insurance contract written premium (ICWP)* – <b>new definition</b>	On a written basis (like GWP) but excludes reinstatement premiums
<b>Profitability</b>	Net combined ratio (CoR) (100% basis) – <i>old definition</i>	Combined ratio (CoR) – (own share) – <b>new definition</b>	All being equal, slight deterioration in CoR due to a different presentation of components**  All profitability measures are subject to volatility due to discount rate and FX movements
	Underwriting profit	Insurance service result	
	Earnings per share	Earnings per share	
<b>Claims</b>	Net loss ratio (100% basis) – <i>old definition</i>	Loss ratio (own share) – <b>new definition</b>	Aligned with new definition of CoR
<b>Operational efficiency</b>	Net expense ratio (100% basis) – <i>old definition</i>	Expense ratio (own share) – <b>new definition</b>	Aligned with new definition of CoR
<b>Shareholders' return</b>	Return on equity	Return on equity	No change in calculation for both measures, but impact through change in profit emergence
	Net asset value per share	Net asset value per share	
<b>Reserving</b>	Prior year development	Prior year development	No change, includes more granular disclosure
	Margin above best estimate	Confidence level – <b>new measure</b>	New disclosure
<b>Capital strength</b>	BSCR ratio	BSCR ratio	No change

\*Will be the new alternative performance measure for top-line under IFRS 17.

\*\*Deterioration in CoR due to increase in numerator, please see slide 21 for details.

# Growth KPIs

## Written premium

### IFRS 4

Gross written premium (GWP)

Net written premium

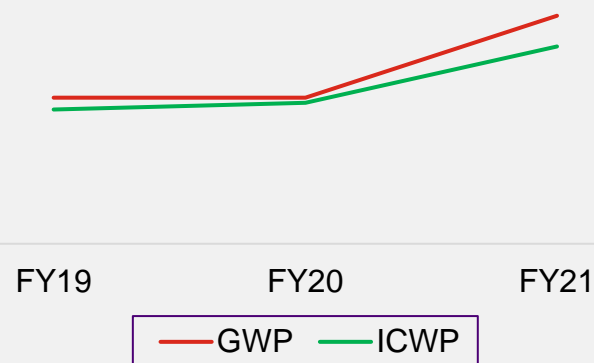
- ICWP growth broadly in line with GWP growth
- NWP no longer reported but we will continue to provide management commentary explaining the net of reinsurance growth trend for big-ticket business, as gross view does not fully explain the underlying business performance
- Retail growth targets are broadly unaffected

### IFRS 17

Insurance contract written premium (ICWP)

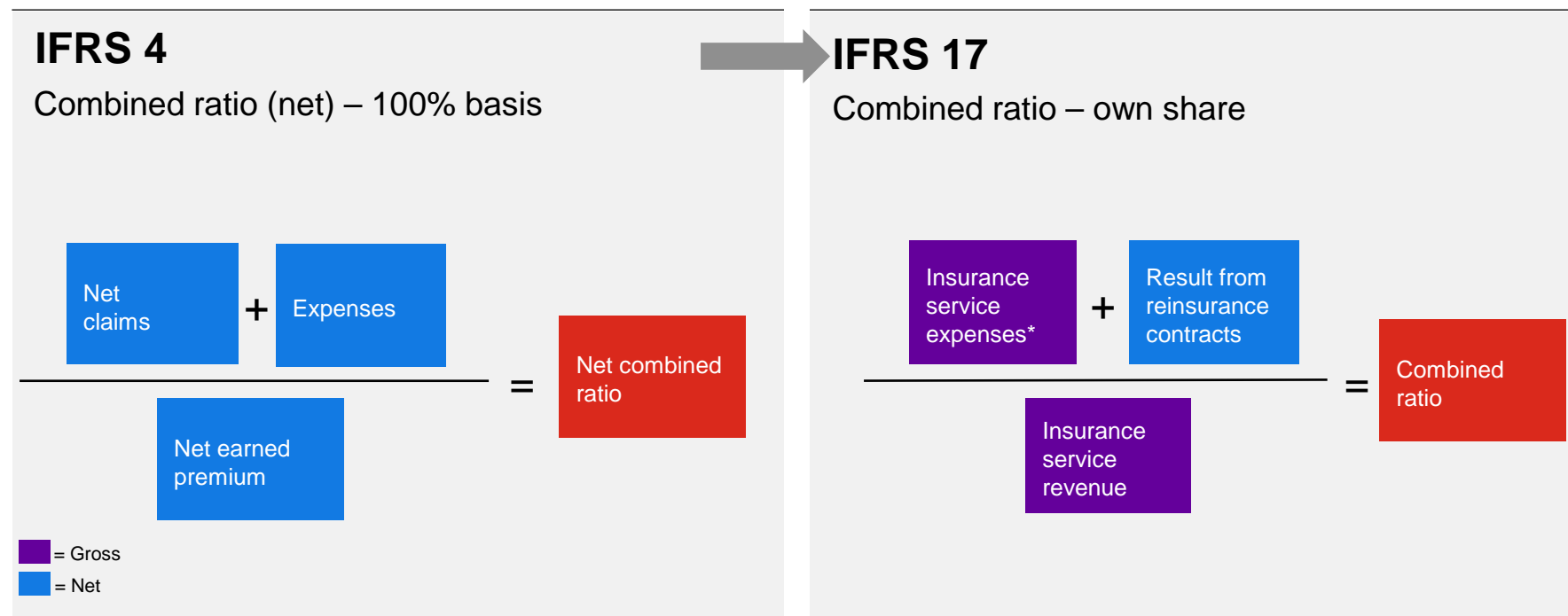
Management commentary

GWP vs ICWP



# Profitability KPIs

## Combined ratio



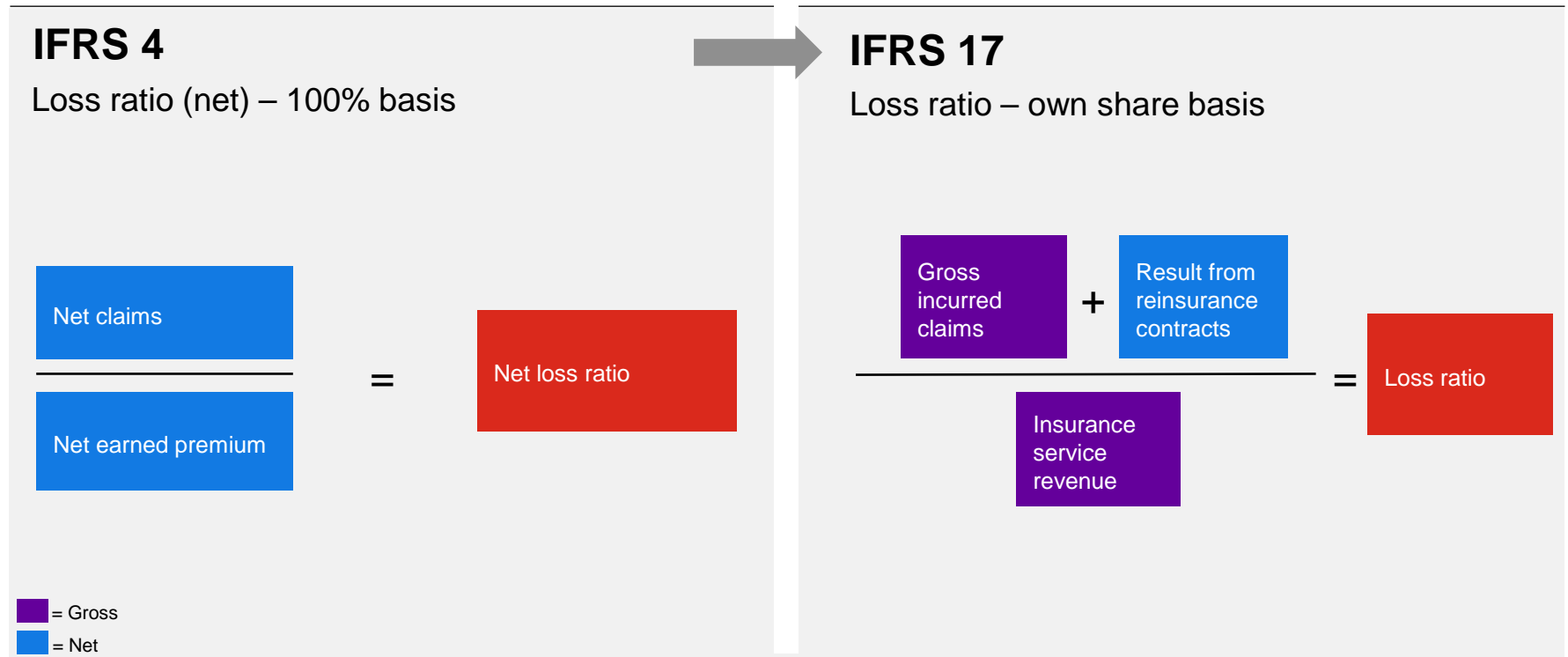
- New definition reflects change in reinsurance accounting
- Denominator is now on a gross basis due to volatility in net earned premium calculation under IFRS 17
- IFRS 17 CoR may show volatility due to discounting and also depending on the share of third-party capital deployed – the more we cede the higher the CoR, the more we retain the lower the CoR
- 90% to 95% Retail CoR target in 2023 remains and will be reported on IFRS 4 basis until no longer relevant

Note: see appendices for worked example.

\*Insurance service expenses include: gross incurred claims, attributable expenses and loss component.

# Claims KPIs

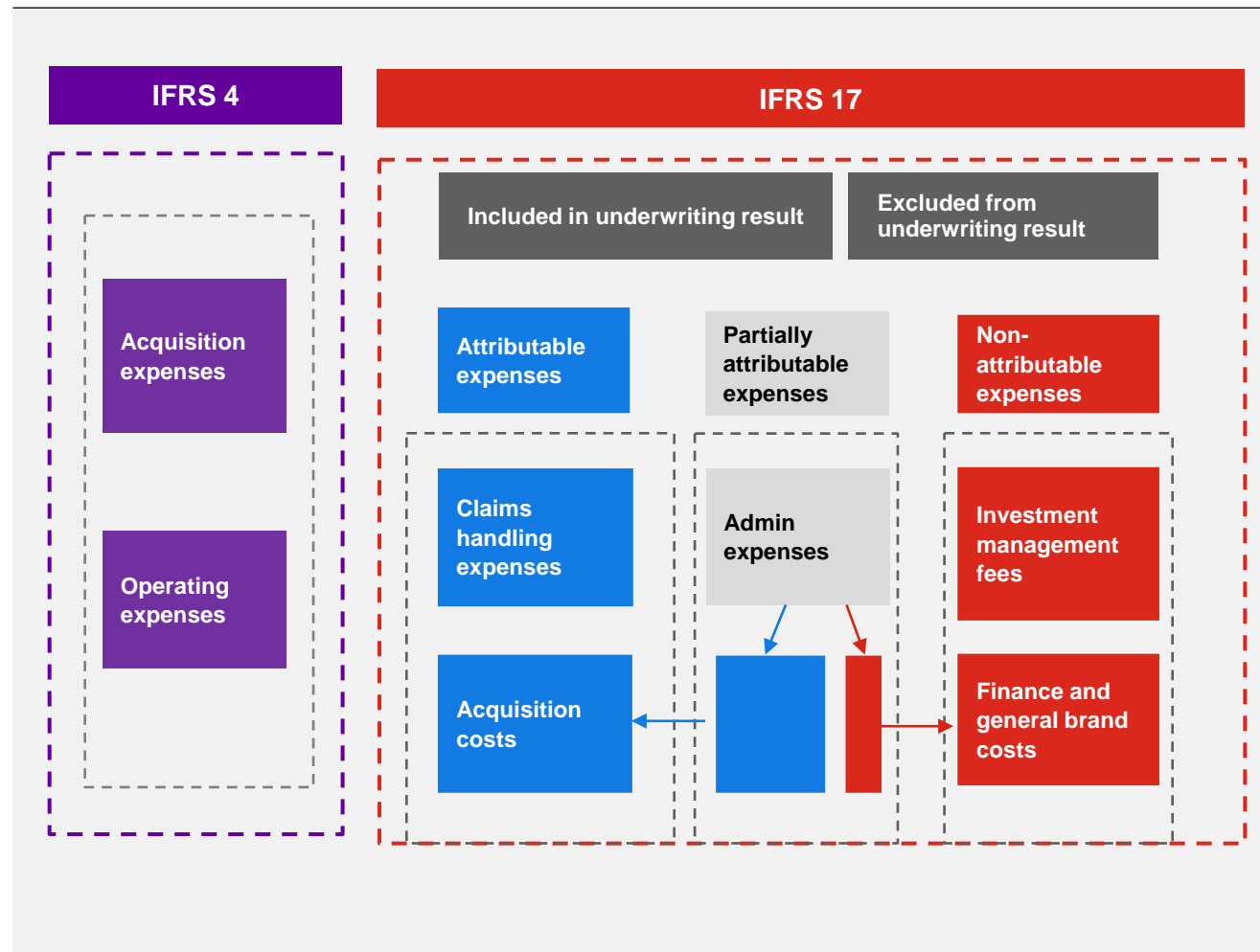
## Loss ratio



- Consistent with the IFRS 17 CoR definition
- Claims are presented net of reinsurance result
- IFRS 17 loss ratio may show volatility due to discounting and also depending on the share of third-party capital deployed

# Non-claims expenses

## Presentational changes with minimal impact on income statement

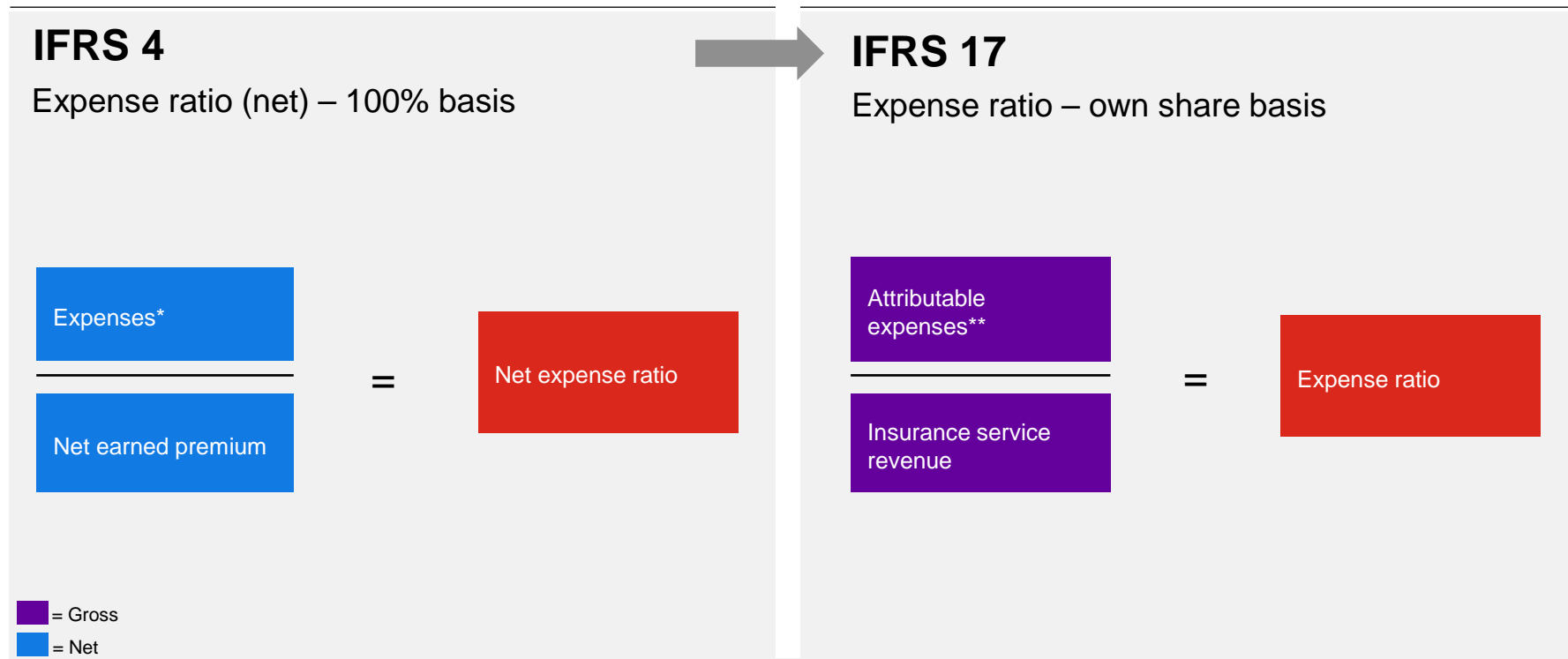


- Insurance service expenses include gross claims and non-claims expenses
- Non-claims expenses are split between attributable and non-attributable, which is subject to judgement
- Non-attributable expenses will be excluded from CoR in line with insurance service result
- Corporate centre expenses are deemed to be non-attributable
- Non-attributable expenses will include items such as interest on corporate debt, training and brand marketing costs



# Operating efficiency KPIs

## Expense ratio



- New definition to be consistent with the new CoR
- Expect expense ratio in H1 to be higher than H2 due to seasonality of natural catastrophe premium earnings pattern, this will result in a lower premium (denominator) in H1. The pattern reverses in H2

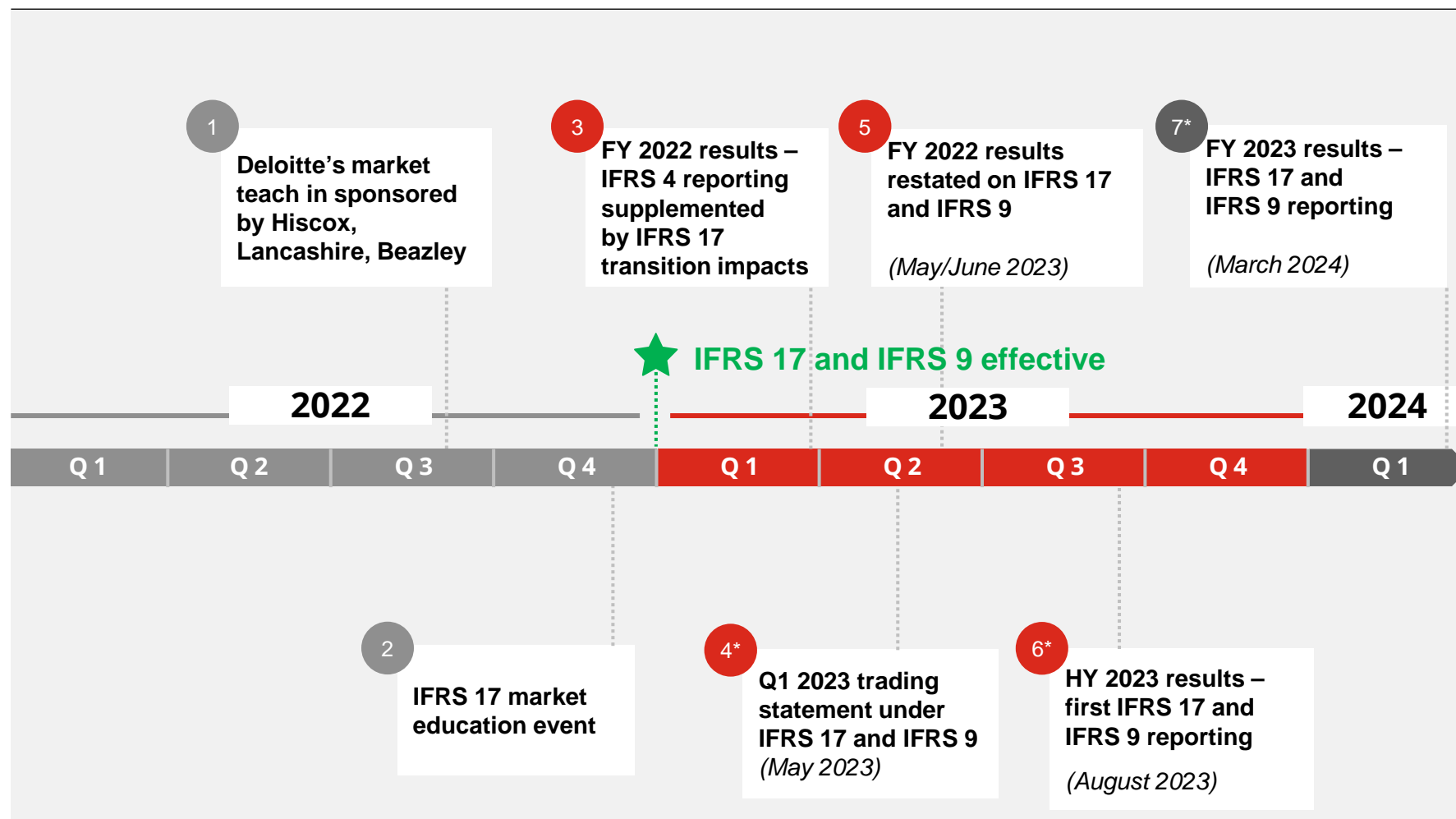
Note: see appendix for worked example.

\*Include net acquisition expenses and operating expenses and exclude corporate centre expenses and claims handling expenses.

\*\*Include allocated partially attributable expenses and exclude claims handling expenses.

# IFRS 17 roadmap

## High level view of external reporting



\*Note: there will no comparable IFRS4 disclosure alongside the IFRS17 disclosure, with the exception of the Retail CoR target until no longer relevant.

- 
- No change to strategy, reserving philosophy, solvency and ability to pay dividend
  - Minimal impact on transition mainly due to discounting; current interest rate environment is driving larger P&L movements
  - More granular disclosures will provide greater transparency, allowing for better insights
  - Redefined KPIs offer continuity under the new reporting standard
  - On track to deliver financial reporting under IFRS 17 in 2023



Questions?

# Appendices

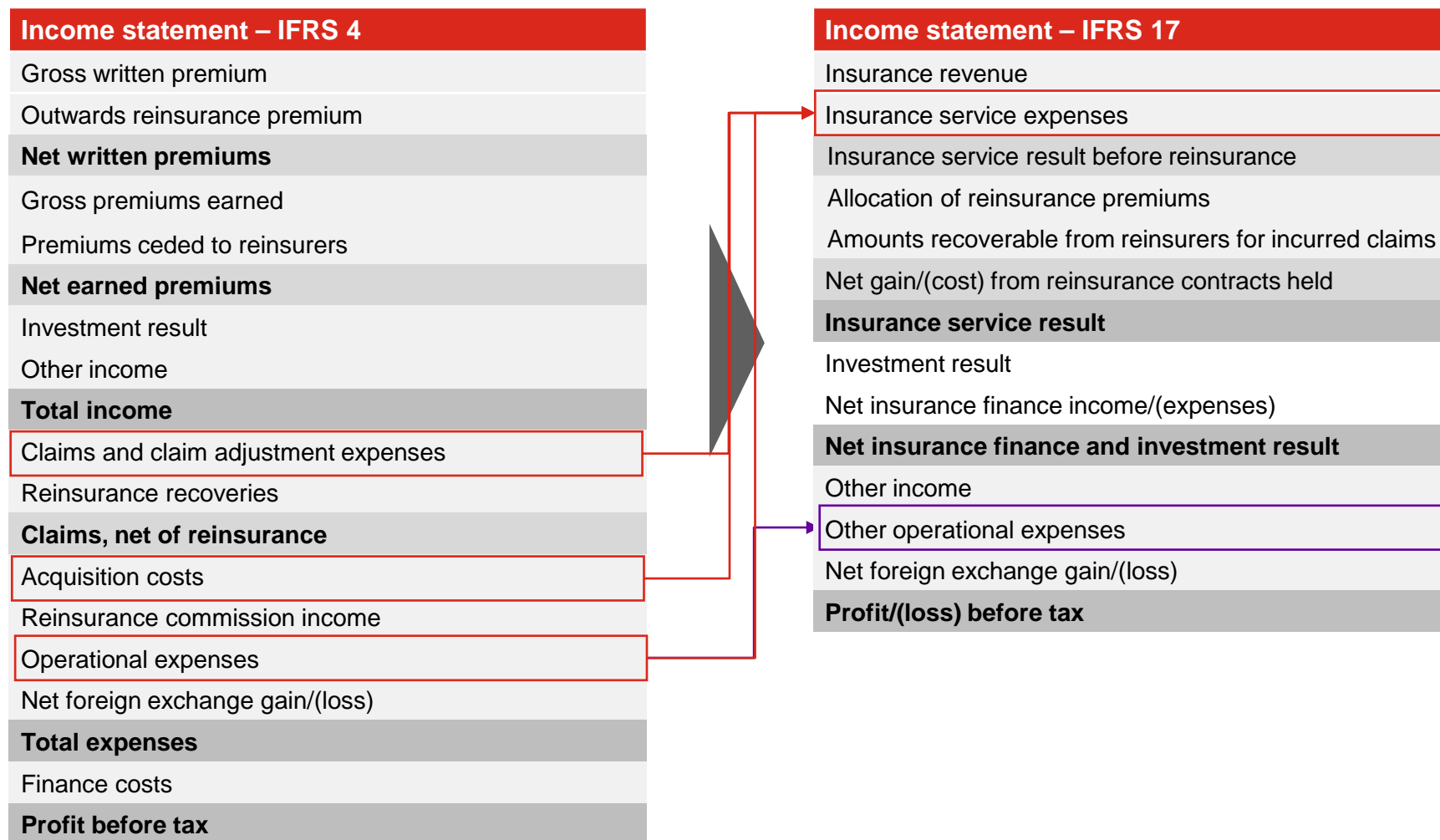
# Presentation and disclosure

## Income statement presentation (1/3)

Income statement – IFRS 4	Income statement – IFRS 17
Gross written premium	Insurance revenue
Outwards reinsurance premium	Insurance service expenses
<b>Net written premiums</b>	Insurance service result before reinsurance
Gross premiums earned	Allocation of reinsurance premiums
Premiums ceded to reinsurers	Amounts recoverable from reinsurers for incurred claims
<b>Net earned premiums</b>	Net gain/(cost) from reinsurance contracts held
Investment result	<b>Insurance service result</b>
Other income	Investment result
<b>Total income</b>	Net insurance finance income/(expenses)
Claims and claim adjustment expenses	<b>Net insurance finance and investment result</b>
Reinsurance recoveries	Other income
<b>Claims, net of reinsurance</b>	Other operational expenses
Acquisition costs	Net foreign exchange gain / (loss)
Reinsurance commission income	<b>Profit/(loss) before tax</b>
Operational expenses	
Net foreign exchange gain/(loss)	
<b>Total expenses</b>	
Finance costs	
<b>Profit before tax</b>	

# Presentation and disclosure

## Income statement presentation (2/3)



# Presentation and disclosure

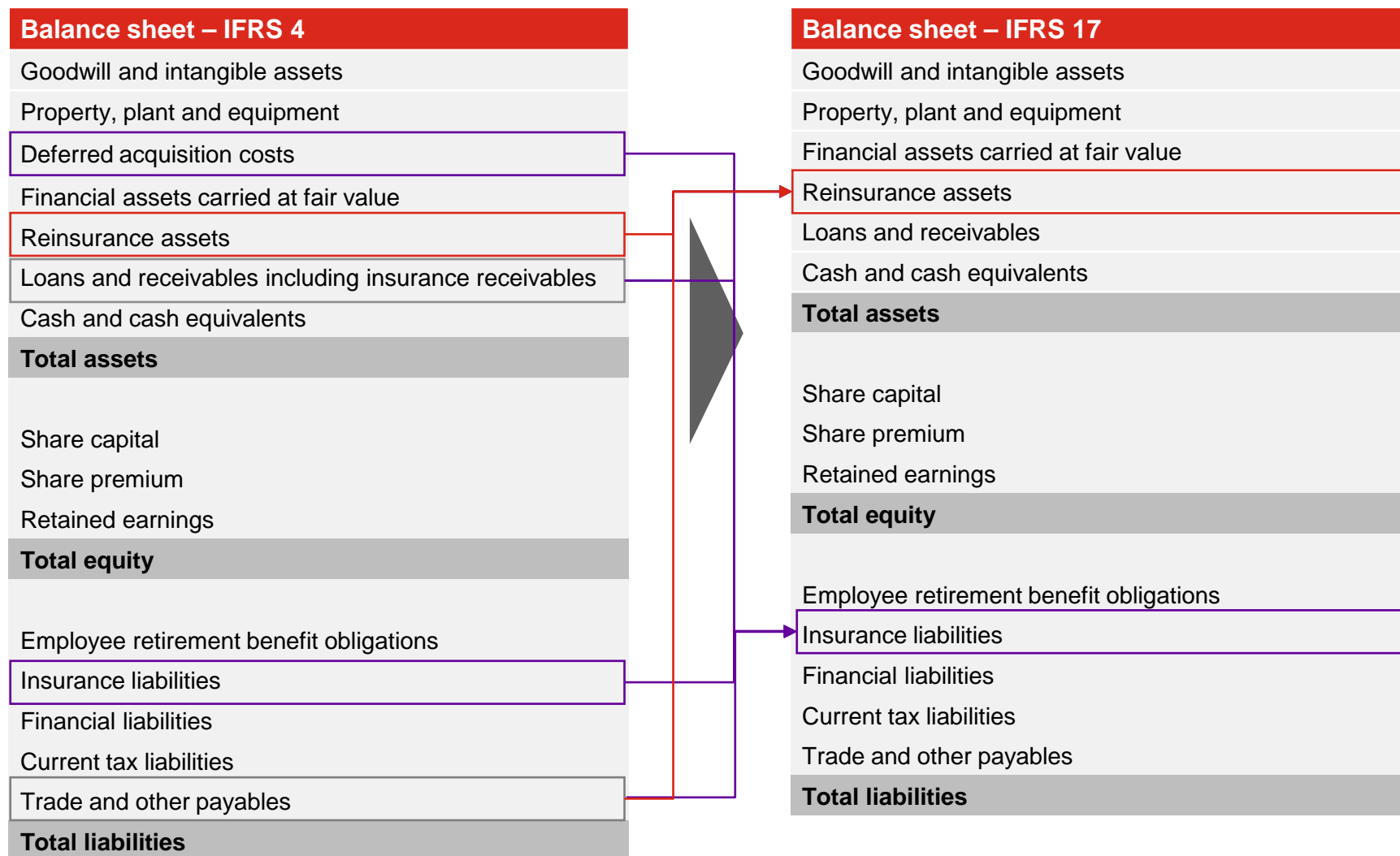
## Income statement presentation (3/3)

Income statement – IFRS 4		Income statement – IFRS 17
Gross written premium		Insurance revenue
Outwards reinsurance premium		Insurance service expenses
<b>Net written premiums</b>		Insurance service result before reinsurance
Gross premiums earned		Allocation of reinsurance premiums
Premiums ceded to reinsurers	→	Amounts recoverable from reinsurers for incurred claims
<b>Net earned premiums</b>		Net gain/(cost) from reinsurance contracts held
Investment result		<b>Insurance service result</b>
Other income		Investment result
<b>Total income</b>		Net insurance finance income/(expenses)
Claims and claim adjustment expenses		<b>Net insurance finance and investment result</b>
Reinsurance recoveries	→	Other income
<b>Claims, net of reinsurance</b>		Other operational expenses
Acquisition costs		Net foreign exchange gain/(loss)
Reinsurance commission income	→	<b>Profit/(loss) before tax</b>
Operational expenses		
Net foreign exchange gain/(loss)		
<b>Total expenses</b>		
Finance costs		
<b>Profit before tax</b>		



# Presentation and disclosure

## Balance sheet presentation

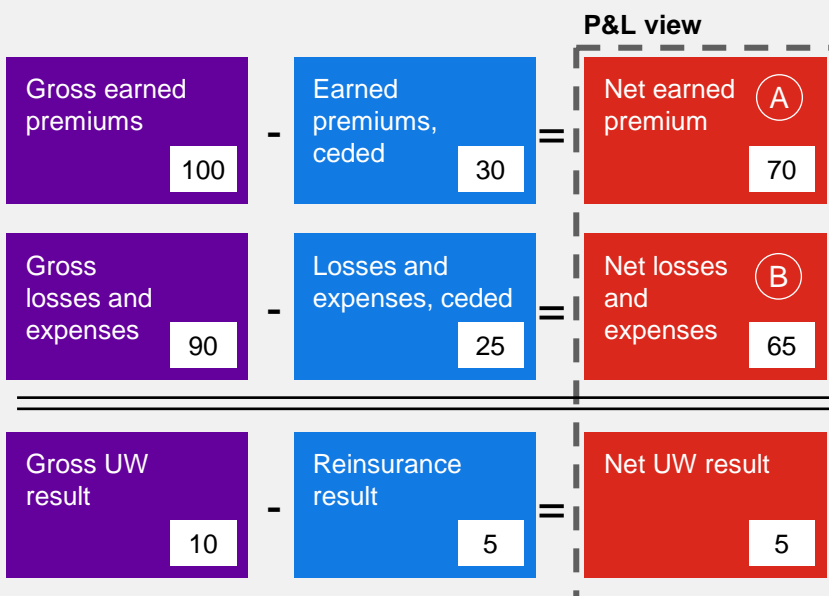


# Profitability KPIs

## Combined ratio

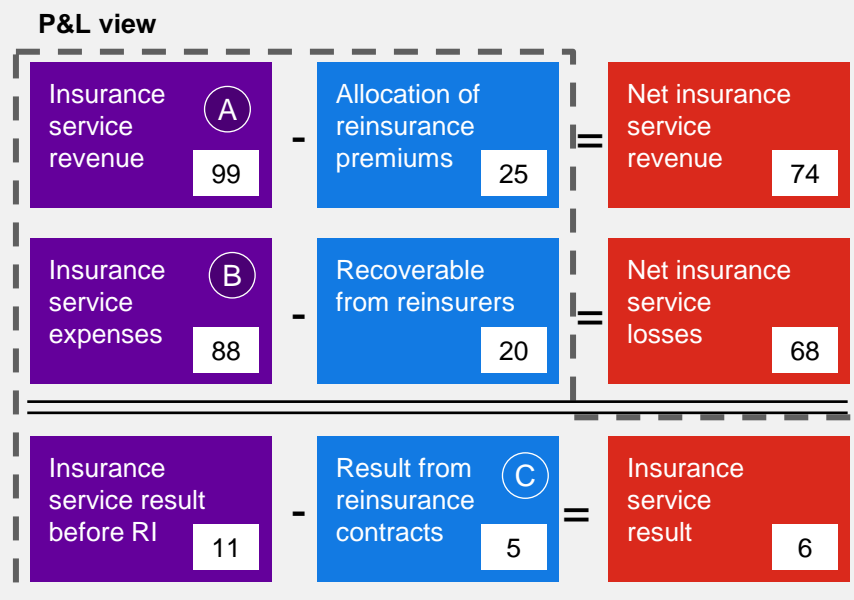
### IFRS 4

Combined ratio (net) =  $\text{B} / \text{A} = 93\%$   
 100% basis



### IFRS 17

Combined ratio =  $(\text{B} + \text{C}) / \text{A} = 94\%$   
 Own share



Note: all numbers are illustrative and should not indicate the direction of travel. The example does not reflect the impact of transition from 100% to own share basis.

# Claims KPI

## Loss ratio

### IFRS 4

$$\text{Loss ratio (net)} = \frac{\text{B}}{\text{A}} = 49\%$$

100% basis

Gross earned premiums 100	-	Earned premiums, ceded 30	=	Net earned premium (A) 70
Gross losses 54	-	Losses ceded 20	=	Net losses (B) 34



### IFRS 17

$$\text{Loss ratio} = \frac{\text{B} + \text{C}}{\text{A}} = 58\%$$

Own share

Insurance service revenue (A) 99	-	Allocation of reinsurance premiums 25	=	Net insurance service revenue 74
Claims and claims handling expenses (B) 52		Recoverable from reinsurers 20		
		Result from reinsurance contracts (C) 5		

Note: all numbers are illustrative and should not indicate the direction of travel. The example does not reflect the impact of transition from 100% to own share basis.

# Operating efficiency KPIs

## Expense ratio

### IFRS 4

$$\text{Expense ratio (net) = } \frac{\text{B}}{\text{A}} = \boxed{44\%}$$

100% basis

Gross earned premiums 100	-	Earned premiums, ceded 30	=	Net earned premium A 70
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Expenses* 36	-	RI commission income 5	=	Net expenses B 31
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Corporate centre operating expenses 3
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### IFRS 17

$$\text{Expense ratio = } \frac{\text{B}}{\text{A}} = \boxed{36\%}$$

Own share

Insurance service revenue A 99	-	Allocation of reinsurance premiums 25	=	Net insurance service revenue 74
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Attributable expenses** B 36
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Non-attributable expenses 3
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Note: all numbers are illustrative and should not indicate the direction of travel. The example does not reflect the impact of transition from 100% to own share basis.  
\*Include acquisition expenses and operating expenses and exclude corporate centre expenses and claims handling expenses.

\*\*Include allocated partially attributable expenses and exclude claims handling expenses.

# Glossary of IFRS 17 terms

Terminology	Descriptions
Attributable expenses	Expenses that are attributable to fulfilling obligations towards the policyholders i.e., underwriting and claims handling activities.
Confidence level	A degree of conservatism in reserving. The actual percentage shows the probability that the change in best estimate would be lower than the risk adjustment. Mechanically it shows where our reserves sit in the risk distributions (adjusted historical losses).
Contractual service margin	A component of the carrying amount of the asset or liability for a group of insurance contracts under the general measurement model representing the unearned profit the entity will recognise as it provides services under the insurance contracts in the Group.
Full retrospective approach	Transitional requirement to restate all the comparative numbers and book the cumulative impact of applying the requirements in opening the opening equity (1 January 2022).
Level of aggregation	Contract grouping at which the measurement requirements under IFRS 17 is applied.
Liability for Incurred Claims (LIC)	An entity's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (i.e. the obligation that relates to the unexpired portion of the coverage period).
Loss component	A provision for onerous contracts within the insurance contract liabilities.
Liability for Remaining Coverage (LRC)	An entity's obligation to investigate and pay valid claims under existing insurance contracts for insured events that have not yet occurred (i.e. the obligation that relates to the unexpired portion of the coverage period).
Onerous contract	A contract that is expected to be loss making i.e. the expected claims exceeds the premium.
Premium allocation approach	A simplification of the general measurement model permitted for short duration coverage period.
Reinstatement premiums	Reinsurance premium received by insurer when claims incurred from cedant to reinstate coverage.
Risk adjustment	The compensation that the insurer requires for bearing the uncertainty about the amount and timing of cash flows that arise from non-financial risks. Risk adjustment is released as the risk expires.

# Disclaimer

## IFRS 17 market education



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