

Financial summary



Independent auditor's report to the Board of Directors and the Shareholders of Hiscox Ltd

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hiscox Ltd ('the Company') and its subsidiaries (together 'the Group') as at 31 December 2022, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with UK-adopted international accounting standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated income statement for the year ended 31 December 2022;
- the consolidated statement of comprehensive income for the year ended 31 December 2022;
- the consolidated balance sheet as at 31 December 2022;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the consolidated financial statements' section of our report.

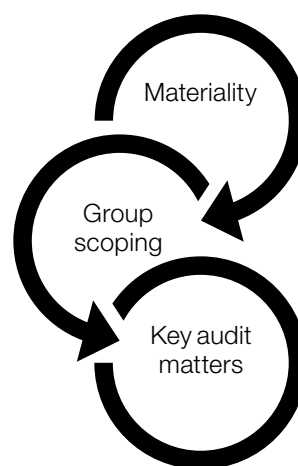
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the consolidated financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Our audit approach

Overview



— Overall group materiality: \$37.5 million, which represents approximately 0.8% of gross premiums written for the year ended 31 December 2022.

Our audit comprised:

- full scope audit procedures over four components;
- for certain other components, audit procedures over specified financial statement line item balances;
- for the remaining components that were not inconsequential, analytical procedures on their financial information.

- Valuation of gross claims liabilities.
- Valuation of reinsurance claims recoverable.
- Disclosure of the expected impact of IFRS 17.

| | | | | | | | | | | | |
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In establishing the overall approach to the Group audit a determination was made of the type of work that needed to be performed at the components by the Group engagement team, or by the component audit teams within the PwC United Kingdom, PwC United States and PwC Bermuda firms. A determination was made of the level of involvement of the Group engagement team that was necessary in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained. The Group engagement team had regular interaction with the component teams during the audit process. The engagement leader and senior members of the Group engagement team reviewed in detail all reports with regards to the audit approach and findings submitted by the component auditors. This together with additional procedures performed as described above, gave us the evidence we needed for our opinion on the consolidated financial statements as a whole.

Audit scope

As part of designing our audit, the risks of material misstatement in the consolidated financial statements were assessed and materiality was determined. In particular, consideration was given to where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, the risk of management override of internal controls was addressed, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Tailoring of Group audit scope

The scope of our audit was tailored in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured into four segments (see note 4 to the consolidated financial statements) and is a consolidation of over 50 separate legal entities. The Group is a global specialist insurer and reinsurer, and its operations primarily consist of the legal entity operations in the United Kingdom, Europe, the United States and Bermuda.

A full scope audit was performed for four components located in the United Kingdom and Bermuda. Financial statement line item audit procedures were also performed over components in the United Kingdom, the United States and Bermuda. Taken together this work provided over 80% coverage of the Group's gross premiums written and over 80% of the Group's total assets.

The four full scope audit components are: (i) Hiscox Dedicated Corporate Member Syndicate No. 33, (ii) Hiscox Dedicated Corporate Member Syndicate No. 3624, (iii) Hiscox Insurance Company Limited, and (iv) the parent company, Hiscox Ltd (including consolidation). For certain other components, account balances were identified which were considered to be significant in size or audit risk at the financial statement line-item level in relation to the consolidated financial statements, and financial statement line item audit procedures were performed over these specified balances. Analytical procedures over the financial information of the remaining components that were not inconsequential were performed.

The impact of climate risk on our audit

As part of our audit, enquiries were made of management (both within and outside of the Group's finance function) to understand the process management adopted to assess the extent of the potential impact of climate risk on the Group's consolidated financial statements and support the disclosures made within the notes to the consolidated financial statements. The key areas where management has evaluated that climate risk has a potential to impact the business are in relation to underwriting risk, financial risk, and regulatory, legal, and reputational risk. Management considers that the impact of climate change does not give rise to a material financial statement impact.

Our knowledge of the Group was applied to evaluate management's assessment of the impact on the consolidated financial statements. An evaluation was performed of the completeness of management's assessment of climate change risk under the categories of physical risk, transition risk, and liability risk and how these may affect the consolidated financial statements and the audit procedures performed.

As part of this, our audit procedures included:

- reading the minutes of meetings of the Group's Sustainability Steering Committee;
- reading submissions to regulators;
- reading the Group's climate report 2022; and
- considering the Group's memberships, accreditations and public commitments.

The risks of material misstatement to the consolidated financial statements as a result of climate change were assessed and it was concluded that for the year ended 31 December 2022, there was no impact on the key audit matters or the assessment of the risks of material misstatement.

Finally, the consistency of the disclosures in relation to climate change (including the disclosures in the Task Force on Climate-Related Financial Disclosures (TCFD) section) within the Report and Accounts was considered against the consolidated financial statements and our knowledge obtained from our audit including challenging the disclosures given in the narrative reporting within the consolidated financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, certain quantitative thresholds for materiality were determined, including the overall Group materiality for the consolidated financial statements as a whole, as set out in the table below. These, together with qualitative considerations, helped to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Materiality

| | |
|---|--|
| Overall Group materiality | \$37.5 million. |
| How we determined it | Approximately 0.8% of gross premiums written for the year ended 31 December 2022. |
| Rationale for the materiality benchmark applied | <p>In determining materiality, financial metrics believed to be relevant to the primary users of the consolidated financial statements were considered. We concluded a premium based metric was the most relevant to the users.</p> <p>A premium based metric provides a good representation of the size and complexity of the business and it is not distorted by insured catastrophe events to which the Group is exposed, or the levels of external reinsurance purchased by the Group.</p> |

Performance materiality is used to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, performance materiality is used in determining the scope of the audit and the nature and extent of testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. The performance materiality applied was 75% of overall materiality, amounting to \$28 million for the consolidated financial statements.

A number of factors were considered in the determination of performance materiality including: the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – we concluded that 75% of overall materiality was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$1.9 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the consolidated financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Disclosure of the expected impact of IFRS 17 is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matters

Key audit matter

1. Valuation of gross claims liabilities

Refer to notes 2.13, 2.21 and 23 to the consolidated financial statements for disclosures of related accounting policies and balances.

As at 31 December 2022 gross claims liabilities comprised \$2.5 billion of claims reported and claims adjustment expenses, and \$4.5 billion of claims incurred but not reported (IBNR). Insurance claims liabilities are inherently uncertain and contain material estimates, the most subjective element being IBNR. Management bases the estimate of IBNR on the estimated ultimate cost of all unsettled claims, inclusive of the related claims handling costs. There is also uncertainty in elements of the reported but not settled claims including those related to Covid-19.

For IBNR, the methodologies and assumptions used to estimate insurance liabilities involve a significant degree of judgement. As a result, this was an area of focus as the valuation can be materially impacted by numerous factors including:

- the underlying volatility attached to estimates for certain classes of business, where small changes in assumptions can lead to large changes in the levels of the estimate held, including the change to reserving classes implemented this year;
- the risk of inappropriate assumptions used in determining current year estimates. Given that limited data is available, especially for 'long-tailed' classes of business, there is a greater reliance on expert judgement in management's estimates; and
- the risk of application of inappropriate assumptions in respect of specific claims reserves for natural catastrophes and other large claims losses, including inwards reinsurance classes of business exposed to claims and potential claims arising from Covid-19. There is significant judgement involved in these loss estimates, particularly as they are often based on limited data.

How our audit addressed the key audit matter

Procedures were performed to obtain an understanding of, evaluate and test the design and operational effectiveness of, key controls in place in respect of the valuation of insurance claims liabilities

- In addition, the following procedures were performed:
- tested the completeness and accuracy of premiums data used in the actuarial projections for IBNR;
 - tested the completeness and accuracy of claims data used in the actuarial projections for IBNR, the establishment of large loss reserves, and the determination of reported but not settled claims;
 - tested the completeness and accuracy of policy data, where applicable, used to establish large loss reserves; and
 - reconciled the gross claims liabilities from the underlying financial records to the consolidated financial statements.

In performing our work over the valuation of IBNR PwC actuarial specialists were used, where appropriate. Procedures included the following:

- development of independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain classes, as well as for certain other classes to introduce unpredictability, as at 31 August 2022 and performed a roll-forward test to 31 December 2022;
- tested specific claims reserves including those impacted by Covid-19, natural catastrophes and other large claims by understanding and challenging the methodology and assumptions used by management and where available comparing to data reported by counterparties, industry benchmarks and other publicly available information;
- performed key-indicator testing procedures over the remaining classes of business to evaluate gross IBNR reserves;
- evaluated the appropriateness of the booked gross loss reserve margin, taking into account estimation uncertainty inherent in the underlying insurance business; and
- inspected the supporting evidence produced by management on changes made to reserving classes. For those classes subject to independent re-projection, assessed the appropriateness of the loss reserving classes.

The results of our procedures indicated that the valuation of gross claims liabilities was supported by the evidence obtained.

Key audit matters

Key audit matter

2. Valuation of reinsurance claims recoverable

Refer to notes 2.13, 2.21 and 23 to the consolidated financial statements for disclosures of related accounting policies and balances.

The valuation of the reinsurance claims recoverable is uncertain due to the significant degree of judgement applied in valuing the associated gross claims liabilities that have been reinsured, the complexity of the application and coverage of the reinsurance programme, and the willingness and ability of the reinsurers to pay. As at 31 December 2022 claims recoverable are \$3.4 billion in the consolidated financial statements. For the year ended 31 December 2022, there are additional circumstances contributing to the degree of uncertainty for elements of reinsurance claims recoverable as follows:

- reinsurance recoverables associated with policies affected by Covid-19, as cedants and reinsurers continue to evaluate how losses will be applied to (re)insurance contracts; and
- the execution of legacy portfolio transaction (LPT) contracts with external counterparties during the year. Such transactions require judgement on the accounting for the contracts, in particular the degree of risk transfer present in the reinsurance contracts.

How our audit addressed the key audit matter

Procedures were performed to obtain an understanding of, evaluate and test the design and operational effectiveness of key controls in place in respect of the valuation of reinsurance claims recoverable.

In addition, the following procedures were performed:

- tested the accuracy of application of reinsurance contract terms;
- tested the netting down of reinsurance on gross paid, outstanding, and specific claims reserves;
- for those classes of business selected for independent projections on a gross basis, PwC actuarial specialists were used to develop independent point estimates for the associated reinsurer's share of IBNR loss reserves;
- for the remaining classes of business where PwC actuarial specialists performed key-indicator testing on a gross basis, they performed testing on the associated reinsurer's share of IBNR loss reserves; and
- evaluated management's assessment of risk transfer for each of the LPT contracts executed in the year using our actuarial specialists.

The results of our procedures indicated that the valuation of reinsurance claims recoverable was supported by the evidence obtained.

Key audit matters

Key audit matter

3. Disclosure of the expected impact of IFRS 17

Refer to note 2.1 to the consolidated financial statements.

On 1 January 2023, the Group transitioned to International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* which replaced IFRS 4. The expected transition impact, including the impact on opening equity as at 1 January 2022, is disclosed in note 2.1 to the consolidated financial statements in accordance with International Accounting Standard (IAS) 8. Disclosures in these 2022 consolidated financial statements are intended to provide users with an understanding of the expected impact of the new standard ahead of implementation, and as a result are more limited than the disclosures to be included in the annual and interim 2023 consolidated financial statements.

Due to the significance of the changes introduced by the standard on opening equity (1 January 2022) upon transition, the disclosure of the expected impact of IFRS 17 in the 31 December 2022 consolidated financial statements was determined to be an area of focus.

The Group has evaluated the requirements of IFRS 17 and exercised judgement to develop accounting policies, and select assumptions. In particular, the determination of the measurement model to apply under the standard, the determination of the risk adjustment assumption, and the determination of the discount rate methodology, were deemed to be significant to the overall impact of transition.

The expected impact on opening equity as at 1 January 2022 has been calculated by management by adjusting the reported position on an IFRS 4 basis, using a combination of models developed for transition.

How our audit addressed the key audit matter

Procedures were performed to obtain an understanding of and evaluate the design of controls in place over the disclosed expected transition impact of IFRS 17, including the calculation of the impact on opening equity as at 1 January 2022.

In addition, the following procedures were performed:

- assessed the significant judgements used by management to determine the accounting policies along with the compliance of those policies with IFRS 17. This included judgements used to determine use of the Premium Allocation Approach (PAA) measurement model, and the policy applied for the risk adjustment assumption;
- evaluated the appropriateness of management's PAA eligibility analysis, including testing the completeness and accuracy of supporting data, evaluating the assumptions used and scenarios applied, and testing the accuracy of models used;
- evaluated the appropriateness of the methodology used to determine discount rates and independently recalculated the impact of discounting on opening equity at 1 January 2022;
- tested the mathematical accuracy and completeness of the supporting calculations and adjustments used to determine the impact on opening equity at 1 January 2022; and
- assessed the appropriateness of the quantitative and qualitative disclosures required by IAS 8.

The results of our procedures indicated that the disclosed expected impact of IFRS 17 and the disclosures made are supported by the evidence obtained.

Other information

Management is responsible for the other information. The other information comprises the Report and Accounts (but does not include the consolidated financial statements and our auditor's report thereon). The other information also includes reporting based on the TCFD recommendations. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with UK-adopted international accounting standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that

is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Directors' remuneration

The Company voluntarily prepares a report on Directors' remuneration in accordance with the provisions of the UK Companies Act 2006. The Directors have requested an audit of the part of the report on Directors' remuneration specified by the UK Companies Act 2006 to be audited as if the Company were a UK-registered company.

In our opinion, the part of the report on Directors' remuneration to be audited has been properly prepared in accordance with the UK Companies Act 2006.

Corporate governance statement

The Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies has been reviewed. Our additional responsibilities with respect to the corporate governance statement as other information are described in the 'other information' section of this report.

Based on the work undertaken as part of our audit, it was concluded that each of the following elements of the corporate governance statement is materially consistent with the consolidated financial statements and our knowledge obtained during the audit, and there is nothing material to add or draw attention to in relation to:

- the Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- the disclosures in the Report and Accounts that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- the Directors' statement in the consolidated financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the consolidated financial statements;
- the Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate; and
- the Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

The review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statement is consistent with the consolidated financial statements and our knowledge and understanding of the Group and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, it was concluded that each of the following elements of the

corporate governance statement is materially consistent with the consolidated financial statements and our knowledge obtained during the audit:

- the Directors' statement that they consider the Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the shareholders to assess the Group's position, performance, business model and strategy;
- the section of the Report and Accounts that describes the review of effectiveness of risk management and internal control systems; and
- the section of the Report and Accounts describing the work of the audit committee.

There is nothing to report in respect of our responsibility to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these consolidated financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This auditor's report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

The engagement partner on the audit resulting in this independent auditor's report is Marisa Savage.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Bermuda
8 March 2023

Consolidated income statement

For the year ended 31 December 2022

| | Note | 2022 \$m | 2021 \$m |
|--|---------|------------------|------------------|
| Income | | | |
| Gross premiums written | 4 | 4,424.9 | 4,269.2 |
| Outward reinsurance premiums | 4, 23.2 | (1,444.9) | (1,314.2) |
| Net premiums written | 4 | 2,980.0 | 2,955.0 |
| Gross premiums earned | | 4,313.8 | 4,246.9 |
| Premiums ceded to reinsurers | | (1,385.6) | (1,327.0) |
| Net premiums earned | 4, 23.2 | 2,928.2 | 2,919.9 |
| Investment result | 4, 7 | (187.3) | 51.2 |
| Other income | 4, 9 | 46.5 | 56.8 |
| Total income | | 2,787.4 | 3,027.9 |
| Expenses | | | |
| Claims and claim adjustment expenses | 23.2 | (2,110.1) | (2,185.5) |
| Reinsurance recoveries | 23.2 | 781.8 | 755.1 |
| Claims and claim adjustment expenses, net of reinsurance | 4, 23.2 | (1,328.3) | (1,430.4) |
| Expenses for the acquisition of insurance contracts | 15 | (1,015.8) | (1,017.9) |
| Reinsurance commission income | 15 | 260.3 | 283.2 |
| Operational expenses | 4, 9 | (642.3) | (622.7) |
| Net foreign exchange gains | | 30.6 | 0.7 |
| Total expenses | | (2,695.5) | (2,787.1) |
| Total income less expenses | | 91.9 | 240.8 |
| Finance costs | 4, 10 | (48.1) | (50.8) |
| Share of profit of associates after tax | 4, 14 | 0.9 | 0.8 |
| Profit before tax | | 44.7 | 190.8 |
| Tax expense | 25 | (3.0) | (1.3) |
| Profit for the year (all attributable to owners of the Company) | | 41.7 | 189.5 |
| Earnings per share on profit attributable to owners of the Company | | | |
| Basic | 28 | 12.1¢ | 55.3¢ |
| Diluted | 28 | 12.0¢ | 54.7¢ |

Consolidated statement of comprehensive income

For the year ended 31 December 2022

| | Note | 2022 \$m | 2021 \$m |
|--|------|---------------|--------------|
| Profit for the year | | 41.7 | 189.5 |
| Other comprehensive income | | | |
| Items that will not be reclassified to the income statement: | | | |
| Remeasurements of the net defined benefit pension scheme | 27 | 34.9 | 31.6 |
| Income tax effect | | (7.7) | (3.4) |
| | | 27.2 | 28.2 |
| Items that may be reclassified subsequently to the income statement: | | | |
| Exchange losses on translating foreign operations | | (100.2) | (18.5) |
| | | (100.2) | (18.5) |
| Other comprehensive income net of tax | | (73.0) | 9.7 |
| Total comprehensive income for the year (all attributable to owners of the Company) | | (31.3) | 199.2 |

The notes on pages 170 to 230 are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2022

| | Note | 2022 \$m | 2021 \$m |
|---|--------|-----------------|-----------------|
| Assets | | | |
| Employee retirement benefit asset | 27 | 20.9 | – |
| Goodwill and intangible assets | 12 | 320.4 | 313.1 |
| Property, plant and equipment | 13 | 133.1 | 90.4 |
| Investments in associates | 14 | 5.6 | 5.7 |
| Deferred tax assets | 26 | 53.7 | 67.3 |
| Deferred acquisition costs | 15 | 450.1 | 436.9 |
| Financial assets carried at fair value | 17 | 5,812.1 | 6,041.3 |
| Reinsurance assets | 16, 23 | 3,899.8 | 3,908.0 |
| Loans and receivables including insurance receivables | 18 | 1,671.6 | 1,678.2 |
| Current tax assets | | 4.0 | 4.9 |
| Cash and cash equivalents | 21 | 1,350.9 | 1,300.7 |
| Total assets | | 13,722.2 | 13,846.5 |
| Equity and liabilities | | | |
| Shareholders' equity | | | |
| Share capital | 22 | 38.7 | 38.7 |
| Share premium | 22 | 517.6 | 516.8 |
| Contributed surplus | 22 | 184.0 | 184.0 |
| Currency translation reserve | | (389.5) | (289.3) |
| Retained earnings | | 2,064.8 | 2,088.0 |
| Equity attributable to owners of the Company | | 2,415.6 | 2,538.2 |
| Non-controlling interest | | 1.1 | 1.1 |
| Total equity | | 2,416.7 | 2,539.3 |
| Employee retirement benefit obligations | 27 | – | 35.1 |
| Deferred tax liabilities | 26 | 0.2 | 0.1 |
| Insurance liabilities | 23 | 8,836.6 | 8,868.4 |
| Financial liabilities | 17 | 636.2 | 746.7 |
| Current tax liabilities | | 14.1 | 21.3 |
| Trade and other payables | 24 | 1,818.4 | 1,635.6 |
| Total liabilities | | 11,305.5 | 11,307.2 |
| Total equity and liabilities | | 13,722.2 | 13,846.5 |

The notes on pages 170 to 230 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 8 March 2023 and signed on its behalf by:



Aki Hussain
Group Chief Executive Officer



Paul Cooper
Group Chief Financial Officer

Consolidated statement of changes in equity

| | Note | Share capital \$m | Share premium \$m | Contributed surplus \$m | Currency translation reserve \$m | Retained earnings \$m | Equity attributable to owners of the Company \$m | Non-controlling interest \$m | Total equity \$m |
|---|--------|----------------------|----------------------|----------------------------|-------------------------------------|--------------------------|---|---------------------------------|---------------------|
| Balance at 1 January 2021 | | 38.7 | 516.5 | 184.0 | (270.8) | 1,884.4 | 2,352.8 | 1.1 | 2,353.9 |
| Profit for the year (all attributable to owners of the Company) | | – | – | – | – | 189.5 | 189.5 | – | 189.5 |
| Other comprehensive income net of tax (all attributable to owners of the Company) | | – | – | – | (18.5) | 28.2 | 9.7 | – | 9.7 |
| Employee share options: | | | | | | | | | |
| Equity settled share-based payments | | – | – | – | – | 24.0 | 24.0 | – | 24.0 |
| Proceeds from shares issued | 22 | – | 0.1 | – | – | – | 0.1 | – | 0.1 |
| Deferred and current tax on employee share options | | – | – | – | – | 1.3 | 1.3 | – | 1.3 |
| Shares issued in relation to Scrip Dividend | 22, 29 | – | 0.2 | – | – | – | 0.2 | – | 0.2 |
| Dividends paid to owners of the Company | 29 | – | – | – | – | (39.4) | (39.4) | – | (39.4) |
| Balance at 31 December 2021 | | 38.7 | 516.8 | 184.0 | (289.3) | 2,088.0 | 2,538.2 | 1.1 | 2,539.3 |
| Profit for the year (all attributable to owners of the Company) | | – | – | – | – | 41.7 | 41.7 | – | 41.7 |
| Other comprehensive income net of tax (all attributable to owners of the Company) | | – | – | – | (100.2) | 27.2 | (73.0) | – | (73.0) |
| Employee share options: | | | | | | | | | |
| Equity settled share-based payments | | – | – | – | – | 27.2 | 27.2 | – | 27.2 |
| Proceeds from shares issued | 22 | – | 0.1 | – | – | – | 0.1 | – | 0.1 |
| Deferred and current tax on employee share options | | – | – | – | – | 1.2 | 1.2 | – | 1.2 |
| Shares issued in relation to Scrip Dividend | 22, 29 | – | 0.7 | – | – | – | 0.7 | – | 0.7 |
| Dividends paid to owners of the Company | 29 | – | – | – | – | (120.5) | (120.5) | – | (120.5) |
| Balance at 31 December 2022 | | 38.7 | 517.6 | 184.0 | (389.5) | 2,064.8 | 2,415.6 | 1.1 | 2,416.7 |

The notes on pages 170 to 230 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2022

| | Note | 2022 \$m | 2021 \$m |
|---|-----------|----------------|----------------|
| Profit before tax | | 44.7 | 190.8 |
| Adjustments for: | | | |
| Net foreign exchange gains | | (30.6) | (0.7) |
| Interest and equity dividend income | 7 | (119.5) | (88.1) |
| Interest expense | 10 | 48.1 | 50.8 |
| Net fair value losses on financial assets | 7 | 254.2 | 57.9 |
| Depreciation, amortisation and impairment | 9, 12, 13 | 60.0 | 58.3 |
| Charges in respect of share-based payments | 9, 22 | 27.2 | 24.0 |
| Realised loss/(gain) on sale of subsidiary undertaking, intangible assets and property, plant and equipment | | 0.1 | (6.5) |
| Changes in operational assets and liabilities: | | | |
| Insurance and reinsurance contracts | | 141.6 | (264.2) |
| Financial assets carried at fair value | | (128.3) | (30.0) |
| Financial liabilities carried at fair value | | – | (0.4) |
| Financial liabilities carried at amortised cost | | 0.9 | 0.7 |
| Other assets and liabilities | | 9.2 | (6.7) |
| Cash paid to the pension fund | 27 | (13.5) | – |
| Interest received | | 109.1 | 90.5 |
| Equity dividends received | | 3.9 | 1.9 |
| Interest paid | | (31.3) | (49.6) |
| Current tax paid | | (2.4) | (12.1) |
| Net cash flows from operating activities | | 373.4 | 16.6 |
| Cash flows from the sale of subsidiaries | | – | 21.4 |
| Purchase of property, plant and equipment | | (20.9) | (5.4) |
| Proceeds from the sale of property, plant and equipment | | 0.9 | 0.2 |
| Purchase of intangible assets | | (61.9) | (53.5) |
| Proceeds from the sale of intangible assets | | – | 0.7 |
| Net cash used in investing activities | | (81.9) | (36.6) |
| Proceeds from the issue of ordinary shares | 22 | 0.1 | 0.1 |
| Proceeds from the issue of loan notes | 17 | 279.1 | – |
| Distributions made to owners of the Company | 22, 29 | (119.8) | (39.2) |
| Repayment of borrowings | 17 | (336.6) | (195.7) |
| Principal elements of lease payments | | (13.7) | (11.4) |
| Net cash flows used in financing activities | | (190.9) | (246.2) |
| Net increase/(decrease) in cash and cash equivalents | | 100.6 | (266.2) |
| Cash and cash equivalents at 1 January | | 1,300.7 | 1,577.2 |
| Net increase/(decrease) in cash and cash equivalents | | 100.6 | (266.2) |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (50.4) | (10.3) |
| Cash and cash equivalents at 31 December | 21 | 1,350.9 | 1,300.7 |

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 \$178 million (2021: \$215 million) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held. Additionally, \$89 million (2021: \$7 million) is pledged cash held against Funds at Lloyd's, and \$0.5 million (2021: \$0.4 million) held within trust funds against reinsurance arrangements.

The notes on pages 170 to 230 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information

The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the current period the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, Asia and the USA and currently has over 3,000 staff.

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

2 Basis of preparation

The financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards, and Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority (FCA) and in accordance with the provisions of the Bermuda Companies Act 1981.

The consolidated financial statements have been prepared under the historical cost convention, except for pension scheme assets included in the measurement of the employee retirement benefit obligation which are determined using actuarial analysis, and certain financial instruments including derivative instruments, which are measured at fair value.

The consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Group's current and forecast solvency and liquidity positions for the next 12 months and beyond. As part of the consideration of the appropriateness of adopting the going concern basis, the Directors use scenario analysis and stress testing to assess the robustness of the Group's solvency and liquidity positions.

In undertaking this analysis, no material uncertainty in relation to going concern has been identified, due to the Group's strong capital and liquidity positions providing resilience to shocks, underpinned by the Group's approach to risk management described in note 3.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to

continue in operational existence over a period of at least 12 months from the date of this report. For this reason, the Group continues to adopt the going concern basis in preparing the consolidated financial statements.

In accordance with IFRS 4 *Insurance Contracts*, the Group continues to apply the existing accounting policies that were applied prior to the adoption of IFRS ('grandfathered') or the date of the acquisition of the entity. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with accounting principles generally accepted in the UK.

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 consolidated financial statements are presented in US Dollars millions (\$m) and rounded to the nearest hundred thousand Dollars, unless otherwise stated.

The balance sheet of the Group is presented in order of increasing liquidity. All amounts presented in the income statement and statement of comprehensive income relate to continuing operations.

The financial statements were approved for issue by the Board of Directors on 8 March 2023.

2.1 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The most critical individual components of these financial statements that involve the highest degree of judgement or significant assumptions and estimations are identified in note 2.21.

Except as described below and overleaf, the accounting policies adopted are consistent with those of the previous financial year.

(a) New accounting standards, interpretations and amendments to published standards

New standards, amendments to standards and interpretations, as adopted by the UK, that are effective for annual periods beginning on 1 January 2022 have been applied in preparing these consolidated financial statements and had no material impact on the Group.

2 Basis of preparation

2.1 Significant accounting policies

(a) New accounting standards, interpretations and amendments to published standards continued

- IFRS 3 *References to the Conceptual Framework* (Amendments to IFRS 3)
- IAS 16 *Proceeds before intended use and annual improvements*
- IAS 37 *Onerous contracts – cost of fulfilling a contract* (Amendments to IAS 37)

(b) Future accounting developments

The following new standards, and amendments to standards, are effective for annual periods beginning after 1 January 2022 and have not been applied in preparing these financial statements:

- Initial application of IFRS 17 and IFRS 9 – comparative information
This narrow-scope amendment will not be used by the Group.
- Amendments to IAS 1, IAS 8 and IAS 12 effective from 1 January 2023.
- IFRS 9 *Financial Instruments*
This standard incorporates new classification and measurement requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39 and new hedge accounting requirements. The Group satisfies the criteria set out in IFRS 4 *Insurance Contracts* for the temporary exemption from IFRS 9. At 31 December 2015 (the date specified by IFRS 4), the carrying value of the Group's liabilities connected with insurance comprised over 90% of the total liabilities. These include significant insurance liabilities; the subordinated debt as this debt counts towards the Group's regulatory and rating agency capital requirements; and creditors arising from insurance operations. The activities of the Group remain predominantly connected with insurance.

Under the current requirements (IAS 39), a majority of the Group's investments were designated as at fair value through profit or loss on initial recognition and subsequently remeasured to fair value at each reporting date, reflecting the Group's business model for managing and evaluating the investment portfolio. The adoption of IFRS 9 is not expected to result in any material changes to the measurement of the Group's investments, which continues to be at fair value through profit or loss. Loans, receivables and debtors in scope of IFRS 9 will continue to be recognised at amortised cost less impairment, with the measurement of impairment reflecting expected credit losses. The Group expects a recognition of an earlier and higher loss allowance under this approach compared to the current incurred loss approach, but the impact on equity on adoption is not expected to be material. IFRS 9 has been endorsed by the UK Endorsement Board.

- IFRS 17 *Insurance Contracts*
The Group will restate comparative information for 2022 applying the full retrospective transitional provisions of IFRS 17.

The nature of the changes in accounting policies can be summarised, as follows.

The Group is permitted under IFRS 4 *Insurance Contracts* to continue to adopt the existing accounting policies that were applied prior to the adoption of IFRS ('grandfathered') or the date of the acquisition of a subsidiary. IFRS 17 replaces IFRS 4 and is effective for annual periods beginning on or after 1 January 2023 and has been endorsed by the UK Endorsement Board. IFRS 17 establishes specific principles for the recognition, measurement and presentation of insurance contracts issued and reinsurance contracts held by the Group. Under IFRS 17, the liability for incurred claims (LIC) is equivalent to the liabilities for claims reported, claims adjustment expenses, and claims incurred but not reported under IFRS 4 and the liability for remaining coverage (LRC) is equivalent to unearned premium liabilities for premiums received.

Measurement

IFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. Under the General Measurement Model (GMM), contracts are measured using the building blocks of discounted probability-weighted fulfilment cash flows, an explicit risk adjustment, and a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. A simplification, the Premium Allocation Approach (PAA), can be applied if certain eligibility criteria are met. The majority of the Group's policies have a coverage period of 12 months or less and so are eligible for the PAA. Management applies significant judgement in assessing whether applying the PAA to groups of contracts with a coverage period extending beyond 12 months would produce a measurement of the LRC that would not differ materially from the one that would be produced applying GMM. Management has concluded that a majority of the Group's insurance contracts issued, and reinsurance contracts held, meet the criteria and the PAA is applied to measure them.

The measurement principles differ from the approach used by the Group under IFRS 4. The key areas are:

- the LRC reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in insurance service revenue. The Group has taken the option not to discount the LRC;
- measurement of the LRC does not require separate identification of the risk adjustment for non-financial risk and the CSM;
- measurement of the LRC is adjusted if a group of contracts is expected to be onerous (i.e. loss making) over the remaining coverage period and a loss is recognised immediately in the income statement under 'insurance service expenses' with the recoveries in 'amounts recoverable from reinsurers for incurred claims'. A loss component is measured as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the LRC of the group of contracts;
- measurement of the LIC is determined on a probability-weighted expected value basis. In contrast to IFRS 4, the LIC is discounted. The LIC also includes an explicit risk adjustment to compensate for non-financial risk. The liability includes the Group's obligation to pay other incurred insurance expenses;

| | | | | | | | | | | | |
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2 Basis of preparation

2.1 Significant accounting policies

(b) Future accounting developments continued

- the discount rates used to calculate the LIC are constructed using risk-free rates, plus an illiquidity premium, where applicable. The risk-free rates are determined by reference to the market observable data (swap rates or highly liquid sovereign bonds) in the currencies of the respective (re)insurance contract liabilities. The liquidity premium is determined based on market observable illiquidity premiums in financial assets, adjusted to reflect the liquidity characteristics of the liability cash flows;
- the risk adjustment for non-financial risk is the estimated compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. Management applies significant judgements in determining the risk adjustment amount;
- measurement of the reinsurance contract asset for remaining coverage (ARC) reflecting reinsurance premiums paid for reinsurance held is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous contracts;
- measurement of the reinsurance asset for incurred claims (AIC) is similar to the LIC as set out above;
- the expected premium received is recognised in the consolidated income statement as part of insurance service revenue over the insurance coverage period on the basis of the passage of time, unless the expected pattern of release from risk differs significantly from the passage of time, in which case it is recognised based on the expected timing of incurred claims and benefits;
- all insurance and reinsurance contract assets and liabilities are monetary items. As a result, those balances denominated in foreign currencies are subject to revaluation at foreign exchange rates prevailing at the reporting date, with the impact of changes in foreign exchange rates recognised in the income statement in insurance finance income and expenses;
- under IFRS 4, acquisition costs were recognised and presented separately as 'deferred acquisition costs'. Under IFRS 17, the Group has taken the option to include directly attributable acquisition cash flows in the LRC which are tested separately for recoverability and are amortised as part of insurance service expenses.

Changes to presentation and disclosure

The presentation of the income statement will change, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. Gross and net premiums written will no longer be presented on the face of the income statement.

Further, reinsurance commission income that is contingent on claims, for example profit commission income, is treated as a part of claims recoveries cash flows and that which is not contingent on claims, for example override commission, is accounted for as part of premium paid or received cash flows.

Transition

On transition date, 1 January 2022, the Group:

- has identified, recognised and measured each group of insurance contracts as if IFRS 17 requirements had always applied (the fully retrospective approach);
- derecognised any existing balances that would not exist had IFRS 17 requirements always applied;
- performed a PAA eligibility assessment for the 2021 and prior unexpired groups of insurance and reinsurance contracts with coverage periods of longer than 12 months;
- estimated the net impact to equity at 1 January 2022 of approximately \$25 million (increase) driven by the following factors:
 - the application of the discounting of the insurance contract liabilities and assets of approximately \$55 million;
 - offset by other differences including the recognition of onerous contract net loss components, non-performance risk, and application of a Group-wide risk adjustment policy and accounting policies on a consistent basis under IFRS 17 of approximately \$30 million.

The Group has not presented here the restated opening balance sheet on 1 January 2022 or restated accounts for the year-end 2022. These are being finalised and will be presented later in 2023, before the announcement of the half-year 2023 results.

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has power over an entity, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The consolidated financial statements include the assets, liabilities and results of the Group up to 31 December each year. The financial statements of subsidiaries are included in the consolidated financial statements only from the date that control commences until the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 Basis of preparation

2.2 Basis of consolidation continued

(b) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is generally identified with a shareholding of between 20% and 50% of an entity's voting rights. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity-accounted basis from the date that significant influence commences until the date that significant influence ceases.

The Group's share of its associates' post-acquisition profits or losses after tax is recognised in the income statement for each period, and its share of the movement in the associates' net assets is reflected in the investments' carrying values on the balance sheet. When the Group's share of losses equals or exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(c) Transactions eliminated on consolidation

Intragroup balances, transactions and any unrealised gains arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Foreign currency gains and losses on intragroup monetary assets and liabilities may not fully eliminate on consolidation when the intragroup monetary item concerned is transacted between two Group entities that have different functional currencies. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.3 Foreign currency translation

(a) Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). Entities operating in France, Germany, The Netherlands, Spain, Portugal, Ireland and Belgium have functional currency of Euros; those subsidiary entities operating from the USA, Bermuda, Guernsey and Syndicates have functional currency of US Dollars with the exception of Hiscox Ltd, a public company incorporated and domiciled in Bermuda with functional currency of Sterling. Functional currencies of entities operating in Asia include US Dollars, Singapore Dollars and Thai Baht. All other entities have functional currency of Sterling.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as IAS 39 effective net investment hedges or when

the underlying balance is deemed to form part of the Group's net investment in a subsidiary operation and is unlikely to be settled in the foreseeable future. Non-monetary items carried at historical cost are translated on the balance sheet at the exchange rate prevailing on the original transaction date. Non-monetary items measured at fair value are translated using the exchange rate ruling when the fair value was determined.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain, or loss, on sale.

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance items are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite useful economic life. The cost of leasehold improvements is amortised over the unexpired term of the underlying lease or the estimated useful life of the asset, whichever is shorter. Depreciation on other assets is calculated using the straight-line method to allocate their cost, less their residual values, over their estimated useful lives.

The rates applied are as follows:

| | |
|--|-------------|
| — buildings | 20–50 years |
| — vehicles | 3 years |
| — leasehold improvements including fixtures and fittings | 10–15 years |
| — furniture, fittings and equipment | 3–15 years |

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

| | | | | | | | | | | | |
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2 Basis of preparation continued

2.5 Intangible assets

(a) Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries and associates. In respect of acquisitions that have occurred since 1 January 2004, goodwill represents the excess of the fair value of consideration of an acquisition over the fair value of the Group's share of the net identifiable assets and contingent liabilities assumed of the acquired subsidiary or associate at the acquisition date.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous generally accepted accounting principles.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is not amortised but is tested at least annually for impairment and carried at cost, less accumulated impairment losses.

Goodwill is allocated to the Group's cash-generating units identified according to the smallest identifiable unit to which cash flows are generated.

The impairment review process examines whether or not the carrying value of the goodwill attributable to individual cash-generating units exceeds its recoverable amount. Any excess of goodwill over the recoverable amount arising from the review process indicates impairment. Any impairment charges are presented as part of operational expenses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Other intangible assets

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside of goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Customer relationships, syndicate capacity and software acquired are capitalised at cost, being the fair value of the consideration paid. Software is capitalised on the basis of the costs incurred to acquire and bring it into use. Intangible assets with indefinite lives such as syndicate capacity are subsequently valued at cost and are subject to annual impairment assessment.

Intangible assets with finite useful lives are consequently carried at cost, less accumulated amortisation and impairment. The useful life of the asset is reviewed annually. Any changes in estimated useful lives are accounted for prospectively with the effect of the change being recognised in the current and future periods, if relevant.

Amortisation is calculated using the straight-line method to allocate the cost over the estimated useful lives of the intangible assets.

Subsequent expenditure on other intangible assets is capitalised only when it increases the future economic

benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Those intangible assets with finite lives are assessed for indicators of impairment at each reporting date. Where there is an indication of impairment then a full impairment test is performed. An impairment loss recognised for an intangible asset in prior years should be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

2.6 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique.

This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Group takes into account the asset's use that is physically possible, legally permissible and financially feasible. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 20.

2.7 Financial assets and liabilities including loans and receivables

The Group classifies its financial assets as a) financial assets at fair value through profit or loss, and b) loans and receivables. Management determines the classification of its financial assets based on the purpose for which the financial assets are held at initial recognition. The decision by the Group to designate debt and fixed income holdings, equities and investment funds and deposits with credit institutions, at fair value through profit or loss, reflects the fact that the investment portfolios are managed, and their performance evaluated, on a fair value basis.

Purchases and sales of investments are accounted for at the trade date. Financial assets and liabilities are initially recognised at fair value. Subsequent to initial recognition, financial assets and liabilities are measured as described below. Financial assets are derecognised when the right to receive cash flows from them expires or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

| | | | | | | | | | | | |
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2 Basis of preparation

2.7 Financial assets and liabilities including loans and receivables continued

(a) Financial assets at fair value through profit or loss

A financial asset is classified into this category at inception if it is managed and evaluated on a fair value basis in accordance with a documented strategy, if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Balances are carried at amortised cost, less any provision for impairment, and include receivables arising from insurance contracts.

(c) Borrowings

All borrowings are initially recognised at fair value. Subsequent to initial recognition, borrowings are measured at amortised cost. Any difference between the value recognised at initial recognition and the ultimate redemption amount is recognised in the income statement over the period to redemption using the effective interest method.

2.8 Cash and cash equivalents

The Group has classified cash deposits and short-term highly-liquid investments as cash and cash equivalents. These assets are readily convertible into known amounts of cash and are subject to inconsequential changes in value. Cash equivalents are financial investments with less than three months to maturity at the date of acquisition.

2.9 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually or whenever there is an indication of impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(a) Non-financial assets

Objective factors that are considered when determining whether a non-financial asset (such as goodwill, an intangible asset or item of property, plant and equipment) or group of non-financial assets may be impaired include, but are not limited to, the following:

- adverse economic, regulatory or environmental conditions that may restrict future cash flows and asset usage and/or recoverability;
- the likelihood of accelerated obsolescence arising from the development of new technologies and products; and
- the disintegration of the active market(s) to which the asset is related.

(b) Financial assets

Objective factors that are considered when determining whether a financial asset or group of financial assets may be impaired include, but are not limited to, the following:

- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;

- actual breaches of credit terms such as persistent late payments or actual default;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

(c) Impairment loss

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately. Impairment losses recognised in respect of goodwill are not subsequently reversed.

2.10 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at fair value at each balance sheet date. Fair values are obtained from quoted market values and, if these are not available, valuation techniques including option pricing models are used as appropriate. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. For derivatives not formally designated as a hedging instrument, fair value changes are recognised immediately in the income statement. Changes in the value of derivatives and other financial instruments formally designated as hedges of net investments in foreign operations are recognised in the currency translation reserve to the extent they are effective; gains or losses relating to the ineffective portion of the hedging instruments are recognised immediately in the consolidated income statement.

The Group had no derivative instruments designated for hedge accounting during the current and prior financial year.

2.11 Own shares

Where any Group company purchases the Parent Company's equity share capital (own shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners on consolidation. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's owners, net of any directly attributable incremental transaction costs and the related tax effects.

2 Basis of preparation continued

2.12 Revenue

Revenue comprises insurance and reinsurance premiums earned on the rendering of insurance protection, net of reinsurance, together with profit commission, investment returns, agency fees and other income. The Group's share of the results of associates is reported separately. The accounting policies for insurance premiums are set out in note 2.13.

Other revenue is recognised when, or as, the control of the goods or services is transferred to a customer, i.e. performance obligations are fulfilled at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. See note 9 for further details.

2.13 Insurance contracts

(a) Classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. The Group issues short-term casualty and property insurance contracts that transfer significant insurance risk.

(b) Recognition and measurement

Gross premiums written comprise premiums on business incepting in the financial year, together with adjustments to estimates of premiums written in prior accounting periods. Estimates are included for pipeline premiums and an allowance is also made for cancellations. Premiums are stated before the deduction of brokerage and commission, but net of taxes and duties levied. Premiums are recognised as revenue (premiums earned) proportionally over the period of coverage. The portion of premium received on in-force contracts that relate to unexpired risks at the balance sheet date is reported as the unearned premium liability.

Claims and associated expenses are charged to profit or loss as incurred, based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date, even if they have not yet been reported to the Group.

The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are determined based on the best estimate of the cost of future claim payments, plus an allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes using, as inputs, the assessments for individual cases reported to the Group, statistical analysis for the claims incurred but not reported, an estimate of the expected ultimate cost of more complex claims that may be affected by external factors, for example, court decisions, and an allowance for quantitative uncertainties not otherwise approved.

(c) Deferred acquisition costs (DAC)

Commissions and other direct and indirect costs that vary with and are related to securing new contracts and renewing

existing contracts are capitalised as deferred acquisition costs. All other costs are recognised as expenses when incurred. DAC are amortised over the terms of the insurance contracts as the related premium is earned.

(d) Liability adequacy tests

At each balance sheet date, liability adequacy tests are performed by each business unit to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is charged to profit or loss initially by writing-off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('the unexpired risk reserve'). Any DAC written-off as a result of this test is not subsequently reinstated.

(e) Outwards reinsurance contracts held

Contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more insurance or reinsurance contract and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under outwards reinsurance contracts are recognised as assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Group assesses its reinsurance assets on a regular basis and, if there is objective evidence, after initial recognition, of an impairment in value, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement. Reinsurance liabilities primarily comprise premiums payable for outwards reinsurance contracts.

(f) Retroactive reinsurance transactions

Retroactive insurance contracts that contain significant insurance risk and that have an insurance component and a deposit component are unbundled providing the deposit component can be measured separately. The deposit component is recorded directly into the balance sheet within reinsurers' share of insurance liabilities with a corresponding amount in creditors arising out of reinsurance operations. The reinsurers' share of insurance liabilities relating to the contracts is remeasured at each reporting period with movements taken to the reinsurance recoveries in the income statement.

Reinsurance transactions that transfer risk, but are retroactive, are included in reinsurance assets. The excess of estimated liabilities for claims and claim expenses over the consideration paid is established as a deferred credit at inception. The deferred amounts are subsequently amortised using the

2 Basis of preparation

2.13 Insurance contracts

(f) Retroactive reinsurance transactions continued

recovery method over the settlement period of the reserves and reflected through the claims and claim adjustment expenses line. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim adjustment expenses, a loss is recognised immediately.

(g) Reinsurance commission income

Reinsurance commission income represents commission earned from ceding companies which is earned over the terms of the underlying reinsurance contracts and presented separately in the consolidated income statement.

(h) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to, and from, agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the income statement.

(i) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell property acquired in settling a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property. Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

2.14 Taxation

Current tax, including corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on advice sought from specialist tax advisors.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is

realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

(a) Pension obligations

The Group has defined contribution and defined benefit pension schemes. The defined benefit scheme closed to future accrual with effect from 31 December 2006 and active members were offered membership of the defined contribution scheme from 1 January 2007. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity and has no further obligation beyond the agreed contribution rate. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a contractual basis. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The amount recognised on the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of plan assets. The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit method. As the plan is closed to all future benefit accrual, each participant's benefits under the plan are based on their service to the date of closure or earlier leaving date and their final pensionable earnings. The service cost is the expected administration cost during the year. Past service costs are recognised immediately in the income statement.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the income statement through operating expenses.

To the extent that a surplus emerges on the defined benefit obligation, it is only recognisable as an asset when it is probable that future economic benefits will be recovered by the Group.

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2 Basis of preparation

2.15 Employee benefits continued

(b) Other long-term employee benefits

The Group provides sabbatical leave to employees on completion of every five years' service. The present value of the expected costs of these benefits is accrued over the period of employment. In determining this liability, consideration is given to future increases in salary levels, experience with employee departures and periods of service.

(c) Share-based compensation

The Group operates equity settled share-based employee compensation plans. These include the share option schemes, and the Group's Performance Share Plans, outlined in the Directors' remuneration report, together with the Group's Save As You Earn (SAYE) schemes. The fair value of the employee services received, measured at grant date, in exchange for the grant of the awards is recognised as an expense, with the corresponding credit being recorded in retained earnings within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the awards granted, excluding the impact of any non-market vesting conditions (for example, profitability or net asset growth targets). Non-market vesting conditions are included in assumptions about the number of awards that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of awards that are expected to vest.

The Group recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity, in periods in which the estimates are revised.

When the terms and conditions of an equity settled share-based employee compensation plan are modified, and the expense to be recognised increases as a result of the modification, then the increase is recognised evenly over the remaining vesting period. When a modification reduces the expense to be recognised, there is no adjustment recognised and the pre-modification expense continues to be applied. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

(d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(e) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where a contractual obligation to employees exists or where there is a past practice that has created a constructive obligation.

2.16 Net investment hedge accounting

In order to qualify for hedge accounting, the Group is required to document, in advance, the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each period end to ensure that the hedge remains highly effective. Accumulated gains or losses will be recycled to the income statement only when the foreign operation is disposed of. The ineffective portion of any hedge is recognised immediately in the income statement.

2.17 Finance costs

Finance costs consist of interest charges accruing on the Group's borrowings and bank overdrafts together with commission fees charged in respect of Letters of Credit and interest in respect of lease liabilities and funds withheld. Arrangement fees in respect of financing arrangements are charged over the life of the related facilities.

2.18 Provisions

Provisions are recognised where there is a present obligation (legal or constructive) as a result of a past event that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle that obligation.

2.19 Leases

(a) Hiscox as lessee

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. Right-of-use assets are subject to impairment. Right-of-use assets are presented on the balance sheet as 'property, plant and equipment'.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. Lease liabilities are included in 'trade and other payables' on the balance sheet.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease

2 Basis of preparation

2.19 Leases

(a) Hiscox as lessee continued

commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification that is not accounted for as a separate lease: future lease payments that are linked to a rate or index, a change in the lease term, a change in the in-substance fixed lease payments, a change in the assessment to purchase the underlying asset or a change in the amounts expected to be payable under a residual value guarantee.

The Group applies the short-term lease recognition exemption to its applicable short-term leases. It also applies the low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

(b) Hiscox as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant contractual agreement.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

2.21 Use of significant judgements, estimates and assumptions

The preparation of financial statements requires the Group to select accounting policies and make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses in the consolidated financial statements.

The Audit Committee reviews the reasonableness of critical judgements, estimates and assumptions applied and the appropriateness of significant accounting policies. The significant issues considered by the Committee in the year are included within the Audit Committee report on pages 99 to 101.

Significant accounting judgements

The following accounting policies are those considered to have a significant impact on the amounts recognised in the consolidated financial statements.

- Consolidation: assessment of whether the Group controls an underlying entity, for example, the treatment of insurance-linked securities funds including consideration of its decision-making authority and its rights to the variable returns from the entity;
- Insurance contracts: assessment of the significance of insurance risk transferred to/from the Group in determining whether a contract should be accounted for as an insurance contract or as a financial instrument. This includes assessing the risk transferred on portfolio transfers and the appropriate presentation of retroactive reinsurance transactions;
- Financial investments: classification and measurement of investments including the application of the fair value option.

Significant accounting estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events. Actual results may differ from those estimates, possibly significantly. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The following describes items considered particularly susceptible to changes in estimates and assumptions.

The most critical estimate included within the Group's balance sheet is the measurement of insurance liabilities and reinsurance assets, and in particular the estimate of losses incurred but not reported (IBNR) within these balances. The total gross estimate of IBNR as at 31 December 2022 is \$4,474.2 million (2021: \$4,539.8 million). The total estimate for reinsurers' share of losses IBNR as at 31 December 2022 is \$2,261.9 million (2021: \$2,349.5 million).

Estimates of IBNR 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. Between the reporting and final settlement of a claim, circumstances may change, which may result in changes to the established liability. The overall reserving risk is discussed in more detail in note 3.2 and the procedures used in estimating the cost of settling insured losses at the balance sheet date including losses incurred but not reported are detailed in note 23.

The Group tests the adequacy of its unearned premium liability by comparing current estimates of future claims and claims handling expenses attributable to the unexpired periods of policies at the balance sheet date to the unearned premium liability net of acquisition costs. As set out in note 2.13(d), any deficiency is recognised in the income statement. The related deferred acquisition costs are first written down and any additional liability required is then recognised as an unexpired risk reserve (URR).

Another key estimate contained within the Group's consolidated financial statements is an estimate of gross premiums written during the year. For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables, which are not known with certainty at the point of binding the policy. In determining the estimated premium, the Group uses information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy and prevailing market conditions. Subsequently, adjustments to those estimates arise as updated information relating to those pricing variables becomes available, for example due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance contracts or other policy amendments. Such adjustments are recorded in the period in which they are determined and impact gross premiums written in the consolidated income statement and premiums receivable from insureds and cedants recorded on the consolidated balance sheet.

The Group carries its financial investments at fair value through profit or loss, with fair values determined using published price quotations in the most active financial markets

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2 Basis of preparation

2.21 Use of significant judgements, estimates and assumptions

Significant accounting estimates continued

in which the assets trade, where available. Where quoted market prices are not available, valuation techniques are used to value financial instruments. These include third-party valuation reports and models utilising both observable and unobservable market inputs. Valuation techniques involve judgement, including the use of valuation models and their inputs, which can lead to a range of plausible valuations for financial investments. Note 3.3 discusses the reliability of the Group's fair values.

The employee retirement benefit scheme obligations are calculated and valued with reference to a number of actuarial assumptions including mortality, inflation rates and discount rate, many of which have been subject to recent volatility. This complex set of economic variables can have a significant impact on the financial statements, as shown in note 27.

The Group operates in a multinational environment, and legislation concerning the determination of taxation of assets and liabilities is complex and continually evolving. In preparing the financial statements, the Group applies significant judgements in identifying uncertainties over tax treatments and in the measurement of the provision being the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and based on advice sought from specialist tax advisors.

A deferred tax asset can be recognised only to the extent that it is recoverable. The recoverability of deferred tax assets in respect of carry forward losses requires consideration of the future levels of taxable profit in the Group. In preparing the Group's financial statements, management estimates taxation assets and liabilities after taking appropriate professional advice, as shown in note 25. Significant estimates and assumptions used in the valuation of deferred tax relate to the forecast taxable profits, taking into account the Group's financial and strategic plans. See note 26 for further details of adjustments made to deferred tax during the year.

The determination and finalisation of agreed taxation assets and liabilities may not occur until several years after the reporting date and consequently the final amounts payable or receivable may differ from those presented in these financial statements.

2.22 Reporting of additional performance measures

The Directors consider that the combined, claims and expense ratio measures reported in respect of operating segments and the Group overall in note 4 and net asset value per share and return on equity measures disclosed in notes 5 and 6, provide useful information regarding the underlying performance of the Group's businesses. These measures are widely recognised by the insurance

industry and are consistent with the internal performance measures reviewed by senior management including the chief operating decision-maker. However, these measures are not defined within the accounting standards and interpretations, and therefore may not be directly comparable with similarly titled additional performance measures reported by other companies.

3 Management of risk

The Group's overall appetite for accepting and managing varying classes of risk is defined by the Group's Board of Directors. The Board has developed a governance framework and has set Group-wide risk management policies and procedures which include risk identification, risk management and mitigation and risk reporting. The objective of these policies and procedures is to protect the Group's shareholders, policyholders and other stakeholders from negative events that could hinder the Group's delivery of its contractual obligations and its achievement of sustainable profitable economic and social performance.

The Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the Risk Committee, and ongoing compliance therewith through a dedicated internal audit function, which has operational independence, clear terms of reference influenced by the Board's Non Executive Directors and a clear upwards reporting structure back into the Board. The Group, in line with the non-life insurance industry generally, is fundamentally driven by a desire to originate, retain and service insurance contracts to maturity. The Group's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is reasonably predictable. In addition, the majority of material cash outflows are typically triggered by the occurrence of insured events, although the timing, frequency and severity of claims can fluctuate.

The principal sources of risk relevant to the Group's operations and its financial statements fall into three broad categories: operational risk, insurance risk and financial risk, which are described in notes 3.1, 3.2 and 3.3 below. The Group also actively manages its capital risks as detailed in note 3.4 and tax risks as detailed in note 3.5. Additional unaudited information is also provided in the corporate governance, risk management and capital sections of this Report and Accounts.

3.1 Operational risk

The Group is exposed to the risk of direct or indirect loss resulting from internal processes, people or systems, or from external events. This includes cyber security risk, as well as major IT, systems or service failures. The Group has demonstrated continued resilience, underscoring the benefits of its business model, disciplined risk management and ongoing investment in technology and infrastructure. We launched the 'future of work' programme to modernise our hybrid working policy (via introduction of team charters) and ensure our workforce are equipped with the necessary technology to enable this (via an updated digital workplace roll out). These measures have proven successful in addressing employee engagement challenges and a number of operational risks.

3 Management of risk

3.1 Operational risk continued

In addition to the 'future of work', Hiscox has launched the Hiscox target operating model (HTOM) programme. The programme is systematically working through each part of our key functions to establish clarity in ownership and accountability of activities between the Group and business units, transparency and action around required capabilities and investment to better enable delivery of our strategy, and improved productivity and efficiency as a consequence.

3.2 Insurance risk

The predominant risk to which the Group is exposed is insurance risk which is assumed through the underwriting process. Insurance risk can be sub-categorised into i) underwriting risk including the risk of catastrophe and systemic insurance losses and the insurance competition and cycle, and ii) reserving risk.

i) Underwriting risk

The Board sets the Group's underwriting strategy and risk appetite, seeking to exploit identified opportunities in light of other relevant anticipated market conditions.

The Board requires all underwriters to operate within an overall Group appetite for individual events. This defines the maximum exposure that the Group is prepared to retain on its own account for any one potential catastrophe event or disaster. In addition, the Group's overall underwriting risk appetite seeks to ensure that in a 1-in-200 bad year we are within the underwriting risk limit. The limit is calibrated each year based on exposure, expected profit and the size of other correlated risks to enable us to continue in business and take advantage of market opportunities that arise.

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds and geographical disaster event risk exposures are prepared and reviewed by the Group Chief Underwriting Officer in order to translate the Board's summarised underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved by the Board in advance of each underwriting year. The Board continually reviews its underwriting strategy throughout each underwriting year in light of the evolving market pricing and loss conditions and as opportunities present themselves. The Group's underwriters and management consider underwriting risk at an individual contract level, and also from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated in light of historical portfolio experience and prospective factors.

To assist with the process of pricing and managing underwriting risk, the Group routinely performs a wide range of activities including the following:

- regularly updating the Group's risk models;
- documenting, monitoring and reporting on the Group's strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modelling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;

- regularly aggregating risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular review. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as the maximum sums insured per insurance contract, maximum gross premiums written and maximum aggregated exposures per geographical zone and risk class. The Group compiles estimates of losses arising from extreme loss events using statistical models alongside input from its underwriters. These require significant management judgement. The extreme loss scenarios, shown on pages 46 to 47, represent hypothetical major events occurring in areas with large insured values.

They also represent areas of potentially significant exposure for Hiscox. In addition to understanding the loss Hiscox may suffer from an event, it is important to ensure that the risk models used are calibrated to the risks faced today. This includes recognising and forecasting inflationary trends, updating trends in claims payments, and capturing climate change-related impacts. Hiscox has a climate risk framework, which is used to assess where research resources should be focused, and models updated, and as a result improves not only the Group's understanding of the potential impact of a changing climate but also the Group's ability to respond.

The selection of extreme loss scenario events is adjusted each year and they are not therefore necessarily directly comparable from one year to the next. The events are extreme and unprecedented, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodelled risks. This means that should an extreme loss event actually occur, the Group's final ultimate losses could materially differ from those estimates modelled by management. The Group's insurance contracts include provisions to contain losses, such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Group's exposure to repeated catastrophic events (both man-made and natural catastrophes), relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period. In the case of climate-exposed risks specifically, the vast majority of contracts written by the Group are annual in nature and thus can be revised frequently. This flexibility is a key tool for managing the multi-decade challenge of climate risks holistically.

The Group also manages underwriting risk by purchasing reinsurance. Reinsurance protection is purchased at an entity level and is also considered at an overall Group level to mitigate the effect of catastrophes and unexpected concentrations of risk. However, the scope and type of reinsurance protection purchased may change depending

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3 Management of risk

3.2 Insurance risk

i) Underwriting risk continued

on the extent and competitiveness of cover available in the market. Below is a summary of the gross and net insurance liabilities for each category of business.

The estimated liquidity profile to settle the gross claims liabilities is given in note 3.3(e).

The specific insurance risks accepted by the Group fall broadly into the following main categories: reinsurance inwards, marine and major asset property, other property risks, casualty professional indemnity and casualty other insurance risks. These specific categories are defined for risk review purposes only, as each contains risks specific to the nature of the cover provided. They are not exclusively aligned to any specific reportable segment in the Group's operational structure or to the primary internal reports reviewed by the chief operating decision-maker. The Group also considers climate change to be a cross-cutting risk with potential to impact each existing risk type, rather than a stand-alone risk. By design, the established and embedded Group risk management framework provides a controlled and consistent system for the identification, measurement, mitigation, monitoring and reporting of risks (both current and emerging) and so is structured in a way that allows us to continually and consistently manage the various impacts of climate risk on the risk profile. This is supported by equally robust processes and policies that address climate-related underwriting risks, such as the Group-wide ESG exclusions policy which represents a commitment to reduce steadily, and eliminate by 2030, both underwriting and investment exposure to coal-fired power plants and coal mines; Arctic energy exploration, beginning with the Arctic National Wildlife Refuge; oil sands; and controversial weapons such as landmines.

More information on the strategy and governance structures in place to manage climate-related risks can be found on pages 60 to 67. The following describes the policies and procedures used to identify and measure the risks associated with each individual category of business.

Reinsurance inwards

The Group's reinsurance inwards acceptances are primarily focused on large commercial property, homeowner and marine and short-tail specialty exposures held by other insurance companies predominantly in North America and other developed economies. This business is characterised more by large claims arising from individual events or catastrophes than the high-frequency, low-severity attritional losses associated with certain other business written by the Group. Multiple insured losses can periodically arise out of a single natural or man-made occurrence. The main circumstances that result in claims against the reinsurance inwards book are conventional catastrophes, such as earthquakes or storms, but also includes other events including fires, explosions and cyber events. The occurrence and impact of these events are very difficult to predict over the short term, which complicates attempts to anticipate claims frequencies on an annual basis. In those years where there is a low incidence of severe catastrophes, claims frequencies on the reinsurance inwards book can be relatively low.

A significant proportion of the reinsurance inwards business provides cover on an excess of loss basis for individual events. The Group agrees to reimburse the cedant once their losses exceed a minimum level. Consequently, the frequency and severity of reinsurance inwards claims are related not only to the number of significant insured events that occur, but also to their individual magnitude. If numerous catastrophes occurred in any one year, but the cedant's individual loss on each was below the minimum stated, then the Group would have no liability under such contracts. Maximum gross line sizes and aggregate exposures are set for each type of programme.

The Group writes reinsurance risks for periods of mainly one year so that contracts can be assessed for pricing and terms and adjusted to reflect any changes in market conditions and the evolving impact of climate change.

Property risks – marine and major assets

The Group directly underwrites a diverse range of property risks. The risk profile of the property covered under marine and major asset policies is different to that typically contained in the other classes of property (such as private households and contents insurance) covered by the Group.

Estimated concentration of gross and net insurance liabilities on the balance sheet as at 31 December 2022

| | | Types of insurance risk in the Group | | | | | | |
|-------|-------|--------------------------------------|---|--------------------------------|--|-------------------------------|---------------|--------------|
| | | Reinsurance inwards \$m | Property – marine and major assets \$m | Property – other assets \$m | Casualty – professional indemnity \$m | Casualty – other risks \$m | Other* \$m | Total \$m |
| Total | Gross | 2,387.6 | 245.5 | 1,401.8 | 2,758.1 | 1,270.9 | 772.7 | 8,836.6 |
| | Net | 438.2 | 141.9 | 976.3 | 2,241.6 | 638.1 | 500.7 | 4,936.8 |

Estimated concentration of gross and net insurance liabilities on the balance sheet as at 31 December 2021

| | | Types of insurance risk in the Group | | | | | | |
|-------|-------|--------------------------------------|---|--------------------------------|--|-------------------------------|---------------|--------------|
| | | Reinsurance inwards \$m | Property – marine and major assets \$m | Property – other assets \$m | Casualty – professional indemnity \$m | Casualty – other risks \$m | Other* \$m | Total \$m |
| Total | Gross | 2,349.4 | 281.9 | 1,505.7 | 2,705.3 | 1,298.9 | 727.2 | 8,868.4 |
| | Net | 633.2 | 127.6 | 926.4 | 2,172.1 | 608.1 | 493.0 | 4,960.4 |

*Includes a diverse mix of certain specialty lines such as kidnap and ransom, terrorism and other risks which contain a mix of property and casualty exposures.

| | | | | | | | | | | | |
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3 Management of risk

3.2 Insurance risk

i) Underwriting risk continued

Typical property covered by marine and other major property contracts includes fixed and moveable assets such as ships and other vessels, cargo in transit, energy platforms and installations, pipelines, other subsea assets, satellites, commercial buildings and industrial plants and machinery. These assets are typically exposed to a blend of catastrophic and other large loss events and attritional claims arising from conventional hazards such as collision, flooding, fire and theft. Climate change may give rise to more frequent and severe extreme weather events (for example, windstorms and river flooding) and it may be expected that their frequency will increase over time.

For this reason, the Group accepts major property insurance risks for periods of mainly one year so that each contract can be repriced on renewal to reflect the continually evolving risk profile. The most significant risks covered for periods exceeding one year are certain specialist lines such as marine and offshore construction projects which can typically have building and assembling periods of between three and four years. These form a small proportion of the Group's overall portfolio.

Marine and major property contracts are normally underwritten by reference to the commercial replacement value of the property covered. The cost of repairing or rebuilding assets, of replacement or indemnity for contents and time taken to restart or resume operations to original levels for business interruption losses are the key factors that influence the level of claims under these policies. The Group's exposure to commodity price risk in relation to these types of insurance contracts is very limited, given the controlled extent of business interruption cover offered in the areas prone to losses of asset production.

Other property risks

The Group provides home and contents insurance, together with cover for artwork, antiques, classic cars, jewellery, collectables and other assets. The Group also extends cover to reimburse certain policyholders when named insureds or insured assets are seized for kidnap and a ransom demand is subsequently met. Events which can generate claims on these contracts include burglary, kidnap, seizure of assets, acts of vandalism, fires, flooding and storm damage. Losses on most classes can be predicted with a greater degree of certainty as there is a rich history of actual loss experience data and the locations of the assets covered, and the individual levels of security taken by owners, are relatively static from one year to the next. The losses associated with these contracts tend to be of a higher frequency and lower severity than the marine and other major property assets covered above.

The Group's home and contents insurance contracts are exposed to weather and climate-related risks such as floods and windstorms and their consequences. As outlined earlier, the frequency and severity of these losses do not lend themselves to accurate prediction over the short term. Contract periods are therefore not normally more than one year at a time to enable risks to be regularly repriced.

Contracts are underwritten by reference to the commercial replacement value of the properties and contents insured. Claims payment limits are always included to cap the amount payable on occurrence of the insured event.

Casualty insurance risks

The casualty underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of potential hazard, industry and geography. However, the Group's exposure is more focused towards professional, general, technological and marine liability risks rather than human bodily injury risks, which are only accepted under limited circumstances. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence and specific losses suffered as a result of electronic or technological failure of software products and websites.

The provision of insurance to cover allegations made against individuals acting in the course of fiduciary or managerial responsibilities, including directors and officers' insurance, is one example of a casualty insurance risk.

The Group's casualty insurance contracts mainly experience low-severity attritional losses. By nature, some casualty losses may take longer to settle than other categories of business. In addition, there is increased potential for accumulation in casualty risk due to the growing complexity of business, technological advances, and greater interconnectivity and interdependency across the world due to globalisation. The Group's pricing strategy for casualty insurance policies is typically based on historical claim frequencies and average claim severities, adjusted for inflation and extrapolated forwards to incorporate projected changes in claims patterns. In determining the price of each policy, an allowance is also made for acquisition and administration expenses, reinsurance costs, investment returns and the Group's cost of capital.

The market for cyber insurance is still a relatively immature one, complicated by the fast-moving nature of the threat, as the world becomes even more connected. The risks associated with cyber insurance are multiplying in both diversity and scale, with associated financial and reputational consequences of failing to prepare for them. The Group has focused its cyber expertise on prevention, in addition to the more traditional recovery product. Cyber products are sold through our businesses in the UK, USA and Europe, and the product is sold both direct to consumers and through a more traditional broker channel.

ii) Reserving risk

The Group's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 23. The Group's provision estimates are subject to rigorous review by senior management from all areas of the business. The managed Syndicates and US business receive a review of their estimates from independent actuaries. The final provision is approved by the relevant boards on the recommendation of dedicated reserving committees. Similar to the underwriting risk detailed above, the Group's reserve risks are well diversified. Short-tailed claims are normally notified and settled within 12 to 24 months of the insured event occurring. Those claims taking the longest

| | | | | | | | | | | | |
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3 Management of risk

3.2 Insurance risk

ii) Reserving risk continued

time to develop and settle typically relate to casualty risks, where legal complexities occasionally develop regarding the insured's alleged omissions or negligence. The length of time required to obtain definitive legal judgments and make eventual settlements exposes the Group to a degree of reserving risk in an inflationary environment.

The final quantum for casualty claims may not be established for many years after the event. A significant proportion of the casualty insurance amounts reserved on the balance sheet may not be expected to settle within 24 months of the balance sheet date. Consequently, our approach is not to recognise favourable experience in the early years of development in the reserving process when setting the best estimate.

Certain marine and property insurance contracts, such as those relating to subsea and other energy assets and the related business interruption risks, can also take longer than normal to settle. This is because of the length of time required for detailed subsea surveys to be carried out and damage assessments agreed, together with difficulties in predicting when the assets can be brought back into full production.

For the inwards reinsurance lines, there is often a time lag between the establishment and re-estimate of case reserves and reporting to the Group. The Group works closely with the reinsured to ensure timely reporting and also centrally analyses industry loss data to verify the reported reserves.

In addressing the impact of inflation, the Group focuses on:

- regular case reserve reviews to ensure adequacy;
- uplifts to incurred but not reported (IBNR) reserves to allow for current and future expectations of high inflation rates;
- assessment of rate increases against future inflation to assess loss ratio impacts.

Given the increase in inflationary pressures over the year, the Group established explicit reserve uplifts to allow for the expected higher future claims costs. Loss ratios have also been reviewed to ensure they include an appropriate allowance for future inflation.

Losses from Covid-19 continue to settle well within expectations and there has been positive development in first-order losses in the events and contingency lines. As time passes and legal cases are gradually settled, the outcome becomes more certain and so the level of margin above the best estimate can be reduced.

3.3 Financial risk

Overview

The Group is exposed to financial risk through its ownership of financial instruments including financial liabilities. These items collectively represent a significant element of the Group's net shareholder funds. The Group invests in financial assets in order to fund obligations arising from its insurance contracts and financial liabilities. The key financial risk for the Group is that the proceeds from its financial assets and investment result generated thereon

are not sufficient to fund the Group's obligations. The most important elements and economic variables that could result in such an outcome relate to the reliability of fair value measures, equity price risk, interest rate risk, credit risk, liquidity risk and currency risk. The Group's policies and procedures for managing exposure to these specific categories of risk are detailed below.

(a) Reliability of fair values

The Group has elected to carry loans and receivables at amortised cost and all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy.

With the exception of any unquoted investments shown in note 20, all of the financial investments held by the Group are available to trade in markets and the Group therefore seeks to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade.

The fair value of financial assets is measured primarily with reference to their closing market prices at the balance sheet date. The ability to obtain quoted market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Group. In such instances, fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely-related instruments occurring before the balance sheet date, but updated for relevant perceived changes in market conditions.

The Group did not experience any material defaults on debt securities during the year.

Valuation of securities will continue to be impacted by external market factors including interest rates, default rates, rating agency actions and liquidity. The Group will make adjustments to the investment portfolio as appropriate as part of its overall portfolio strategy, but its ability to mitigate its risk by selling or hedging its exposures may be limited by the market environment.

The Group's future results may be impacted, both positively and negatively, by the valuation adjustments applied to securities.

Note 20 provides an analysis of the measurement attributes of the Group's financial instruments.

(b) Price risk

The Group is exposed to price risk through its holdings of equities and investment funds. This is limited to a relatively small and controlled proportion of the overall investment portfolio and the equities and investment funds involved are diversified over a number of companies and industries. The fair value of equities and investment fund assets in the Group's balance sheet at 31 December 2022 was \$339 million (2021: \$461 million). A 10% downward correction in equities and investment fund prices at 31 December 2022 would have been expected to reduce Group equity and profit after tax by approximately \$30 million (2021: \$41 million). These may be analysed as follows:

3 Management of risk

3.3 Financial risk

(b) Price risk continued

Nature of equity and investment fund holdings

| | 2022 % weighting | 2021 % weighting |
|---------------------------------|---------------------|---------------------|
| Directly held equity securities | 8 | 10 |
| Equity funds | 43 | 55 |
| Hedge funds | 49 | 35 |
| Geographic focus | | |
| Specific UK mandates | 22 | 38 |
| Global mandates | 78 | 62 |

The allocation of price risk is not heavily confined to any one market index so as to reduce the Group's exposure to individual sensitivities. We make allocations to diversifying and less volatile strategies, such as absolute return strategies, so as to balance our desire to maximise returns with the need to ensure capital is available to support our underwriting throughout any downturn in financial markets.

(c) Interest rate risk

Debt and fixed income investments represent a significant proportion of the Group's assets and the Board continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Group is able to underwrite or its ability to settle claims as they fall due. The fair value of the Group's investment portfolio of debt and fixed income holdings is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Group's debt and fixed income investments would tend to fall and vice versa if credit spreads remained constant. Debt and fixed income assets are predominantly invested in high-quality corporate, government and asset-backed bonds. The investments typically have relatively short durations and terms to maturity. The portfolio is managed to minimise the impact of interest rate risk on anticipated Group cash flows. The Group may also, from time to time, enter into interest rate future contracts in order to reduce interest rate risk on specific portfolios. The fair value of debt and fixed income assets in the Group's balance sheet at 31 December 2022 was \$5,427 million (2021: \$5,528 million). These may be analysed below as follows:

Nature of debt and fixed income holdings

| | 2022 % weighting | 2021 % weighting |
|---------------------------------|---------------------|---------------------|
| Government issued | 20 | 16 |
| Agency and government supported | 3 | 6 |
| Asset-backed securities | 4 | 2 |
| Mortgage-backed instruments | 5 | 7 |
| Corporate bonds | 64 | 65 |
| Lloyd's deposits and bond funds | 2 | 2 |
| Credit funds | 2 | 2 |

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity-based sensitivity analysis, if market interest rates had increased or decreased by 200 basis points at the balance sheet date, the Group equity and profit after tax for the year might have been expected to

decrease or increase by approximately \$170 million respectively (2021: \$189 million) assuming that the balance sheet area impacted was debt and fixed income financial assets, excluding interest rate futures. Duration is the weighted average length of time required for an instrument's cash flow stream to be recovered, where the weightings involved are based on the discounted present values of each cash flow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity. Convexity measures the sensitivity of modified duration to changes in the yield to maturity. Using these three concepts, scenario modelling derives the above estimated impact on instruments' fair values for a 200 basis point change in the term structure of market interest rates.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. The Group's debt and fixed income assets are further detailed in note 17.

At 31 December 2022, the Group had borrowings at nominal value of £525 million (2021: £550 million). The borrowings comprised £525 million (2021: £550 million) of long-term debt, which includes two listed instruments of £275 million and £250 million, as explained in note 17: the first being fixed-to-floating rate notes where the floating rate becomes effective from November 2025; the second being fixed rate notes maturing in September 2027. The Group also has a revolving credit facility of \$600 million (2021: £450 million), which is \$nil drawn (2021: £nil) and, therefore, is not presenting interest risk. The Group has no other significant borrowings or other assets or liabilities carrying interest rate risk, other than the facilities and Letters of Credit (LOCs) outlined in note 30.

(d) Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will suffer a deterioration in actual or perceived financial strength and be unable to pay amounts in full when due, or that for any other reason they renege on a contract or alter the terms of an agreement. The concentrations of credit risk exposures held by insurers may be expected to be greater than those associated with other industries, due to the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Group interacts with a number of counterparties who are engaged in similar activities with similar customer profiles, and often in the same geographical areas and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of a significant number of counterparties to meet the Group's agreed contractual terms and obligations.

Key areas of exposure to credit risk include:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- counterparty risk with respect to cash and cash equivalents, and investments including deposits, derivative transactions and catastrophe bonds.

| | | | | | | | | | | | |
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3 Management of risk

3.3 Financial risk

(d) Credit risk continued

The Group's maximum exposure to credit risk is represented by the carrying values of financial assets and reinsurance assets included in the consolidated balance sheet at any given point in time. The Group does not use credit derivatives or other products to mitigate maximum credit risk exposures on reinsurance assets, but collateral may be requested to be held against these assets. The Group structures the levels of credit risk accepted by placing limits on its exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review.

There is no significant concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors with unrelated operations. Reinsurance is used to contain insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The Group Reinsurance Credit Committee (RCC) 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 analysis team. The financial analysis of reinsurers produces an assessment categorised by factors including their S&P rating (or equivalent when not available from S&P).

Despite the rigorous nature of this assessment exercise, and the resultant restricted range of reinsurance counterparties with acceptable strength and credit credentials that emerges therefrom, some degree of credit risk concentration remains inevitable.

While the rating agencies provide strong analysis on the financials and governance of a reinsurance security, the RCC also takes account of qualitative factors. The RCC considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any ongoing negotiations between Group companies and these third parties. The final score that a security receives will determine how much reinsurance credit risk Hiscox is willing to have with that security based on the exposure guidelines.

This information is used to update the reinsurance purchasing strategy.

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. Management information reports detail provisions for impairment on loans and receivables and subsequent write-off. Exposures to individual intermediaries and groups of intermediaries are collected within the ongoing monitoring of the controls associated with regulatory solvency.

The Group also mitigates counterparty credit risk by concentrating debt and fixed income investments in a portfolio of typically high-quality corporate and government bonds.

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

| As at 31 December 2022 | Note | AAA \$m | AA \$m | A \$m | BBB \$m | Other/ non-rated \$m | Total \$m |
|--------------------------------|------|----------------|----------------|----------------|----------------|----------------------------|-----------------|
| Debt and fixed income holdings | 17 | 521.6 | 1,475.2 | 1,580.7 | 1,449.3 | 399.8 | 5,426.6 |
| Reinsurance assets | 16 | 1,325.2 | 1,112.9 | 1,436.8 | 6.5 | 18.4 | 3,899.8 |
| Cash and cash equivalents | 21 | 242.3 | 23.3 | 1,084.9 | – | 0.4 | 1,350.9 |
| Total | | 2,089.1 | 2,611.4 | 4,102.4 | 1,455.8 | 418.6 | 10,677.3 |

| As at 31 December 2021 | Note | AAA \$m | AA \$m | A \$m | BBB \$m | Other/ non-rated \$m | Total \$m |
|--------------------------------|------|----------------|----------------|----------------|----------------|----------------------------|-----------------|
| Debt and fixed income holdings | 17 | 660.5 | 1,326.7 | 1,556.2 | 1,604.1 | 380.6 | 5,528.1 |
| Reinsurance assets | 16 | 959.2 | 1,029.9 | 1,760.8 | 123.4 | 34.7 | 3,908.0 |
| Cash and cash equivalents | 21 | 141.4 | 35.7 | 1,122.4 | 0.3 | 0.9 | 1,300.7 |
| Total | | 1,761.1 | 2,392.3 | 4,439.4 | 1,727.8 | 416.2 | 10,736.8 |

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

3 Management of risk

3.3 Financial risk

(d) Credit risk continued

The largest aggregated counterparty exposure related to debt and fixed income holdings at 31 December 2022 of \$827 million is to the US Treasury (2021: \$712 million).

The Group is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The largest counterparty exposure included in reinsurance assets at 31 December 2022 is to Blue Jay Reinsurance. The recoverable amount from Blue Jay Reinsurance represents 21% (2021: Munich Re 11%) of this category of assets.

For the current period and prior period, the Group did not experience any material defaults on debt securities. The Group's AAA rated reinsurance assets include fully collateralised positions at 31 December 2022 and 2021.

(e) Liquidity risk

The Group is exposed to daily calls on its available cash resources, mainly from claims arising from insurance and reinsurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum level of cash and maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover unexpected levels of claims and other cash demands.

A significant proportion of the Group's investments is in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The Group's exposure to equities is concentrated on shares and funds that are traded on internationally recognised stock exchanges.

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

Fair values analysed by contractual maturity as at 31 December 2022

| | Less than one year \$m | Between one and two years \$m | Between two and five years \$m | Over five years \$m | 2022 total \$m |
|--------------------------------|------------------------------|-------------------------------------|--------------------------------------|---------------------------|----------------------|
| Debt and fixed income holdings | 1,355.5 | 1,519.6 | 2,063.8 | 487.7 | 5,426.6 |
| Cash and cash equivalents | 1,350.9 | – | – | – | 1,350.9 |
| Total | 2,706.4 | 1,519.6 | 2,063.8 | 487.7 | 6,777.5 |

Fair values analysed by contractual maturity as at 31 December 2021

| | Less than one year \$m | Between one and two years \$m | Between two and five years \$m | Over five years \$m | 2021 total \$m |
|--------------------------------|------------------------------|-------------------------------------|--------------------------------------|---------------------------|----------------------|
| Debt and fixed income holdings | 1,111.2 | 1,263.1 | 2,510.7 | 643.1 | 5,528.1 |
| Cash and cash equivalents | 1,300.7 | – | – | – | 1,300.7 |
| Total | 2,411.9 | 1,263.1 | 2,510.7 | 643.1 | 6,828.8 |

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

The available headroom of working capital is monitored through the use of a detailed Group cash flow forecast which is reviewed by management quarterly, or more frequently as required.

Average contractual maturity analysed by denominational currency of investments as at 31 December

| | 2022 years | 2021 years |
|-----------------|---------------|---------------|
| US Dollar | 3.77 | 4.89 |
| Sterling | 2.65 | 2.66 |
| Euro | 2.67 | 3.05 |
| Canadian Dollar | 2.48 | 2.47 |

3 Management of risk

3.3 Financial risk

(e) Liquidity risk continued

The following is an analysis by liability type of the estimated timing of net cash flows based on the gross claims liabilities held. The Group does not discount claims liabilities. The estimated phasing of settlement is based on current estimates and historical trends and the actual timing of future settlement cash flows may differ materially from the disclosure below.

Liquidity requirements to settle estimated profile of gross claim liabilities on balance sheet

| 2022 | Within one year \$m | Between one and two years \$m | Between two and five years \$m | Over five years \$m | 2022 total \$m |
|------------------------------------|---------------------------|-------------------------------------|--------------------------------------|---------------------------|----------------------|
| Reinsurance inwards | 1,101.7 | 499.8 | 462.8 | 149.6 | 2,213.9 |
| Property – marine and major assets | 71.7 | 40.6 | 43.4 | 13.9 | 169.6 |
| Property – other assets | 413.5 | 277.5 | 160.0 | 54.8 | 905.8 |
| Casualty – professional indemnity | 675.5 | 563.9 | 649.2 | 183.9 | 2,072.5 |
| Casualty – other risks | 463.7 | 253.6 | 259.6 | 94.7 | 1,071.6 |
| Other* | 288.3 | 104.9 | 102.5 | 31.1 | 526.8 |
| Total | 3,014.4 | 1,740.3 | 1,677.5 | 528.0 | 6,960.2 |

| 2021 | Within one year \$m | Between one and two years \$m | Between two and five years \$m | Over five years \$m | 2021 total \$m |
|------------------------------------|---------------------------|-------------------------------------|--------------------------------------|---------------------------|----------------------|
| Reinsurance inwards | 1,126.4 | 471.0 | 416.9 | 140.2 | 2,154.5 |
| Property – marine and major assets | 85.8 | 48.3 | 50.6 | 18.1 | 202.8 |
| Property – other assets | 456.0 | 353.9 | 153.2 | 59.8 | 1,022.9 |
| Casualty – professional indemnity | 828.5 | 517.0 | 553.7 | 145.8 | 2,045.0 |
| Casualty – other risks | 553.4 | 266.3 | 238.1 | 75.3 | 1,133.1 |
| Other* | 282.2 | 92.0 | 84.9 | 28.5 | 487.6 |
| Total | 3,332.3 | 1,748.5 | 1,497.4 | 467.7 | 7,045.9 |

*Includes a diverse mix of certain specialty lines such as kidnap and ransom, terrorism and other risks which contain a mix of property and casualty exposures.

Details of the payment profile of the Group's borrowings, derivative instruments and other liabilities are given in notes 17, 19 and 24.

(f) Currency risk

Currency risk is the risk of loss resulting from fluctuations in exchange rates. The Group operates internationally and therefore is exposed to the financial impact of fluctuations in the exchange rates of various currencies.

The Group's exposures to foreign exchange risk arise mainly with respect to the US Dollar, Sterling and the Euro. These exposures may be classified in two main categories:

- operational foreign exchange exposure arises from the conversion of foreign currency transactions resulting from the activities of entering into insurance, investment, financing and operational contracts in a currency that is different to each respective entity's functional currency; and
- structural foreign exchange exposure arises from the translation of the Group's net investment in foreign operations to the US Dollar, the Group's presentation currency.

Operational currency risk

Operational foreign exchange risk is principally managed within the Group's individual entities by broadly matching assets and liabilities by currency and liquidity. Due attention is paid to local regulatory solvency and risk-based capital requirements. All foreign currency derivative transactions with external parties are managed centrally. The Group also manages some exchange risk centrally through matching intragroup loans and balances.

The Group does not hedge operational foreign exchange risk arising from the accounting mismatch due to the translation of monetary and non-monetary items. Non-monetary items including unearned premiums, deferred acquisition costs and reinsurers' share of unearned premiums are recorded at historical transaction rates and are not remeasured at the reporting date. Monetary items including claims reserves, reinsurers' share of claims reserves and investments are remeasured at each reporting date at the closing rates.

3 Management of risk

3.3 Financial risk

(f) Currency risk continued

Structural currency risk

The Group's exposure to structural currency risks mainly relates to Sterling and the Euro net investments in businesses operating in the UK and Europe. The Group's risk appetite permits the acceptance of structural foreign exchange movements within defined aggregate limits and exchange rate parameters which are monitored centrally. However, the Group does not ordinarily seek to use derivatives to mitigate the structural risk because:

- the currency translation gains and losses are accounted for in the currency translation reserve (a component of equity) and do not affect the income statement unless the related foreign operation is disposed of;
- the currency translation gains and losses have no cash flow.

In periods of significant volatility that are expected to persist for an extended period of time, the Group may elect to utilise derivatives to mitigate or reduce the risk in order to preserve capital.

The currency profile of the Group's assets and liabilities is as follows:

| As at 31 December 2022 | US Dollar \$m | Sterling \$m | Euro \$m | Other \$m | 2022 \$m |
|---|------------------|-----------------|----------------|--------------|-----------------|
| Employee retirement benefit asset | – | 20.9 | – | – | 20.9 |
| Goodwill and intangible assets | 135.7 | 131.7 | 46.7 | 6.3 | 320.4 |
| Property, plant and equipment | 22.3 | 96.0 | 13.0 | 1.8 | 133.1 |
| Investments in associates | – | 5.4 | 0.2 | – | 5.6 |
| Deferred income tax | 34.8 | 11.5 | 7.4 | – | 53.7 |
| Deferred acquisition costs | 267.1 | 101.9 | 59.9 | 21.2 | 450.1 |
| Financial assets carried at fair value | 4,165.8 | 938.5 | 511.8 | 196.0 | 5,812.1 |
| Reinsurance assets | 3,014.0 | 528.8 | 232.2 | 124.8 | 3,899.8 |
| Loans and receivables including insurance receivables | 1,008.4 | 450.4 | 125.5 | 87.3 | 1,671.6 |
| Current tax assets | 3.5 | – | 0.5 | – | 4.0 |
| Cash and cash equivalents | 773.1 | 248.9 | 229.8 | 99.1 | 1,350.9 |
| Total assets | 9,424.7 | 2,534.0 | 1,227.0 | 536.5 | 13,722.2 |
| Deferred tax | – | – | 0.2 | – | 0.2 |
| Insurance liabilities | 5,994.7 | 1,534.9 | 1,032.0 | 275.0 | 8,836.6 |
| Financial liabilities | – | 636.0 | 0.2 | – | 636.2 |
| Current tax | 1.1 | 10.2 | 2.8 | – | 14.1 |
| Trade and other payables | 1,306.2 | 266.7 | 181.6 | 63.9 | 1,818.4 |
| Total liabilities | 7,302.0 | 2,447.8 | 1,216.8 | 338.9 | 11,305.5 |
| Total equity | 2,122.7 | 86.2 | 10.2 | 197.6 | 2,416.7 |

| As at 31 December 2021 | US Dollar \$m | Sterling \$m | Euro \$m | Other \$m | 2021 \$m |
|---|------------------|-----------------|----------------|--------------|-----------------|
| Goodwill and intangible assets | 141.7 | 136.0 | 29.3 | 6.1 | 313.1 |
| Property, plant and equipment | 20.1 | 47.9 | 17.0 | 5.4 | 90.4 |
| Investments in associates | – | 5.5 | 0.2 | – | 5.7 |
| Deferred income tax | 27.3 | 33.6 | 6.4 | – | 67.3 |
| Deferred acquisition costs | 243.3 | 111.3 | 61.3 | 21.0 | 436.9 |
| Financial assets carried at fair value | 4,147.8 | 1,180.9 | 496.4 | 216.2 | 6,041.3 |
| Reinsurance assets | 2,982.6 | 573.9 | 224.9 | 126.6 | 3,908.0 |
| Loans and receivables including insurance receivables | 795.6 | 607.4 | 154.5 | 120.7 | 1,678.2 |
| Current tax assets | 4.4 | – | 0.5 | – | 4.9 |
| Cash and cash equivalents | 612.5 | 425.0 | 156.9 | 106.3 | 1,300.7 |
| Total assets | 8,975.3 | 3,121.5 | 1,147.4 | 602.3 | 13,846.5 |
| Employee retirement benefit obligations | – | 35.1 | – | – | 35.1 |
| Deferred tax | – | – | 0.1 | – | 0.1 |
| Insurance liabilities | 6,093.8 | 1,679.0 | 833.5 | 262.1 | 8,868.4 |
| Financial liabilities | – | 746.5 | – | 0.2 | 746.7 |
| Current tax | 2.8 | 13.6 | 4.8 | 0.1 | 21.3 |
| Trade and other payables | 931.3 | 353.0 | 239.9 | 111.4 | 1,635.6 |
| Total liabilities | 7,027.9 | 2,827.2 | 1,078.3 | 373.8 | 11,307.2 |
| Total equity | 1,947.4 | 294.3 | 69.1 | 228.5 | 2,539.3 |

3 Management of risk

3.3 Financial risk

(f) Currency risk continued

Sensitivity analysis

As at 31 December 2022, the Group used closing rates of exchange of \$1: £0.83 and \$1: €0.94 (2021: \$1: £0.74 and \$1: €0.88). The Group performs sensitivity analysis based on a 10% strengthening or weakening of the US Dollar against Sterling and the Euro.

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. The estimated sensitivities below take account of the retranslation movements of foreign currency monetary assets and liabilities in Group entities, and for the effect on equity the impact on the retranslation of entities with non-US Dollar functional currencies. The methodology has been refined to include inter-company balances that are eliminated on consolidation, but still expose the Group to foreign currency risk, with comparatives re-presented accordingly.

During the year, the Group transacted in a number of over-the-counter forward currency derivative contracts. The impact of these contracts on the sensitivity analysis is negligible.

| As at 31 December | December 2022 effect on equity after tax \$m | December 2022 effect on profit before tax \$m | December 2021 effect on equity after tax \$m | December 2021 effect on profit before tax \$m |
|---------------------------|---|--|---|--|
| Strengthening of Sterling | 58.0 | 17.3 | 54.3 | (25.3) |
| Weakening of Sterling | (58.0) | (17.3) | (54.3) | 25.3 |
| Strengthening of Euro | 10.1 | 3.9 | 14.2 | 3.9 |
| Weakening of Euro | (10.1) | (3.9) | (14.2) | (3.9) |

(g) Limitations of sensitivity analysis

The sensitivity information given in notes 3.3 (a) to (f) demonstrates the estimated impact of a change in a major input assumption, while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The same limitations exist in respect to the retirement benefit scheme sensitivities presented in note 27 to these financial statements. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions, such as instances when risk-free interest rates fall towards zero.

The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

3.4 Capital risk management

The Group's primary objectives when managing its capital position are:

- to safeguard its ability to continue as a going concern, so that it can continue to provide long-term growth and progressive dividend returns for shareholders;
- to provide an adequate return to the Group's shareholders by pricing its insurance products and services commensurately with the level of risk;
- to maintain an efficient cost of capital;
- to comply with all regulatory requirements by an appropriate margin;
- to maintain financial strength ratings of A in each of its insurance entities; and
- to settle policyholders' claims as they arise.

The Group sets the amount of capital required in its funding structure in proportion to risk. The Group then manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to obtain or maintain an optimal capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, assume debt, or sell assets to reduce debt.

The Group measures its capital requirements against its available capital. Available capital is defined by the Group as the total of net tangible asset value and subordinated debt.

The subordinated debt issued by the Group is hybrid in nature, which means it counts towards regulatory and rating agency capital requirements.

At 31 December 2022, the available capital under IFRS was \$2,427 million (2021: \$2,599 million), comprising net tangible asset value of \$2,096 million (2021: \$2,226 million) and subordinated debt of \$331 million (2021: \$373 million).

3 Management of risk

3.4 Capital risk management continued

The Group can source additional funding from revolving credit and Letter of Credit (LOC) facilities. Standby funding from these sources comprised \$931 million at 31 December 2022 (2021: \$941 million).

The Group's borrowing facilities include financial covenants that are standard in such arrangements, including certain balance sheet measures. These are monitored on a regular basis, at least quarterly, but more frequently where necessary.

The Board ensures that the use and allocation of capital are given a primary focus in all significant operational actions. With that in mind, the Group has developed and embedded capital modelling tools within its business.

These join together short-term and long-term business plans and link divisional aspirations with the Group's overall strategy. The models provide the basis of the allocation of capital to different businesses and business lines, as well as the regulatory and rating agency capital processes.

Gearing

The Group currently utilises gearing as an additional source of funds to maximise the opportunities from strong markets and to reduce the risk profile of the business in weaker markets, particularly with respect to the more volatile business. The Group's gearing is obtained from a number of sources, including:

- LOC and revolving credit facility – the Group's main facility may be drawn in cash up to \$600 million (under a revolving credit facility) and utilised as LOC up to \$266 million. The facility was renewed during 2022, enabling the Group to utilise the LOC as Funds at Lloyd's to support underwriting on the 2022, 2023 and 2024 years of account. The revolving credit facility is available until the end of 2024. As at 31 December 2022, \$266 million was utilised by way of LOC to support the Funds at Lloyd's requirement and \$nil cash drawings outstanding to support general trading activities (2021: \$266 million and \$nil respectively);
- In 2020, the Group sourced an additional \$65 million of funding in the form of a Funds at Lloyd's facility. Under this facility assets are pledged with the Corporation of Lloyd's on the Group's behalf, providing regulatory Tier 1 capital. As at 31 December 2022 and 2021 the facility was fully drawn;
- £275 million of fixed-to-floating rate subordinated notes that are classified as Tier 2 debt. This was raised in November 2015 and matures in 2045. The debt is rated BBB- by S&P and Fitch;
- £250 million of fixed rate senior notes raised in September 2022 and maturing in September 2027. The debt is rated BBB+ by S&P and Fitch;
- External Names – 27.4% of Syndicate 33's capacity is capitalised by third parties, who also pay a profit share of approximately 20%;
- Syndicate 6104 at Lloyd's – with a capacity of £19.5 million for the 2023 year of account (2022 year of account: £12.7 million). This Syndicate is wholly backed by external members and takes pure year of account quota share of Syndicate 33's property catastrophe, terrorism and cyber reinsurance accounts;
- gearing quota shares – historically the Group has used reinsurance capital to fund its capital requirement for short-term expansions in the volume of business underwritten by the Syndicate; and
- qualifying quota shares and legacy portfolio transactions – these are reinsurance arrangements that allow the Group to increase the amount of premium it writes.

Financial strength

The financial strength ratings of the Group's significant insurance company subsidiaries are outlined below:

| | A.M. Best | Fitch | S&P |
|---|---------------|-------|------------|
| Hiscox Insurance Company Limited | A (Excellent) | A+ | A (Strong) |
| Hiscox Insurance Company (Bermuda) Limited | A (Excellent) | A+ | A (Strong) |
| Hiscox Insurance Company (Guernsey) Limited | A (Excellent) | A+ | – |
| Hiscox Insurance Company Inc. | A (Excellent) | – | – |
| Hiscox Société Anonyme | – | – | A (Strong) |

Syndicate 33 benefits from an A.M. Best rating of A (Excellent). In addition, the Syndicate also benefits from the Lloyd's ratings of A (Excellent) from A.M. Best, A+ (Strong) from S&P, AA- (Very strong) from Fitch and AA- from Kroll Bond Rating Agency.

Capital performance

The Group's main capital performance measure is the achieved return on equity (ROE). This marker aligns the aspirations of employees and shareholders. As variable remuneration relates directly to ROE and it is used as a key metric within the business planning process, this concept is embedded in the workings and culture of the Group. The Group seeks to maintain its cost of capital levels and its debt to overall equity ratios in line with others in the non-life insurance industry.

| | | | | | | | | | | | |
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3 Management of risk

3.4 Capital risk management continued

Capital modelling and regulation

The capital requirements of an insurance group are determined by its exposure to risk and the solvency criteria established by management and statutory regulations.

The Group's capital requirements are managed both centrally and at a regulated entity level. The assessed capital requirement for the business placed through Hiscox Insurance Company Limited, Hiscox Insurance Company (Bermuda) Limited, Hiscox Insurance Company (Guernsey) Limited, Hiscox Insurance Company Inc., Hiscox Société Anonyme and Direct Asia Insurance (Singapore) Pte Limited is driven by the level of resources necessary to maintain regulatory requirements.

The Group's regulatory capital is supervised by the Bermuda Monetary Authority (BMA). The Group had sufficient capital at all times throughout the year to meet the BMA's requirements. The Solvency II regime came into force in Europe on 1 January 2016. This requires insurance companies to calculate their capital requirements using either an internal model or a standard formula. Hiscox Insurance Company Limited and Hiscox Société Anonyme use the standard formula to calculate their regulatory capital requirements. Their risk profiles are sufficiently well represented by the standard formula not to warrant going through the internal model approval process. Hiscox's Lloyd's operations use the internal model that has been built to meet the requirements of the Solvency II regime. The model is concentrated specifically on the particular product lines, market conditions and risk appetite of each risk carrier.

For Syndicate 33 and Syndicate 3624, internal model results are uplifted by Lloyd's to the level of capital required to support its ratings. Capital models are used more widely across the Group to monitor exposure to key risk types, inform decision-making and measure ROE across different segments of the business. From the 2016 year-end, the Group has been required to publish a financial condition report, as part of its regulatory filing with the BMA. This is a public document and sets out the financial performance and solvency position of the Group in accordance with the economic balance sheet return filed with the BMA. It is intended to provide the public with certain information to be able to make informed assessments about the Group. In the Group's other geographical territories, including the USA and Asia, its subsidiaries underwriting insurance business are required to operate within broadly similar risk-based externally imposed capital requirements when accepting business.

During the year the Group was in compliance with capital requirements imposed by regulators in each jurisdiction where the Group operates.

3.5 Tax risk

The Group is subject to income taxes levied by the various jurisdictions in which the Group operates, and the division of taxing rights between these jurisdictions results in the Group tax expense and effective rate of income tax disclosed in these financial statements. Due to the Group's operating model, there is an unquantifiable risk that this division of taxing rights could be altered materially, either by a change to the tax residence, or permanent establishment profile, of Hiscox Ltd or its principal subsidiaries; or due to the repricing or recharacterisation for tax purposes of transactions between members of the Group, under local transfer pricing or related tax legislation. The Group seeks to manage this risk by:

- maintaining appropriate internal policies and controls over its operations worldwide;
- monitoring compliance with these policies on an ongoing basis;
- adhering to internationally recognised best practice in determining the appropriate division of profits between taxing jurisdictions;
- taking additional advice and obtaining legal opinions from local third-party professionals with the necessary experience in the particular area.

Various jurisdictions in which the Group operates are committed to reaching an agreement on implementation of OECD 'Pillar 2' rules. Under current proposals, jurisdictions are expected to change their domestic tax rules in order to reflect the agreed position over the course of the next few years. Several jurisdictions in which the Group operates have introduced draft legislation which would implement changes impactful to the Group with effect from 1 January 2025, although this legislation has not been substantively enacted at the balance sheet date. If legislation is substantively enacted, it could change the existing division of taxing rights to which the Group is subject, and consequently have a material impact on the Group's tax expense and effective rate of income tax in future periods.

The Group seeks to maintain an open dialogue with the relevant tax authorities and to resolve any issues arising promptly.

The Group recognises uncertain tax provisions where there is uncertainty that a tax treatment will be accepted under local law, including matters which are under discussion with the tax authorities. Based on facts and circumstances at the balance sheet date, the range of the total exposure is estimated between \$23 million and \$47 million. The estimate is subject to review on an ongoing basis and is susceptible to the progress of the settlement discussions with the tax authorities. Matters under discussion which could affect the estimate include the Hiscox Group's policy on the allocation of expenses between companies within the Group, the allocation of income and expenses between branches of the same company, and the period subject to re-assessment.

| | | | | | | | | | | | |
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4 Operating segments

The Group's operating segment reporting follows the organisational structure and management's internal reporting systems, which form the basis for assessing the financial reporting performance of, and allocation of 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 business divisions in the UK, Europe, USA and Asia. 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. 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.
- **Hiscox Re & ILS** is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda and London. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts previously written in Bermuda 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, as well as all foreign exchange gains and losses.

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

4 Operating segments continued

(a) Profit before tax by segment

| | Year to 31 December 2022 | | | | | Year to 31 December 2021 | | | | |
|--|--------------------------|-----------------------------------|---------------------------|----------------------------|--------------|--------------------------|-----------------------------------|---------------------------|----------------------------|--------------|
| | 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 | 2,272.1 | 1,114.9 | 1,037.9 | – | 4,424.9 | 2,290.0 | 1,171.4 | 807.8 | – | 4,269.2 |
| Net premiums written | 1,976.8 | 735.1 | 268.1 | – | 2,980.0 | 1,969.3 | 711.5 | 274.2 | – | 2,955.0 |
| Net premiums earned | 1,946.0 | 725.8 | 256.4 | – | 2,928.2 | 1,958.6 | 690.3 | 271.0 | – | 2,919.9 |
| Investment result | (98.9) | (54.4) | (34.0) | – | (187.3) | 26.9 | 15.8 | 8.8 | (0.3) | 51.2 |
| Other income | 15.9 | 7.4 | 20.8 | 2.4 | 46.5 | 22.8 | 19.1 | 11.3 | 3.6 | 56.8 |
| Total income | 1,863.0 | 678.8 | 243.2 | 2.4 | 2,787.4 | 2,008.3 | 725.2 | 291.1 | 3.3 | 3,027.9 |
| Claims and claim adjustment expenses, net of reinsurance | (874.8) | (313.0) | (140.5) | – | (1,328.3) | (985.9) | (333.9) | (110.6) | – | (1,430.4) |
| Expenses for the acquisition of insurance contracts | (531.4) | (207.7) | (16.4) | – | (755.5) | (524.9) | (193.9) | (15.9) | – | (734.7) |
| Operational expenses | (453.8) | (102.5) | (62.7) | (23.3) | (642.3) | (435.7) | (92.0) | (64.7) | (30.3) | (622.7) |
| Net foreign exchange gains | – | – | – | 30.6 | 30.6 | – | – | – | 0.7 | 0.7 |
| Total expenses | (1,860.0) | (623.2) | (219.6) | 7.3 | (2,695.5) | (1,946.5) | (619.8) | (191.2) | (29.6) | (2,787.1) |
| Total income less expenses | 3.0 | 55.6 | 23.6 | 9.7 | 91.9 | 61.8 | 105.4 | 99.9 | (26.3) | 240.8 |
| Finance costs | (6.4) | (2.6) | (2.1) | (37.0) | (48.1) | (6.9) | (0.6) | (1.4) | (41.9) | (50.8) |
| Share of profit of associates after tax | – | – | – | 0.9 | 0.9 | – | – | – | 0.8 | 0.8 |
| Profit/(loss) before tax | (3.4) | 53.0 | 21.5 | (26.4) | 44.7 | 54.9 | 104.8 | 98.5 | (67.4) | 190.8 |

| | | | | | | | | | | | |
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4 Operating segments

(a) Profit before tax by segment continued

The following charges are included within the consolidated income statement:

| | Year to 31 December 2022 | | | | | Year to 31 December 2021 | | | | |
|--------------------------------------|--------------------------|--------------------------------|------------------------|----------------------------|--------------|--------------------------|--------------------------------|------------------------|----------------------------|--------------|
| | 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 |
| Depreciation | 15.4 | 4.1 | 2.6 | 0.6 | 22.7 | 16.1 | 2.2 | 2.0 | 0.5 | 20.8 |
| Amortisation of intangible assets | 33.2 | 3.2 | 0.9 | – | 37.3 | 32.5 | 3.7 | 1.0 | – | 37.2 |
| Impairment of intangible assets | – | – | – | – | – | 0.3 | – | – | – | 0.3 |
| Total | 48.6 | 7.3 | 3.5 | 0.6 | 60.0 | 48.9 | 5.9 | 3.0 | 0.5 | 58.3 |

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

| | Year to 31 December 2022 | | | | | Year to 31 December 2021 | | | | |
|----------------------------|--------------------------|-------------------------|-----------------|---------------------|-------------|--------------------------|-------------------------|-----------------|---------------------|-------------|
| | Hiscox Retail | Hiscox London Market | Hiscox Re & ILS | Corporate Centre | Total | Hiscox Retail | Hiscox London Market | Hiscox Re & ILS | Corporate Centre | Total |
| 100% ratio analysis | | | | | | | | | | |
| Claims ratio (%) | 44.4 | 43.8 | 50.9 | – | 44.8 | 50.0 | 49.5 | 40.0 | – | 48.9 |
| Expense ratio (%) | 50.4 | 41.0 | 30.7 | – | 45.8 | 48.9 | 39.6 | 28.0 | – | 44.3 |
| Combined ratio (%) | 94.8 | 84.8 | 81.6 | – | 90.6 | 98.9 | 89.1 | 68.0 | – | 93.2 |

| | | | | | | | | | | | |
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4 Operating segments

(a) Profit before tax by segment continued

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 and operational expenses, including profit-related pay, 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.

Costs allocated to Corporate Centre are non-underwriting-related costs and are not included within the combined ratio. The impact on profit before tax of a 1% change in each component of the segmental combined ratios is shown in the following table. Any further ratio change is linear in nature.

| | Year to 31 December 2022 | | | Year to 31 December 2021 | | |
|--------------------------------------|--------------------------|--------------------------------|------------------------|--------------------------|--------------------------------|------------------------|
| | Hiscox Retail \$m | Hiscox London Market \$m | Hiscox Re & ILS \$m | Hiscox Retail \$m | Hiscox London Market \$m | Hiscox Re & ILS \$m |
| At 100% level (note 4(b)) | | | | | | |
| 1% change in claims or expense ratio | 19.8 | 9.8 | 3.0 | 19.9 | 9.2 | 3.1 |
| At Group level | | | | | | |
| 1% change in claims or expense ratio | 19.5 | 7.3 | 2.6 | 19.6 | 6.9 | 2.7 |

(b) 100% operating result by segment

| | Year to 31 December 2022 | | | | | Year to 31 December 2021 | | | | |
|--|--------------------------|--------------------------------|------------------------|----------------------------|--------------|--------------------------|--------------------------------|------------------------|----------------------------|--------------|
| | 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 | 2,308.3 | 1,510.7 | 1,116.4 | – | 4,935.4 | 2,323.7 | 1,583.5 | 887.9 | – | 4,795.1 |
| Net premiums written | 2,006.8 | 991.6 | 316.0 | – | 3,314.4 | 1,995.7 | 958.8 | 324.4 | – | 3,278.9 |
| Net premiums earned | 1,975.5 | 977.0 | 300.6 | – | 3,253.1 | 1,985.0 | 924.1 | 313.3 | – | 3,222.4 |
| Investment result | (105.1) | (57.8) | (36.2) | – | (199.1) | 26.7 | 15.7 | 8.7 | (0.3) | 50.8 |
| Other income | 11.3 | 5.8 | 16.2 | 2.3 | 35.6 | 19.1 | 11.9 | 10.0 | 2.4 | 43.4 |
| Claims and claim adjustment expenses, net of reinsurance | (876.2) | (427.5) | (153.1) | – | (1,456.8) | (991.7) | (457.8) | (125.2) | – | (1,574.7) |
| Expenses for the acquisition of insurance contracts | (539.6) | (275.3) | (23.3) | – | (838.2) | (531.8) | (252.5) | (16.6) | – | (800.9) |
| Operational expenses | (456.8) | (125.1) | (68.8) | (23.6) | (674.3) | (439.1) | (114.0) | (71.1) | (28.6) | (652.8) |
| Net foreign exchange gains/(losses) | – | – | – | 22.0 | 22.0 | – | – | – | (1.2) | (1.2) |
| Total income less expenses | 9.1 | 97.1 | 35.4 | 0.7 | 142.3 | 68.2 | 127.4 | 119.1 | (27.7) | 287.0 |

Segment results at the 100% level presented above differ from those presented at the Group's share at note 4(a) solely as a result of the Group not owning 100% of the capacity of Syndicate 33 at Lloyd's.

| | | | | | | | | | | | |
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4 Operating segments continued

(c) Geographical information

The Group's operational segments underwrite business domestically in Bermuda and from locations in the UK, USA, Guernsey, France, Germany, Belgium, The Netherlands, Spain, Portugal, Ireland, Singapore and Thailand.

The following table provides an analysis of the Group's gross premium revenues earned by material geographical location from external parties:

Gross premium revenues earned from external parties

| | Year to 31 December 2022 | | | | | Year to 31 December 2021 | | | | |
|---------------|--------------------------|-----------------------------------|---------------------------|----------------------------|--------------|--------------------------|-----------------------------------|---------------------------|----------------------------|--------------|
| | 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 |
| UK | 757.7 | 84.7 | 38.3 | – | 880.7 | 815.7 | 90.8 | 31.9 | – | 938.4 |
| Europe | 476.5 | 81.8 | 52.2 | – | 610.5 | 456.1 | 70.9 | 33.6 | – | 560.6 |
| USA | 906.6 | 673.7 | 554.9 | – | 2,135.2 | 934.3 | 719.4 | 487.2 | – | 2,140.9 |
| Rest of world | 76.1 | 286.0 | 325.3 | – | 687.4 | 71.4 | 271.8 | 263.8 | – | 607.0 |
| | 2,216.9 | 1,126.2 | 970.7 | – | 4,313.8 | 2,277.5 | 1,152.9 | 816.5 | – | 4,246.9 |

The following table provides an analysis of the Group's non-current assets by material geographical location excluding financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts:

| Non-current assets | 2022 total \$m | 2021 total \$m |
|--------------------|----------------------|----------------------|
| UK | 267.5 | 222.5 |
| Europe | 59.9 | 46.5 |
| USA | 120.7 | 128.7 |
| Rest of world | 11.0 | 11.5 |
| | 459.1 | 409.2 |

| | | | | | | | | | | | |
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5 Net asset value per share and net tangible asset value per share

| | 2022 net asset value (total equity) \$m | 2022 net asset value per share cents | 2021 net asset value (total equity) \$m | 2021 net asset value per share cents |
|--------------------------|--|---|--|---|
| Net asset value | 2,416.7 | 701.2 | 2,539.3 | 739.8 |
| Net tangible asset value | 2,096.3 | 608.2 | 2,226.2 | 648.6 |

The net asset value per share is based on 344,672,172 shares (2021: 343,232,855 shares), being the shares in issue at 31 December 2022, less those held in treasury and those held by the Group Employee Benefit Trust.

Net tangible assets comprise total equity excluding intangible assets. The net asset value per share expressed in pence is 582.9p (2021: 546.2p).

6 Return on equity

| | 2022 \$m | 2021 \$m |
|---|-------------|-------------|
| Profit for the year (all attributable to owners of the Company) | 41.7 | 189.5 |
| Opening total equity | 2,539.3 | 2,353.9 |
| Adjusted for the time-weighted impact of capital distributions and issuance of shares | (54.9) | (11.3) |
| Adjusted opening total equity | 2,484.4 | 2,342.6 |
| Return on equity (%) | 1.7 | 8.1 |

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

7 Investment result

The total investment result for the Group comprises:

| | Note | 2022 \$m | 2021 \$m |
|---|------|----------------|-------------|
| Investment income including interest receivable | | 119.5 | 88.1 |
| Net realised (losses)/gains on financial investments at fair value through profit or loss | | (54.1) | 25.2 |
| Net fair value losses on financial investments at fair value through profit or loss | | (254.2) | (57.9) |
| Investment result – financial assets | 8 | (188.8) | 55.4 |
| Net fair value gains on derivative financial instruments | 19 | 8.5 | 1.7 |
| Investment expenses | | (7.0) | (5.9) |
| Total result | | (187.3) | 51.2 |

8 Analysis of return on financial investments

(a) The weighted average return on financial investments for the year by currency, based on monthly asset values, was:

| | 2022 % | 2021 % |
|-----------|-----------|-----------|
| US Dollar | (2.2) | 0.4 |
| Sterling | (3.5) | 1.5 |
| Euro | (3.8) | 1.1 |
| Other | (0.6) | 0.0 |

(b) Investment return

| | 2022 return \$m | 2022 yield % | 2021 return \$m | 2021 yield % |
|---|-----------------------|--------------------|-----------------------|--------------------|
| Debt and fixed income holdings | (169.1) | (3.2) | (11.4) | (0.2) |
| Equities and investment funds | (29.6) | (7.3) | 66.2 | 11.6 |
| Deposits with credit institutions/cash and cash equivalents | 9.9 | 0.7 | 0.6 | 0.0 |
| Investment result – financial assets | (188.8) | (2.6) | 55.4 | 0.7 |

| | | | | | | | | | | | |
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9 Other income and operational expenses

| | 2022 \$m | 2021* \$m |
|--|--------------|--------------|
| Agency-related and other underwriting income | 17.3 | 23.1 |
| Profit commission | 3.7 | 4.8 |
| Other income | 25.5 | 28.9 |
| Total other income | 46.5 | 56.8 |
| Wages and salaries | 224.0 | 228.9 |
| Social security costs | 30.5 | 30.8 |
| Pension cost – defined contribution | 16.0 | 17.3 |
| Pension cost – defined benefit | 0.4 | 1.0 |
| Share-based payments | 27.2 | 24.0 |
| Temporary staff costs | 36.2 | 39.6 |
| Travel and entertainment | 12.4 | 5.6 |
| Legal and professional | 74.5 | 71.6 |
| Office costs | 14.2 | 13.6 |
| Computer costs | 84.4 | 63.3 |
| Depreciation, amortisation and impairment | 60.0 | 58.3 |
| Other expenses | 62.5 | 68.7 |
| Operational expenses | 642.3 | 622.7 |

*During 2022, the Group reviewed and reallocated certain items of other income and expenses to ensure consistency with management's view of the categories. As a result, \$9.5 million of expense has been reallocated from other expenses to computer costs in 2021 and \$4.8 million has been reallocated from agency-related income to other income for 2021.

Agency-related income and other underwriting income relates to commission received from a non-Group insurer by an insurance intermediary ('agency') for placement services, in limited cases claims handling services and results from the insurance-linked securities managed by the Group. Commission income associated with the placement services is recognised at the point in time when the agency has satisfied its performance obligation. That is when the terms of the insurance policy have been agreed contractually by the insurer and policyholder and the insurer has a present right to payment from the policyholder. Where the agency also provides the insurer with claims handling services, the commission income associated with these services is recognised over time in line with the terms of the contractual arrangements.

Profit commission income attributed to non-insurance entities, for example Lloyd's managing agent and ILS investment managers, is determined based on a best estimate of the variable consideration. The income is recognised to the extent that it is highly probable that it will not be subject to significant reversal.

Other income includes management fees which are recognised when the investment management services are rendered to the ILS funds.

No disposals were made during 2022 (2021: disposal of Crystal Ridge subsidiary for \$21.4 million on 1 June 2021 for a gain of \$5.2 million reported in other income).

Other expenses include marketing, VAT expense, other staff costs, Lloyd's costs and subscriptions. Total marketing expenditure (included in operational expenses and expenses for the acquisition of insurance contracts) for the year was \$65.8 million (2021: \$56.6 million).

10 Finance costs

| | Note | 2022 \$m | 2021 \$m |
|---|------|-------------|-------------|
| Interest charge associated with borrowings | 17 | 32.2 | 30.7 |
| Interest and expenses associated with bank borrowing facilities | | 2.5 | 7.5 |
| Interest and charges associated with Letters of Credit | 30 | 4.0 | 5.0 |
| Other interest expenses* | | 9.4 | 7.6 |
| Finance costs | | 48.1 | 50.8 |

*Including interest expenses on lease liabilities of \$1.9 million (2021: \$1.2 million) and interest and charges of \$8.4 million (2021: \$6.4 million) associated with funds withheld balances.

11 Auditor's remuneration

Fees payable to the Group's external auditor, PwC, its member firms and its associates (exclusive of VAT) include the following amounts recorded in the consolidated income statement:

| Group | 2022 \$m | 2021 \$m |
|--|-------------|-------------|
| Amounts receivable by the auditors and its associates in respect of: | | |
| The auditing of the accounts of the Group and its subsidiaries | 5.6 | 4.6 |
| All audit-related assurance services | 0.3 | 0.3 |
| All other non-audit services | – | – |
| | 5.9 | 4.9 |

Fees for the auditing of the Group and its subsidiaries in 2022 include audit work relating to the implementation of IFRS 17 *Insurance Contracts* of \$1.6 million (2021: \$0.3 million). The full audit fee payable for the Syndicate 33 and Syndicate 6104 audit has been included above, although an element of this is borne by the third-party participants in the Syndicate.

12 Goodwill and intangible assets

| | Goodwill \$m | Syndicate capacity \$m | State authorisation licences \$m | Software and development costs \$m | Other \$m | Total \$m |
|---|-----------------|------------------------------|---|---|--------------|--------------|
| At 1 January 2021 | | | | | | |
| Cost | 13.9 | 33.1 | 8.5 | 336.4 | 40.4 | 432.3 |
| Accumulated amortisation and impairment | (5.1) | – | – | (94.5) | (33.8) | (133.4) |
| Net book amount | 8.8 | 33.1 | 8.5 | 241.9 | 6.6 | 298.9 |
| Year ended 31 December 2021 | | | | | | |
| Opening net book amount | 8.8 | 33.1 | 8.5 | 241.9 | 6.6 | 298.9 |
| Additions | – | – | – | 53.5 | – | 53.5 |
| Disposals | – | – | – | – | – | – |
| Amortisation charges | – | – | – | (35.3) | (1.9) | (37.2) |
| Impairment charge | (0.3) | – | – | – | – | (0.3) |
| Foreign exchange movements | (0.2) | – | – | (1.3) | (0.3) | (1.8) |
| Closing net book amount | 8.3 | 33.1 | 8.5 | 258.8 | 4.4 | 313.1 |
| At 31 December 2021 | | | | | | |
| Cost | 11.5 | 33.1 | 8.5 | 386.4 | 20.2 | 459.7 |
| Accumulated amortisation and impairment | (3.2) | – | – | (127.6) | (15.8) | (146.6) |
| Net book amount | 8.3 | 33.1 | 8.5 | 258.8 | 4.4 | 313.1 |
| Year ended 31 December 2022 | | | | | | |
| Opening net book amount | 8.3 | 33.1 | 8.5 | 258.8 | 4.4 | 313.1 |
| Additions | – | – | – | 59.2 | 2.7 | 61.9 |
| Disposals | – | – | – | (1.1) | – | (1.1) |
| Amortisation charges | – | – | – | (35.5) | (1.8) | (37.3) |
| Foreign exchange movements | (0.5) | – | – | (14.9) | (0.8) | (16.2) |
| Closing net book amount | 7.8 | 33.1 | 8.5 | 266.5 | 4.5 | 320.4 |
| At 31 December 2022 | | | | | | |
| Cost | 10.2 | 33.1 | 8.5 | 409.8 | 20.3 | 481.9 |
| Accumulated amortisation and impairment | (2.4) | – | – | (143.3) | (15.8) | (161.5) |
| Net book amount | 7.8 | 33.1 | 8.5 | 266.5 | 4.5 | 320.4 |

| | | | | | | | | | | | |
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12 Goodwill and intangible assets continued

Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the smallest identifiable unit to which cash flows are generated. \$7.0 million (2021: \$7.2 million) is allocated to the Lloyd's corporate member entity CGU and \$0.8 million (2021: \$1.1 million) is allocated to the CGUs within the Hiscox Retail business segment. Goodwill is considered to have an indefinite life and as such is tested annually for impairment based on the recoverable amount which is considered to be the higher of the fair value, less cost to sell or value in use. During 2022, there was no impairment charge on goodwill (2021: \$0.3 million).

Value in use is considered to be the best indication of the recoverable amount for goodwill. Value in use calculations are performed using cash flow projections based on financial forecasts. A discount factor, based on a weighted average cost of capital (WACC) for the Group, of 11.0% to 11.5%, depending on the underlying currency (2021: 8.0% to 8.5%), has been applied to the cash flow projections to determine the net present value. The outcome of the value in use calculation is measured against the carrying value of the asset and, where the carrying value is in excess of the value in use, the asset is written down to this amount.

Impairment assessments

To test the sensitivity of the assessment, 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.

Intangible assets

All intangible assets have a finite useful life except for the Syndicate capacity and US state authorisation licences.

(a) Syndicate capacity

The cost of purchasing the Group's participation in the Lloyd's insurance syndicates is not amortised, but is tested annually for impairment and is carried at cost less accumulated impairment losses. Having considered the future prospects of the London insurance market, the Board believes that the Group's ownership of Syndicate capacity will provide economic benefits over an indefinite number of future periods. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life.

The Group's intangible asset relating to Syndicate capacity has been allocated, for impairment testing purposes, to one individual CGU, being the active Lloyd's corporate member entity. The asset is tested annually for impairment based on its recoverable amount which is considered to be the higher of the asset's fair value less costs to sell or its value in use. The fair value of Syndicate capacity can be determined from the Lloyd's Syndicate capacity auctions. The value in use is determined using cash flow projections based on business plans approved by management and discounted at the applicable WACC rate. At 31 December 2022, the value in use or the fair value less cost to sell exceeded the carrying value of Syndicate capacity recognised on the balance sheet.

(b) US state authorisation licences

As part of a business combination in 2007, the Group acquired insurance authorisation licences for 50 US states. This intangible asset has been allocated for impairment testing purposes to one individual CGU, being the Group's North American underwriting business.

The asset is not amortised, as the Group considers that economic benefits will accrue to the Group over an indefinite number of future periods due to the stability of the US insurance market. This assumption is reviewed annually to determine whether the asset continues to have an indefinite life.

The licences are tested annually for impairment, and accumulated impairment losses are deducted from the historical cost. The carrying value of this asset is tested for impairment based on its value in use. The value in use is calculated using a projected cash flow based on business plans approved by management and discounted at the same rate used for goodwill. Key assumptions include new business growth, retention rates, market cycle and claims inflation. The results of the test show there is no impairment.

| | | | | | | | | | | | |
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12 Goodwill and intangible assets

Intangible assets continued

(c) Software and development costs

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over the expected useful life of the software of between three and ten years on a straight-line basis.

Internally developed computer software is only capitalised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Amortisation of internally developed computer software begins when the software is available for use and is allocated on a straight-line basis over the expected useful life of the asset.

The useful life of the asset is reviewed annually and, if different from previous estimates, is changed accordingly with the change being accounted for as a change in accounting estimates in accordance with IAS 8.

The carrying value of software and development costs is reviewed for impairment on an ongoing basis by reference to the stage and expectation of a project. Additionally, at the end of each reporting period, the Group reviews the positions for any indication of impairment, and as a result of this no impairment was provided for in 2022 (2021: \$nil).

At 31 December 2022 there were \$71.7 million of assets under development on which amortisation has yet to be charged (2021: \$27.3 million).

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

(d) Rights to customer contractual relationships (included in other)

Costs directly attributable to securing the intangible rights to customer contractual relationships are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered by directly related future profits. These costs are amortised on a straight-line basis over the useful economic life which is deemed to be ten years and are carried at cost less accumulated amortisation and impairment losses.

At the end of each reporting period, an assessment is made on whether there is any indication that customer contractual relationships may be impaired. Where indications of impairment are identified, the carrying value is tested for impairment based on the recoverable amount which is considered to be the higher of the fair value less costs to sell or value in use. The asset's value in use is considered to be the best indication of its recoverable amount. Value in use is calculated using the same method as described above for goodwill and the same discount rate used. The results of this test led to no impairment charge on intangible rights to customer contractual relationships in 2022 (2021: \$nil).

13 Property, plant and equipment

| | Land and buildings \$m | Leasehold improvements \$m | Furniture fittings and equipment and art \$m | Right-of-use assets: property \$m | Right-of-use assets: other \$m | Total \$m |
|------------------------------------|------------------------------|----------------------------------|--|--|---|--------------|
| Year ended 31 December 2021 | | | | | | |
| Opening net book amount | 23.2 | 2.6 | 28.8 | 53.4 | 1.4 | 109.4 |
| Additions | – | – | 5.4 | 4.2 | 0.3 | 9.9 |
| Disposals | – | – | (0.2) | (6.2) | 0.1 | (6.3) |
| Depreciation charge | (1.3) | (0.7) | (4.6) | (13.5) | (0.7) | (20.8) |
| Foreign exchange movements | (0.1) | – | (0.4) | (1.0) | (0.3) | (1.8) |
| Closing net book amount | 21.8 | 1.9 | 29.0 | 36.9 | 0.8 | 90.4 |
| At 31 December 2021 | | | | | | |
| Cost | 29.9 | 13.6 | 65.8 | 68.2 | 2.7 | 180.2 |
| Accumulated depreciation | (8.1) | (11.7) | (36.8) | (31.3) | (1.9) | (89.8) |
| Net book amount | 21.8 | 1.9 | 29.0 | 36.9 | 0.8 | 90.4 |
| Year ended 31 December 2022 | | | | | | |
| Opening net book amount | 21.8 | 1.9 | 29.0 | 36.9 | 0.8 | 90.4 |
| Additions | – | 0.1 | 20.8 | 51.4 | 1.3 | 73.6 |
| Disposals | – | – | (0.1) | (0.8) | – | (0.9) |
| Depreciation charge | (1.1) | (0.7) | (4.3) | (16.0) | (0.6) | (22.7) |
| Foreign exchange movements | (2.4) | – | (2.4) | (2.5) | – | (7.3) |
| Closing net book amount | 18.3 | 1.3 | 43.0 | 69.0 | 1.5 | 133.1 |
| At 31 December 2022 | | | | | | |
| Cost | 26.6 | 13.4 | 80.7 | 113.5 | 3.3 | 237.5 |
| Accumulated depreciation | (8.3) | (12.1) | (37.7) | (44.5) | (1.8) | (104.4) |
| Net book amount | 18.3 | 1.3 | 43.0 | 69.0 | 1.5 | 133.1 |

The Group's land and buildings assets relate to freehold property in the UK. There was no impairment charge during the year (2021: \$nil).

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

The income from subleasing right-of-use assets amounted to \$0.6 million (2021: \$0.7 million).

14 Subsidiaries, associates and interests in other entities

This note provides details of the Syndicates and Special Purpose Insurers (SPI) managed by the Group, the acquisition and disposal of subsidiaries and associates during the year and investments in associates.

(a) Subsidiaries

Hiscox Dedicated Corporate Member Limited (HDCM) underwrites as a corporate member of Lloyd's on the main Syndicates managed by Hiscox Syndicates Limited (the main managed Syndicates numbered 33 and 3624).

As at 31 December 2022, HDCM owned 72.6% of Syndicate 33 (2021: 72.6%), and 100% of Syndicate 3624 (2021: 100%). In view of the several but not joint liability of underwriting members at Lloyd's for the transactions of Syndicates in which they participate, the Group's attributable share of the transactions, assets and liabilities of these Syndicates has been included in the financial statements. The Group manages the underwriting of, but does not participate as a member of, Syndicate 6104 at Lloyd's which provides reinsurance to Syndicate 33 on a normal commercial basis. Consequently, aside from the receipt of managing agency fees, defined profit commissions as appropriate and interest arising on effective assets included within the experience account, the Group has no share in the assets, liabilities or transactions of Syndicate 6104. The position and performance of that Syndicate is therefore not included in the Group's financial statements.

(b) SPIs

The Kiskadee Diversified Fund and Kiskadee Select Fund were launched in 2014 to provide investment opportunities to institutional investors in property catastrophe reinsurance and insurance-linked strategies. The funds are managed by Hiscox Re Insurance Linked Strategies Limited (formerly known as Kiskadee Investment Managers Limited) which is a wholly owned subsidiary of the Group.

14 Subsidiaries, associates and interests in other entities

(b) SPIs continued

The Kiskadee Latitude Fund was launched in 2019 to give investors access to a more diverse portfolio of insurance and reinsurance risks, with less focus on pure property catastrophe risk. The fund is managed by Hiscox Re Insurance Linked Strategies Limited which is a wholly owned subsidiary of the Group.

The Group determined that it does not control the Kiskadee Diversified Fund, the Kiskadee Select Fund and the Kiskadee Latitude Fund. Hence they are not consolidated.

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 and the Kiskadee Select Plus Fund was launched in January 2021 to achieve attractive risk-adjusted returns that have low correlation to broader financial markets by investing primarily in a diversified, worldwide property catastrophe reinsurance and retrocession portfolio, including a portion of non-catastrophe reinsurance. These funds are segregated accounts of Kiskadee ILS Fund SAC Ltd, which is managed by Hiscox Re Insurance Linked Strategies Limited, a wholly owned subsidiary of the Group. The Group determined that it does control these funds and hence they are consolidated.

As at 31 December 2022, the Group recognised a financial asset at fair value of \$45.3 million (2021: \$50.9 million) in relation to its investment in the unconsolidated funds (note 17). In assessing the maximum exposure to loss from its interest in the funds, the Group has determined it is no greater than the fair value recognised as at the balance sheet date. The total size of the unconsolidated funds was \$600 million at 31 December 2022 (2021: \$593 million). In addition to the return on the financial asset, the Group also receives fee income through Hiscox Re Insurance Linked Strategies Limited and Hiscox Insurance Company (Bermuda) Limited, both wholly owned subsidiaries, under normal commercial terms.

The Group is exposed to credit risk associated with reinsurance recoverables on risks fronted for the SPIs. Note 3.3(d) discusses how the Group manages credit risk associated with reinsurance assets. The operations of the funds and SPIs are financed through the issuance of preference shares to external investors. The Group does not intend to provide any further financial support to the funds or SPIs.

(c) Investments in associates

| Year ended 31 December | 2022 \$m | 2021 \$m |
|---|-------------|-------------|
| At beginning of year | 5.7 | 4.9 |
| Distributions received | (0.3) | (0.2) |
| Net profit from investments in associates | 0.9 | 0.8 |
| Foreign exchange movements | (0.7) | 0.2 |
| At end of year | 5.6 | 5.7 |

The Group's interests in its principal associates, all of which are unlisted, were as follows:

| | % interest held at 31 December | Assets \$m | Liabilities \$m | Revenues \$m | Profit after tax \$m |
|---|--------------------------------|---------------|--------------------|-----------------|-------------------------|
| 2022 | | | | | |
| Associates incorporated in the UK | from 32% to 35% | 10.3 | 6.7 | 10.9 | 0.9 |
| Associates incorporated in Europe | from 26% to 35% | 8.6 | 5.4 | 4.1 | 2.0 |
| Total at the end of 2022 | | 18.9 | 12.1 | 15.0 | 2.9 |
| 2021 | | | | | |
| Associates incorporated in the UK and USA | from 29% to 35% | 20.3 | 17.0 | 13.6 | 0.2 |
| Associates incorporated in Europe | 26% | 5.6 | 3.5 | 2.4 | 1.1 |
| Total at the end of 2021 | | 25.9 | 20.5 | 16.0 | 1.3 |

The equity interests held by the Group in respect of associates do not have quoted market prices and are not traded regularly in any active recognised market. The associates concerned have no material impact on the results or assets of the Group.

The assets are expected to be recovered or settled more than 12 months after the reporting date and as such are considered to be non-current.

15 Deferred acquisition costs

| | 2022 | | | 2021 | | |
|---|--------------|--------------------|--------------|--------------|--------------------|--------------|
| | Gross \$m | Reinsurance \$m | Net \$m | Gross \$m | Reinsurance \$m | Net \$m |
| Balance deferred at 1 January | 436.9 | (110.0) | 326.9 | 439.2 | (106.9) | 332.3 |
| Acquisition costs incurred in relation to insurance contracts written | 1,041.2 | (254.7) | 786.5 | 1,021.3 | (288.2) | 733.1 |
| Acquisition costs expensed to the income statement | (1,015.8) | 260.3 | (755.5) | (1,017.9) | 283.2 | (734.7) |
| Foreign exchange and other adjustments | (12.2) | 1.9 | (10.3) | (5.7) | 1.9 | (3.8) |
| Balance deferred at 31 December | 450.1 | (102.5) | 347.6 | 436.9 | (110.0) | 326.9 |

The deferred amount of insurance contract acquisition costs attributable to reinsurers of \$102.5 million (2021: \$110.0 million) is not eligible for offset against the gross balance sheet asset and is included separately within trade and other payables (note 24).

The net amounts expected to be recovered before and after one year are estimated as follows:

| | 2022 \$m | 2021 \$m |
|-----------------|--------------|--------------|
| Within one year | 263.2 | 245.6 |
| After one year | 84.4 | 81.3 |
| | 347.6 | 326.9 |

16 Reinsurance assets

| | Note | 2022 \$m | 2021 \$m |
|--|------|----------------|----------------|
| Reinsurers' share of insurance liabilities | | 3,900.1 | 3,908.5 |
| Provision for non-recovery and impairment | | (0.3) | (0.5) |
| Reinsurance assets | 23 | 3,899.8 | 3,908.0 |

The amounts expected to be recovered before and after one year, based on historical experience, are estimated as follows:

| | 2022 \$m | 2021 \$m |
|-----------------|----------------|----------------|
| Within one year | 1,991.0 | 1,919.5 |
| After one year | 1,908.8 | 1,988.5 |
| | 3,899.8 | 3,908.0 |

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 18). The Group recognised a gain during the year of \$0.2 million (2021: loss of \$0.1 million) due to movement on the provision for non-recovery and impairment.

During the year, the Group completed two legacy portfolio transactions. Details of these transactions are disclosed in note 23.

17 Financial assets and liabilities

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

| | Note | 2022 \$m | 2021 \$m |
|---|------|----------------|----------------|
| Debt and fixed income holdings | | 5,426.6 | 5,528.1 |
| Equities and investment funds | | 339.1 | 461.2 |
| Total investments | | 5,765.7 | 5,989.3 |
| Insurance-linked funds | | 45.3 | 50.9 |
| Derivative financial instruments | 19 | 1.1 | 1.1 |
| Total financial assets carried at fair value | | 5,812.1 | 6,041.3 |

17 Financial assets and liabilities continued

The effective maturity of the debt and fixed income holdings due within and after one year are as follows:

| | 2022 \$m | 2021 \$m |
|-----------------|----------------|----------------|
| Within one year | 1,355.5 | 1,111.2 |
| After one year | 4,071.1 | 4,416.9 |
| | 5,426.6 | 5,528.1 |

Equities, investment funds and insurance-linked securities do not have any maturity dates. The effective maturity of all other financial assets are due within one year.

An analysis of the credit risk and contractual maturity profiles of the Group's financial instruments is given in notes 3.3(d) and 3.3(e).

Financial liabilities of the Group are:

| | Note | 2022 \$m | 2021 \$m |
|--|------|--------------|--------------|
| Derivative financial instruments | 19 | 0.3 | 0.2 |
| Financial liabilities carried at fair value | | 0.3 | 0.2 |
| | | 2022 \$m | 2021 \$m |
| Borrowings | | 628.8 | 743.7 |
| Accrued interest on borrowings | | 7.1 | 2.8 |
| Financial liabilities carried at amortised cost | | 635.9 | 746.5 |
| Total financial liabilities | | 636.2 | 746.7 |

All of the financial liabilities carried at fair value are due within one year. The long-term debt issued on 14 March 2018 was repaid during the year, and all the remaining borrowings are due after one year. Accrued interest on long-term debt is due within one year.

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 the sum of compounded daily Sterling Overnight Index Average (SONIA), the reference rate adjustment of 0.1193% and a margin of 5.076% payable quarterly in arrears on each floating interest payment date.

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

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

On 22 September 2022, the Group issued £250.0 million 6% notes due September 2027. The notes will be redeemed on the maturity date at their principal amount together with accrued interest.

The notes bear interest from, and including, 22 September 2022 at a fixed rate of 6% per annum annually in arrears starting 22 September 2022 until maturity on 22 September 2027.

On 22 September 2022, the notes were admitted for trading on the Luxembourg Stock Exchange's Euro MTF. The notes were rated BBB+ by S&P as well as by Fitch.

The fair value of the borrowings is estimated at \$623.1 million (2021: \$797.3 million). The fair value measurement is classified within Level 1 of the fair value hierarchy. The fair value is estimated by reference to the actively traded value on the stock exchanges.

17 Financial assets and liabilities continued

The decrease in the carrying value of the borrowings and accrued interest during the year comprises a drawdown of new borrowings of \$279.1 million (2021: \$nil), repayment of short-term borrowings of \$336.6 million (2021: repayment of \$195.7 million), the amortisation of the difference between the net proceeds received and the redemption amounts of \$0.9 million (2021: \$0.8 million), the increase in accrued interest of \$6.5 million (2021: reduction of \$0.1 million) less exchange movements of \$60.5 million (2021: less exchange movements of \$4.6 million).

Note 10 includes details of the interest expense for the year included in finance costs.

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

| | 2022 \$m | 2021 \$m |
|--------------------------------|----------------|----------------|
| Debt and fixed income holdings | | |
| US Dollars | 3,932.4 | 3,890.0 |
| Sterling | 821.5 | 957.9 |
| Euro and other currencies | 672.7 | 680.2 |
| | 5,426.6 | 5,528.1 |
| Equities and investment funds | | |
| US Dollars | 188.2 | 206.9 |
| Sterling | 117.0 | 223.0 |
| Euro and other currencies | 33.9 | 31.3 |
| | 339.1 | 461.2 |
| Total investments | 5,765.7 | 5,989.3 |

18 Loans and receivables including insurance receivables

| | 2022 \$m | 2021 \$m |
|---|----------------|----------------|
| Gross receivables arising from insurance and reinsurance contracts | 1,539.5 | 1,568.9 |
| Provision for impairment | (7.0) | (7.3) |
| Net receivables arising from insurance and reinsurance contracts | 1,532.5 | 1,561.6 |
| Due from contract holders, brokers, agents and intermediaries | 899.7 | 918.3 |
| Due from reinsurance operations | 632.8 | 643.3 |
| | 1,532.5 | 1,561.6 |
| Prepayments and accrued income | 29.9 | 26.0 |
| Other loans and receivables: | | |
| Net profit commission receivable | 5.9 | 4.9 |
| Accrued interest | 25.6 | 23.7 |
| Share of Syndicates' other debtors' balances | 28.3 | 25.3 |
| Other debtors including related party amounts | 49.4 | 36.7 |
| Total loans and receivables including insurance receivables | 1,671.6 | 1,678.2 |

The amounts expected to be recovered before and after one year are estimated as follows:

| | 2022 \$m | 2021 \$m |
|-----------------|----------------|----------------|
| Within one year | 1,548.4 | 1,500.4 |
| After one year | 123.2 | 177.8 |
| | 1,671.6 | 1,678.2 |

There is no significant concentration of credit risk with respect to loans and receivables as the Group has a large number of internationally dispersed debtors. The movement in the provision for impairment allowance for receivables during the year ended 31 December 2022 is due to foreign exchange movements (2021: increase in allowance of \$2.2 million). The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

19 Derivative financial instruments

The Group entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2022. The Group had the right and intention to settle each contract on a net basis. The assets and liabilities of these contracts at 31 December 2022 all mature within one year of the balance sheet date and are detailed below:

| 31 December 2022 | Gross contract notional amount \$m | Fair value of assets \$m | Fair value of liabilities \$m | Net balance sheet position \$m |
|---|--|--------------------------------|-------------------------------------|--------------------------------------|
| Derivative financial instruments included on balance sheet | | | | |
| Foreign exchange forward contracts | 8.2 | – | (0.3) | (0.3) |
| Interest rate futures contracts | 34.9 | 1.1 | – | 1.1 |

The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below:

| | | | |
|---------------------------------|-------|-------|-------|
| Gross fair value of assets | 0.8 | 6.4 | 7.2 |
| Gross fair value of liabilities | (0.8) | (6.7) | (7.5) |
| | – | (0.3) | (0.3) |

31 December 2021

| 31 December 2021 | Gross contract notional amount \$m | Fair value of assets \$m | Fair value of liabilities \$m | Net balance sheet position \$m |
|---|--|--------------------------------|-------------------------------------|--------------------------------------|
| Derivative financial instruments included on balance sheet | | | | |
| Foreign exchange forward contracts | 24.4 | 0.4 | (0.2) | 0.2 |
| Interest rate futures contracts | 148.2 | 0.7 | – | 0.7 |

The foreign exchange forward contracts are represented by gross fair value of assets and liabilities as detailed below:

| | | | |
|---------------------------------|--------|--------|--------|
| Gross fair value of assets | 11.6 | 14.8 | 26.4 |
| Gross fair value of liabilities | (11.2) | (15.0) | (26.2) |
| | 0.4 | (0.2) | 0.2 |

Foreign exchange forward contracts

During the current and prior year, the Group entered into a series of conventional over-the-counter forward contracts in order to secure translation gains made on Euro, US Dollar and other non-Sterling denominated monetary assets. The contracts require the Group to forward sell a fixed amount of the relevant currency for Sterling at pre-agreed future exchange rates. The Group made a gain on these forward contracts of \$1.3 million (2021: gain of \$0.2 million) as included in the investment result in note 7. There was no initial purchase cost associated with these instruments.

Interest rate futures contracts

To substantially hedge the interest rate risk the Group is exposed to, it continued to sell a number of government bond futures denominated in a range of currencies. All contracts are exchange traded and the Group made a gain on these futures contracts of \$7.2 million (2021: gain of \$1.5 million) as included in the investment result in note 7.

Equity index options

During the year, no equity index futures were purchased.

| | | | | | | | | | | | |
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20 Fair value measurements

In accordance with IFRS 13 *Fair Value Measurement*, the fair value of financial instruments, based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value, is set out below.

| As at 31 December 2022 | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
|----------------------------------|------------------------|------------------------|------------------------|----------------------|
| Financial assets | | | | |
| Debt and fixed income holdings | 1,122.4 | 4,237.1 | 67.1 | 5,426.6 |
| Equities and investment funds | – | 311.8 | 27.3 | 339.1 |
| Insurance-linked funds | – | – | 45.3 | 45.3 |
| Derivative financial instruments | – | 1.1 | – | 1.1 |
| Total | 1,122.4 | 4,550.0 | 139.7 | 5,812.1 |
| Financial liabilities | | | | |
| Derivative financial instruments | – | 0.3 | – | 0.3 |
| Total | – | 0.3 | – | 0.3 |
| As at 31 December 2021 | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
| Financial assets | | | | |
| Debt and fixed income holdings | 858.5 | 4,639.5 | 30.1 | 5,528.1 |
| Equities and investment funds | – | 416.5 | 44.7 | 461.2 |
| Insurance-linked funds | – | – | 50.9 | 50.9 |
| Derivative financial instruments | – | 1.1 | – | 1.1 |
| Total | 858.5 | 5,057.1 | 125.7 | 6,041.3 |
| Financial liabilities | | | | |
| Derivative financial instruments | – | 0.2 | – | 0.2 |
| Total | – | 0.2 | – | 0.2 |

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

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

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

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

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

The fair value of the borrowings carried at amortised cost is estimated at \$623.1 million (2021: \$797.3 million) and is considered as Level 1 in the fair value hierarchy.

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

20 Fair value measurements continued

Level 3 contains investments in limited partnerships, unquoted equity securities and insurance-linked funds which have limited observable inputs on which to measure fair value. Unquoted equities, including equity instruments in limited partnerships, are carried at fair value. Fair value is determined to be net asset value for the limited partnerships, and for the equity holdings it is determined to be the latest available traded price. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant. At 31 December 2022, the insurance-linked funds of \$45.3 million represent the Group's investment in the unconsolidated Kiskadee funds (2021: \$50.9 million) as described in note 14.

The fair value of the Kiskadee funds is estimated to be the net asset value as at the balance sheet date. The net asset value is based on the fair value of the assets and liabilities in the fund. The majority of the assets of the funds are cash and cash equivalents. 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 that a 12% change to the fair value of the liabilities would increase or decrease the fair value of funds by \$4.1 million.

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred. During the year, investments of \$25.9 million were transferred from Level 2 to Level 3 due to insufficient observable data being available, as a result of reduced trading volumes.

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 | | | |
|---|------------------------------------|-----------------------------------|----------------------------|-----------|
| | Debt and fixed income holdings \$m | Equities and investment funds \$m | Insurance-linked funds \$m | Total \$m |
| 31 December 2022 | | | | |
| Balance at 1 January | 30.1 | 44.7 | 50.9 | 125.7 |
| Fair value gains or losses through profit or loss | 1.3 | (3.0) | 1.3 | (0.4) |
| Foreign exchange (losses)/gains | (1.2) | (3.3) | 0.1 | (4.4) |
| Settlements | – | (0.1) | (7.0) | (7.1) |
| Transfers | 36.9 | (11.0) | – | 25.9 |
| Closing balance | 67.1 | 27.3 | 45.3 | 139.7 |
| Unrealised gains and (losses) in the year on securities held at the end of the year | 1.3 | (2.4) | 1.7 | 0.6 |

| | Financial assets | | | |
|---|------------------------------------|-----------------------------------|----------------------------|-----------|
| | Debt and fixed income holdings \$m | Equities and investment funds \$m | Insurance-linked funds \$m | Total \$m |
| 31 December 2021 | | | | |
| Balance at 1 January | – | 45.5 | 63.2 | 108.7 |
| Fair value gains or losses through profit or loss | 0.1 | (0.3) | – | (0.2) |
| Foreign exchange (losses)/gains | – | (0.4) | 0.1 | (0.3) |
| Purchases | 30.0 | 0.2 | – | 30.2 |
| Settlements | – | (0.3) | (12.4) | (12.7) |
| Closing balance | 30.1 | 44.7 | 50.9 | 125.7 |
| Unrealised gains and (losses) in the year on securities held at the end of the year | 0.1 | – | (0.4) | (0.3) |

| | | | | | | | | | | | |
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21 Cash and cash equivalents

| | 2022 \$m | 2021 \$m |
|--------------------------|----------------|----------------|
| Cash at bank and in hand | 1,276.0 | 1,287.3 |
| Short-term deposits | 74.9 | 13.4 |
| Total | 1,350.9 | 1,300.7 |

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

22 Share capital

| Group | 31 December 2022 | | 31 December 2021 | |
|--|-------------------------|----------------------------|-------------------------|----------------------------|
| | Share capital \$m | Number of shares 000 | Share capital \$m | Number of shares 000 |
| Authorised ordinary share capital of 6.5p (2021: 6.5p) | 425.8 | 3,692,308 | 425.8 | 3,692,308 |
| Issued ordinary share capital of 6.5p (2021: 6.5p) | 38.7 | 354,067 | 38.7 | 353,986 |

The amounts presented in the equity section of the Group's consolidated balance sheet relate to Hiscox Ltd, the legal parent company.

| Changes in Group share capital and contributed surplus | Ordinary share capital \$000 | Share premium \$000 | Contributed surplus \$000 |
|--|------------------------------------|---------------------------|---------------------------------|
| At 1 January 2021 | 38,659 | 516,452 | 183,969 |
| Employee share option scheme – proceeds from shares issued | – | 107 | – |
| Scrip Dividends to owners of the Company | 2 | 258 | – |
| At 31 December 2021 | 38,661 | 516,817 | 183,969 |
| Employee share option scheme – proceeds from shares issued | 1 | 153 | – |
| Scrip Dividends to owners of the Company | 5 | 687 | – |
| At 31 December 2022 | 38,667 | 517,657 | 183,969 |

Contributed surplus is a distributable reserve and arose on the reverse acquisition of Hiscox plc on 12 December 2006.

The Company relies on dividend streams from its subsidiary companies to provide the cash flow required for distributions to be made to shareholders. The ability of the subsidiaries to pay dividends is subject to regulatory restrictions within the jurisdiction from which they operate.

Share repurchase

The trustees of the Group's Employee Benefit Trust purchased nil shares (2021: nil shares) to facilitate the settlement of vesting awards under the Group's Performance Share Plan. As the Trust is consolidated into the Group financial results, these purchases have been accounted for in the same way as treasury shares and have been charged against retained earnings. The shares are held by the trustees for the beneficiaries of the Trust.

| Equity structure of Hiscox Ltd | Note | Number of ordinary shares in issue 2022 000 | Number of ordinary shares in issue 2021 000 |
|---|------|---|---|
| At 1 January | | 353,986 | 353,955 |
| Employee share option scheme – ordinary shares issued | | 18 | 11 |
| Scrip Dividends to owners of the Company | 29 | 63 | 20 |
| At 31 December | | 354,067 | 353,986 |

All issued shares are fully paid.

22 Share capital continued

Performance Share Plan awards

Performance Share Plan awards are granted to Directors and senior employees. No exercise price is attached to performance plan awards, although their attainment is conditional on the employee completing three years' service (the vesting period) and the Group achieving net asset value targets for awards from 2018 to 2020. Awards granted in 2021 and 2022 require both net asset value and total shareholder return targets to be met. Share options are also conditional on the employees completing two or three years' service (the vesting period) or less under exceptional circumstances (death, disability, retirement or redundancy). The options are exercisable starting three years from the grant date only if the Group achieves its targets of return on equity or net asset value; the options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. Share awards (HSX:26) granted in 2022 are conditional upon employees completing three years' service and maintaining a satisfactory personal performance rating. No other targets are required to be met.

In accordance with IFRS 2, the Group recognises an expense for the fair value of shares, share options and Performance Share Plan award instruments issued to employees, over their vesting period through the income statement. The amount recognised in the consolidated income statement during the year was an expense of \$27.2 million (2021: expense of \$24.0 million). This comprises an expense of \$15.0 million (2021: expense of \$16.6 million) in respect of Performance Share Plan awards, an expense of \$2.9 million (2021: expense of \$7.4 million) in respect of share option awards and \$9.3 million (2021: \$nil) in respect of employee share awards. The Group has applied the principles outlined in the Black-Scholes option pricing model when determining the fair value of each share option instrument. For the fair value pricing of performance share plans, the Group uses the share price on the date of grant of the options. For any options contingent on achieving targets linked to total shareholder returns, the fair value price on date of grant is adjusted to take account of the probability of achieving the performance targets.

The range of principal Group assumptions applied in determining the fair value of share-based payment instruments granted during the year under review are:

| Assumptions affecting inputs to fair value models | 2022 | 2021 |
|---|-----------|-----------|
| Annual risk-free rates of return and discount rates (%) | 1.36-3.00 | 0.18-0.26 |
| Long-term dividend yield (%) | 1.27 | 1.46 |
| Expected life of options (years) | 3.25 | 3.25 |
| Implied volatility of share price (%) | 49.2 | 46.2 |
| Weighted average share price (p) | 981.1 | 865.3 |

The weighted average fair value of each share option granted during the year was 418.3p (2021: 317.5p). The weighted average fair value of each Performance Share Plan award granted during the year was 983.0p (2021: 862.3p).

Movements in the number of share options and Performance Share Plan awards during the year and details of the balances outstanding at 31 December 2022 for the Executive Directors are shown in the annual report on remuneration 2022. The total number of options and Performance Share Plan awards outstanding is 10,325,738 (2021: 9,743,754) of which 1,287,068 are exercisable (2021: 1,629,224). The total number of SAYE options outstanding is 2,650,322 (2021: 2,414,729) and employee share awards is 4,765,411 (2021: nil).

The implied volatility assumption is based on historical data for periods of between five and ten years immediately preceding grant date.

23 Insurance liabilities and reinsurance assets

| | Note | 2022 \$m | 2021 \$m |
|---|------|----------------|----------------|
| Gross | | | |
| Claims reported and claim adjustment expenses | | 2,486.0 | 2,506.1 |
| Claims incurred but not reported | | 4,474.2 | 4,539.8 |
| Unearned premiums | | 1,876.4 | 1,822.5 |
| Total insurance liabilities, gross | | 8,836.6 | 8,868.4 |
| Recoverable from reinsurers | | | |
| Claims reported and claim adjustment expenses | | 1,175.1 | 1,143.3 |
| Claims incurred but not reported | | 2,261.9 | 2,349.5 |
| Unearned premiums | | 462.8 | 415.2 |
| Total reinsurers' share of insurance liabilities | 16 | 3,899.8 | 3,908.0 |
| Net | | | |
| Claims reported and claim adjustment expenses | | 1,310.9 | 1,362.8 |
| Claims incurred but not reported | | 2,212.3 | 2,190.3 |
| Unearned premiums | | 1,413.6 | 1,407.3 |
| Total insurance liabilities, net | | 4,936.8 | 4,960.4 |

The net amounts expected to be recovered and settled before and after one year, based on historical experience, are estimated as follows:

| | 2022 \$m | 2021 \$m |
|-----------------|----------------|----------------|
| Within one year | 2,878.4 | 3,155.1 |
| After one year | 2,058.4 | 1,805.3 |
| | 4,936.8 | 4,960.4 |

The gross claims reported and claim adjustment expenses liability and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2022 and 2021 are not material.

| | | | | | | | | | | | |
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23 Insurance liabilities and reinsurance assets continued

23.1 Insurance contracts assumptions

(a) Process used to decide on assumptions

There are many risks associated with insurance contracts, and this means that there is a considerable amount of uncertainty in estimating the future settlement cost of claims. There is uncertainty in both the amounts and the timing of future claim payment cash flows.

Claims paid are claims transactions settled up to the reporting date including settlement expenses allocated to those transactions.

Unpaid claims reserves are made for known or anticipated liabilities which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims.

The Group relies on actuarial analysis to estimate the settlement cost of future claims. Via a formal governed process, there is close communication between the actuaries and other key stakeholders, such as the underwriters, claims and finance teams when setting and validating the assumptions. The unpaid claims reserve is estimated based on past experience and current expectations of future cost levels. Allowance is made for the current premium rating and inflationary environment.

The claims reserves are estimated on a best estimate basis, taking into account current market conditions and the nature of risks being underwritten.

Under certain insurance contracts, the Group may be permitted to sell property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). If it is certain a recovery or reimbursement will be made at the valuation date, specific estimates of these salvage and/or subrogation amounts are included as allowances in the measurement of the insurance liability for unpaid claims. This is then recognised in insurance and reinsurance receivables when the liability is settled.

Estimates of where claims liabilities will ultimately settle are adjusted each reporting period to reflect emerging claims experience. Changes in expected claims may result in a reduction or an increase in the ultimate claim costs and a release or an increase in reserves in the period in which the change occurs.

Booked reserves are held above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy. This approach is consistent with last year. The margin included in the insurance liabilities at 31 December 2022 was 8.9% above the best estimate (2021: 11.7%).

(b) Claims development tables

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

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

23 Insurance liabilities and reinsurance assets

23.1 Insurance contracts assumptions

(b) Claims development tables continued

Insurance claims and claim adjustment expenses reserves – gross at 100%

| Accident year | 2013 \$m | 2014 \$m | 2015 \$m | 2016 \$m | 2017 \$m | 2018 \$m | 2019 \$m | 2020 \$m | 2021 \$m | 2022 \$m | Total \$m |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year: | | | | | | | | | | | |
| one year later | 1,276.2 | 1,396.5 | 1,504.6 | 1,874.2 | 3,317.8 | 3,032.5 | 3,268.3 | 3,707.8 | 2,982.5 | 2,923.8 | |
| two years later | 1,164.3 | 1,188.7 | 1,370.5 | 1,665.0 | 3,035.4 | 3,469.9 | 2,977.5 | 3,685.9 | 2,803.6 | – | |
| three years later | 1,039.6 | 1,100.2 | 1,239.2 | 1,577.6 | 3,006.6 | 3,288.0 | 2,809.4 | 3,442.9 | – | – | |
| four years later | 977.1 | 1,053.4 | 1,234.7 | 1,609.7 | 2,921.5 | 3,075.8 | 2,727.4 | – | – | – | |
| five years later | 922.7 | 1,029.4 | 1,251.6 | 1,647.4 | 2,888.7 | 2,997.5 | – | – | – | – | |
| six years later | 901.1 | 1,012.1 | 1,278.8 | 1,642.8 | 2,851.7 | – | – | – | – | – | |
| seven years later | 897.2 | 997.4 | 1,276.3 | 1,632.8 | – | – | – | – | – | – | |
| eight years later | 900.0 | 998.8 | 1,276.4 | – | – | – | – | – | – | – | |
| nine years later | 897.4 | 995.4 | – | – | – | – | – | – | – | – | |
| Current estimate of cumulative claims | 881.7 | 995.4 | 1,276.4 | 1,632.8 | 2,851.7 | 2,997.5 | 2,727.4 | 3,442.9 | 2,803.6 | 2,923.8 | 22,533.2 |
| Cumulative payments to date | (871.9) | (944.4) | (1,152.8) | (1,468.7) | (2,419.8) | (2,349.8) | (1,895.1) | (1,961.9) | (1,166.2) | (488.3) | (14,718.9) |
| Liability recognised at 100% level | 9.8 | 51.0 | 123.6 | 164.1 | 431.9 | 647.7 | 832.3 | 1,481.0 | 1,637.4 | 2,435.5 | 7,814.3 |
| Liability recognised in respect of accident years before 2013 at 100% level | | | | | | | | | | | 134.1 |
| Total gross liability to external parties at 100% level | | | | | | | | | | | 7,948.4 |

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2022.

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

| Accident year | 2013 \$m | 2014 \$m | 2015 \$m | 2016 \$m | 2017 \$m | 2018 \$m | 2019 \$m | 2020 \$m | 2021 \$m | 2022 \$m | Total \$m |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Current estimate of cumulative claims | 881.7 | 995.4 | 1,276.4 | 1,632.8 | 2,851.7 | 2,997.5 | 2,727.4 | 3,442.9 | 2,803.6 | 2,923.8 | 22,533.2 |
| Less: attributable to external Names | (93.5) | (107.3) | (137.3) | (178.6) | (385.0) | (370.4) | (372.9) | (409.7) | (335.1) | (358.2) | (2,748.0) |
| Group's share of current ultimate claims estimate | 788.2 | 888.1 | 1,139.1 | 1,454.2 | 2,466.7 | 2,627.1 | 2,354.5 | 3,033.2 | 2,468.5 | 2,565.6 | 19,785.2 |
| Cumulative payments to date | (871.9) | (944.4) | (1,152.8) | (1,468.7) | (2,419.8) | (2,349.8) | (1,895.1) | (1,961.9) | (1,166.2) | (488.3) | (14,718.9) |
| Less: attributable to external Names | 91.0 | 105.6 | 126.9 | 166.3 | 325.8 | 280.9 | 263.3 | 217.2 | 152.9 | 64.7 | 1,794.6 |
| Group's share of cumulative payments | (780.9) | (838.8) | (1,025.9) | (1,302.4) | (2,094.0) | (2,068.9) | (1,631.8) | (1,744.7) | (1,013.3) | (423.6) | (12,924.3) |
| Liability recognised on Group's balance sheet | 7.3 | 49.3 | 113.2 | 151.8 | 372.7 | 558.2 | 722.7 | 1,288.5 | 1,455.2 | 2,142.0 | 6,860.9 |
| Liability for accident years before 2013 recognised on Group's balance sheet | | | | | | | | | | | 99.3 |
| Total Group liability to external parties included in balance sheet – gross | | | | | | | | | | | 6,960.2 |

23 Insurance liabilities and reinsurance assets

23.1 Insurance contracts assumptions

(b) Claims development tables continued

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

| Accident year | 2013 \$m | 2014 \$m | 2015 \$m | 2016 \$m | 2017 \$m | 2018 \$m | 2019 \$m | 2020 \$m | 2021 \$m | 2022 \$m | Total \$m |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year: | | | | | | | | | | | |
| one year later | 1,083.8 | 1,126.0 | 1,203.4 | 1,411.6 | 1,788.3 | 1,732.5 | 1,725.7 | 2,113.3 | 1,710.9 | 1,719.7 | |
| two years later | 962.1 | 989.4 | 1,112.1 | 1,282.4 | 1,583.2 | 1,753.1 | 1,656.3 | 1,984.9 | 1,623.0 | – | |
| three years later | 863.1 | 897.8 | 1,022.0 | 1,215.3 | 1,563.6 | 1,708.9 | 1,464.2 | 1,814.7 | – | – | |
| four years later | 799.4 | 845.2 | 1,015.8 | 1,239.7 | 1,563.4 | 1,532.8 | 1,415.8 | – | – | – | |
| five years later | 794.1 | 820.1 | 1,015.9 | 1,279.5 | 1,450.9 | 1,459.6 | – | – | – | – | |
| six years later | 770.7 | 798.7 | 1,044.8 | 1,213.4 | 1,363.4 | – | – | – | – | – | |
| seven years later | 769.4 | 793.5 | 1,007.6 | 1,142.2 | – | – | – | – | – | – | |
| eight years later | 769.9 | 782.1 | 963.5 | – | – | – | – | – | – | – | |
| nine years later | 754.2 | 754.3 | – | – | – | – | – | – | – | – | |
| Current estimate of cumulative claims | 741.0 | 754.3 | 963.5 | 1,142.2 | 1,363.4 | 1,459.6 | 1,415.8 | 1,814.7 | 1,623.0 | 1,719.7 | 12,997.2 |
| Cumulative payments to date | (734.3) | (713.4) | (883.2) | (1,083.9) | (1,273.3) | (1,216.5) | (1,072.3) | (1,068.2) | (738.5) | (363.9) | (9,147.5) |
| Liability recognised at 100% level | 6.7 | 40.9 | 80.3 | 58.3 | 90.1 | 243.1 | 343.5 | 746.5 | 884.5 | 1,355.8 | 3,849.7 |
| Liability recognised in respect of accident years before 2013 at 100% level | | | | | | | | | | | 85.6 |
| Total net liability to external parties at 100% level | | | | | | | | | | | 3,935.3 |

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2022.

Current estimate of cumulative claims in the table above has been impacted by the legacy portfolio transactions taken out in 2022 and 2021, see note 23.2.

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

| Accident year | 2013 \$m | 2014 \$m | 2015 \$m | 2016 \$m | 2017 \$m | 2018 \$m | 2019 \$m | 2020 \$m | 2021 \$m | 2022 \$m | Total \$m |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| Current estimate of cumulative claims | 741.0 | 754.3 | 963.5 | 1,142.2 | 1,363.4 | 1,459.6 | 1,415.8 | 1,814.7 | 1,623.0 | 1,719.7 | 12,997.2 |
| Less: attributable to external Names | (74.6) | (76.0) | (101.1) | (113.6) | (131.5) | (131.5) | (169.4) | (187.2) | (161.2) | (186.0) | (1,332.1) |
| Group's share of current ultimate claims estimate | 666.4 | 678.3 | 862.4 | 1,028.6 | 1,231.9 | 1,328.1 | 1,246.4 | 1,627.5 | 1,461.8 | 1,533.7 | 11,665.1 |
| Cumulative payments to date | (734.3) | (713.4) | (883.2) | (1,083.9) | (1,273.3) | (1,216.5) | (1,072.3) | (1,068.2) | (738.5) | (363.9) | (9,147.5) |
| Less: attributable to external Names | 73.5 | 79.3 | 98.6 | 114.9 | 121.0 | 104.3 | 119.4 | 92.6 | 83.2 | 45.1 | 931.9 |
| Group's share of cumulative payments | (660.8) | (634.1) | (784.6) | (969.0) | (1,152.3) | (1,112.2) | (952.9) | (975.6) | (655.3) | (318.8) | (8,215.6) |
| Liability recognised on Group's balance sheet | 5.6 | 44.2 | 77.8 | 59.6 | 79.6 | 215.9 | 293.5 | 651.9 | 806.5 | 1,214.9 | 3,449.5 |
| Liability for accident years before 2013 recognised on Group's balance sheet | | | | | | | | | | | 73.7 |
| Total Group liability to external parties included in balance sheet – net* | | | | | | | | | | | 3,523.2 |

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

23 Insurance liabilities and reinsurance assets continued

23.2 Movements in insurance claims liabilities and reinsurance claims assets

A reconciliation of the insurance claims liabilities is as follows:

| Year ended 31 December | 2022 | | | 2021 | | |
|---|----------------|--------------------|----------------|----------------|--------------------|----------------|
| | Gross \$m | Reinsurance \$m | Net \$m | Gross \$m | Reinsurance \$m | Net \$m |
| Total at beginning of year | 7,045.9 | (3,492.8) | 3,553.1 | 7,291.4 | (3,213.0) | 4,078.4 |
| Claims and claim adjustment expenses for the year | 2,110.1 | (781.8) | 1,328.3 | 2,185.5 | (755.1) | 1,430.4 |
| Cash (paid)/received for claims settled in the year | (2,026.4) | 1,028.0 | (998.4) | (2,331.8) | 1,082.8 | (1,249.0) |
| Acquisitions, divestments and transfers | – | (249.6) | (249.6) | – | (639.0) | (639.0) |
| Foreign exchange and other adjustments | (169.4) | 59.2 | (110.2) | (99.2) | 31.5 | (67.7) |
| Total at end of year | 6,960.2 | (3,437.0) | 3,523.2 | 7,045.9 | (3,492.8) | 3,553.1 |
| Claims reported and claim adjustment expenses | 2,486.0 | (1,175.1) | 1,310.9 | 2,506.1 | (1,143.3) | 1,362.8 |
| Claims incurred but not reported | 4,474.2 | (2,261.9) | 2,212.3 | 4,539.8 | (2,349.5) | 2,190.3 |
| Total at end of year | 6,960.2 | (3,437.0) | 3,523.2 | 7,045.9 | (3,492.8) | 3,553.1 |

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

| Year ended 31 December | 2022 | | | 2021 | | |
|--|----------------|--------------------|----------------|----------------|--------------------|----------------|
| | Gross \$m | Reinsurance \$m | Net \$m | Gross \$m | Reinsurance \$m | Net \$m |
| Current year claims and claim adjustment expenses | 2,657.4 | (1,090.0) | 1,567.4 | 2,775.0 | (1,172.8) | 1,602.2 |
| Over-provision in respect of prior-year claims and claim adjustment expenses | (547.3) | 308.2 | (239.1) | (558.0) | 409.1 | (148.9) |
| Unexpired risk reserve | – | – | – | (31.5) | 8.6 | (22.9) |
| Total at end of year | 2,110.1 | (781.8) | 1,328.3 | 2,185.5 | (755.1) | 1,430.4 |

A reconciliation of the unearned premium reserves is as follows:

| | 2022 | | | 2021 | | |
|--|----------------|--------------------|----------------|----------------|--------------------|----------------|
| | Gross \$m | Reinsurance \$m | Net \$m | Gross \$m | Reinsurance \$m | Net \$m |
| Balance deferred at 1 January | 1,822.5 | (415.2) | 1,407.3 | 1,822.0 | (431.6) | 1,390.4 |
| Premiums written | 4,424.9 | (1,444.9) | 2,980.0 | 4,269.2 | (1,314.2) | 2,955.0 |
| Premiums earned through the income statement | (4,313.8) | 1,385.6 | (2,928.2) | (4,246.9) | 1,327.0 | (2,919.9) |
| Foreign exchange and other adjustments | (57.2) | 11.7 | (45.5) | (21.8) | 3.6 | (18.2) |
| Balance deferred at 31 December | 1,876.4 | (462.8) | 1,413.6 | 1,822.5 | (415.2) | 1,407.3 |

The amounts expected to be recovered before and after one year, based on historical experience, are included in the first table to this note 23.

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

| | 2022 \$m | 2021 \$m |
|--|----------------|----------------|
| Gross premiums written | 4,424.9 | 4,269.2 |
| Outward reinsurance premiums | (1,444.9) | (1,314.2) |
| Net premiums written | 2,980.0 | 2,955.0 |
| Change in gross unearned premium reserves | (111.1) | (22.3) |
| Change in reinsurers' share of unearned premium reserves | 59.3 | (12.8) |
| Change in net unearned premium reserves | (51.8) | (35.1) |
| Net premiums earned | 2,928.2 | 2,919.9 |

| | | | | | | | | | | | |
|---|---|----------------------------|----|-------------------------|----|---------------------------|-----|---|-----|---|-----|
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23 Insurance liabilities and reinsurance assets

23.2 Movements in insurance claims liabilities and reinsurance claims assets continued

In determining the net claims, the Group estimates the reinsurers' share of the claims by applying a consistent set of assumptions with those in determining the gross claims, considering the individual wording of the reinsurance treaties, and estimating default risks, as described in note 3.3(d). Changes to this set of assumptions and estimate could materially affect the amount of reinsurers' share of the claims.

During the year, the Group completed two legacy portfolio transactions securing coverage for potential adverse development on historical liabilities for selected lines of business. The Group concluded that the transactions transferred significant risks and accounts for the arrangements by recognising a reinsurance asset, a funds-withheld balance in trade and other payables, and a net loss at inception in reinsurance premium ceded. The impact on reinsurance assets is presented in the acquisitions, divestment and transfers line in the relevant table.

24 Trade and other payables

| | Note | 2022 \$m | 2021 \$m |
|--|------|----------------|----------------|
| Creditors arising out of direct insurance operations | | 90.4 | 96.3 |
| Creditors arising out of reinsurance operations | | 1,243.7 | 1,152.2 |
| | | 1,334.1 | 1,248.5 |
| Share of Syndicates' other creditors' balances | | 18.3 | 2.6 |
| Social security and other taxes payable | | 52.4 | 49.3 |
| Lease liabilities | | 79.9 | 46.5 |
| Other creditors | | 47.1 | 19.8 |
| | | 197.7 | 118.2 |
| Reinsurers' share of deferred acquisition costs | 15 | 102.5 | 110.0 |
| Accruals and deferred income | | 184.1 | 158.9 |
| Total | | 1,818.4 | 1,635.6 |

The amounts expected to be settled before and after one year are estimated as follows:

| | 2022 \$m | 2021 \$m |
|-----------------|----------------|----------------|
| Within one year | 1,372.5 | 1,062.3 |
| After one year | 445.9 | 573.3 |
| | 1,818.4 | 1,635.6 |

The amounts expected to be settled after one year of the balance sheet date primarily relate to reinsurance creditors.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

The Group acts as both lessee and lessor in relation to various offices in the UK and overseas, which are held under non-cancellable lease agreements. The leases have varying terms, escalation clauses and renewal terms.

Extension and termination options were taken into account on recognition of the lease liability if the Group was reasonably certain that these options would be exercised in the future. As a general rule, the Group recognises non-lease components, such as services, separately to lease payments.

Maturity analysis – contractual undiscounted cash flows:

| | 2022 \$m | 2021 \$m |
|--|-------------|-------------|
| Not later than one year | 12.2 | 15.7 |
| Later than one year and not later than five years | 43.2 | 30.2 |
| Later than five years | 36.9 | 7.8 |
| Total undiscounted lease liabilities at 31 December | 92.3 | 53.7 |

The cost relating to variable lease payments that do not depend on an index or a rate amounted to \$nil in the year ended 31 December 2022 (2021: \$nil).

There were no leases with residual value guarantees (2021: none). The leases not yet commenced to which the Group is committed amounted to \$0.8 million (2021: \$60.0 million).

Payments associated with short-term leases amounting to \$1.1 million (2021: \$1.2 million) and leases of low-value assets amounting to \$0.3 million (2021: \$0.1 million) are recognised on a straight-line basis as an expense in profit or loss.

25 Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled. The principal subsidiaries of the Company and the country in which they are incorporated are listed in note 32. The amounts charged in the consolidated income statement comprise the following:

| | 2022 \$m | 2021 \$m |
|--|-------------|--------------|
| Current tax | | |
| Expense for the year | 4.5 | 9.5 |
| Adjustments in respect of prior years | (1.7) | (5.1) |
| Total current tax expense | 2.8 | 4.4 |
| Deferred tax | | |
| Expense for the year | 0.7 | 3.6 |
| Adjustments in respect of prior years | (0.2) | (3.7) |
| Effect of rate change | (0.3) | (3.0) |
| Total deferred tax expense/(credit) | 0.2 | (3.1) |
| Total tax charged to the income statement | 3.0 | 1.3 |

The standard rate of corporation tax in Bermuda is 0% whereas the effective rate of tax for the Group is 7% (2021: 1%).

A reconciliation of the difference is provided below:

| | 2022 \$m | 2021 \$m |
|--|-------------|-------------|
| Profit before tax | 44.7 | 190.8 |
| Tax calculated at the standard corporation tax rate applicable in Bermuda: 0% (2021: 0%) | – | – |
| Effects of Group entities subject to overseas tax at different rates | (11.3) | 2.3 |
| Impact of overseas tax rates on: | | |
| Effect of rate change | (0.3) | (3.0) |
| Expenses not deductible for tax purposes | 1.6 | 2.5 |
| Tax losses for which no deferred tax asset is recognised | 11.6 | 9.3 |
| Other | 0.1 | (1.5) |
| Adjustment for share-based payments | 3.1 | 0.5 |
| Prior year tax adjustments | (1.8) | (8.8) |
| Tax charge for the year | 3.0 | 1.3 |

Included within the current tax, a provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable.

The Group companies' tax filings include transactions which are subject to transfer pricing legislation and the taxation authorities may challenge the tax treatment of those transactions. The Directors are proactively engaged in discussions with the tax authorities regarding these tax positions. The Group determines, based on tax and transfer pricing advice provided by external specialist tax advisors, that: it is probable that the tax authorities will assess additional taxes in respect of these filings, for which provisions have been made; the amount recognised at the balance sheet date represents the best estimate of the amount expected to be settled, taking into account the range of potential outcomes and the current progression of discussions with tax authorities.

26 Deferred tax

| | 2022 \$m | 2021 \$m |
|---|-------------|-------------|
| Net deferred tax assets | | |
| Trading losses in overseas entities | 28.4 | 29.1 |
| Deferred tax assets | 69.1 | 97.9 |
| Deferred tax liabilities | (43.8) | (59.7) |
| Total deferred tax asset | 53.7 | 67.3 |
| Net deferred tax liabilities | | |
| Deferred tax assets | – | (0.1) |
| Deferred tax liabilities | 0.2 | 0.2 |
| Total net deferred tax liability | 0.2 | 0.1 |

Deferred tax assets and deferred tax liabilities relating to the same tax authority are presented net in the Group's balance sheet.

Net Group deferred tax assets/(liabilities) analysed by balance sheet headings

| At 31 December | 2021 \$m | Income statement (charge) /credit \$m | Recognised in other comprehensive income/equity \$m | Foreign exchange \$m | 2022 \$m |
|--|---------------|---|---|----------------------------|---------------|
| Trade and other payables | 1.7 | 1.9 | – | (0.2) | 3.4 |
| Intangible assets – Syndicate capacity | 1.6 | (0.3) | – | (0.2) | 1.1 |
| Retirement benefit obligations | 12.7 | (1.6) | (9.1) | (1.1) | 0.9 |
| Open years of account | 56.9 | (41.9) | – | (7.0) | 8.0 |
| Unearned premium | 11.2 | 1.2 | – | – | 12.4 |
| Loss reserve discounting | 8.3 | 1.5 | – | – | 9.8 |
| Insurance contracts – technical reserves | 5.0 | 1.6 | – | (0.3) | 6.3 |
| Financial assets | – | 3.4 | – | 0.1 | 3.5 |
| Other items | 0.5 | 24.5 | (0.3) | (1.0) | 23.7 |
| Total deferred tax assets | 97.9 | (9.7) | (9.4) | (9.7) | 69.1 |
| Tangible assets | (0.4) | (2.6) | – | (0.3) | (3.3) |
| Financial assets | (1.2) | 1.2 | – | – | – |
| Reinsurance premiums | (35.3) | 26.0 | – | 4.4 | (4.9) |
| Deferred acquisition costs | (22.4) | (1.3) | – | – | (23.7) |
| Other items | (0.4) | (13.1) | – | 1.6 | (11.9) |
| Total deferred tax liabilities | (59.7) | 10.2 | – | 5.7 | (43.8) |
| Net total deferred tax assets/(liabilities) | 38.2 | 0.5 | (9.4) | (4.0) | 25.3 |
| Trading losses in overseas entities | 29.1 | (0.6) | – | (0.1) | 28.4 |
| Net total deferred tax assets/(liabilities) | 38.2 | 0.5 | (9.4) | (4.0) | 25.3 |
| Net deferred tax position asset/(liability) | 67.3 | (0.1) | (9.4) | (4.1) | 53.7 |
| Technical reserves | (0.2) | – | – | – | (0.2) |
| Other | 0.1 | (0.1) | – | – | – |
| Net total deferred tax position (liabilities) | (0.1) | (0.1) | – | – | (0.2) |
| Net Group deferred tax asset/(liability) | 67.2 | (0.2) | (9.4) | (4.1) | 53.5 |

26 Deferred tax

Net Group deferred tax assets/(liabilities) analysed by balance sheet headings continued

Movements in deferred and current tax relating to tax deductions arising on employee share options are recognised in the statement of changes in equity to the extent that the movement exceeds the corresponding charge to the income statement. Movements in deferred tax relating to the employee retirement benefit obligation are recognised in the statement of comprehensive income to the extent that the movement corresponds to actuarial gains and losses recognised in the statement of comprehensive income. The total expense recognised outside the income statement is \$6.5 million (2021: expense of \$2.1 million), comprising \$9.4 million deferred tax expense and \$2.9 million current tax income (2021: \$3.4 million deferred tax expense and \$1.3 million current tax income).

Deferred tax assets of \$28.4 million (2021: \$29.1 million), relating to losses arising in overseas entities, which depend on the availability of future taxable profits, have been recognised. Business projections indicate it is probable that sufficient future taxable income will be available against which to offset these recognised deferred tax assets within five years. \$27.7 million (2021: \$27.7 million) of the tax losses to which these assets relate will expire within ten years; a further \$0.7 million (2021: \$1.4 million) will expire after ten years or will be available indefinitely. The Group has not provided for deferred tax assets totalling \$56.6 million (2021: \$52.9 million) in relation to losses in overseas companies of \$279.0 million (2021: \$266.3 million).

In accordance with IAS 12, all deferred tax assets and liabilities are classified as non-current. The amount of deferred tax asset expected to be recovered after more than 12 months is \$53.5 million (2021: \$67.2 million).

Factors affecting tax charges in future years

An increase to the UK corporate tax rate to 25% from 1 April 2023 was substantively enacted on 24 May 2021. This will have a consequential effect on the company's future tax charge, and deferred tax assets in relation to the UK have increased by \$0.2 million. The impact of these changes in future periods will be dependent on the level of taxable profits in those periods.

27 Employee retirement benefit obligations

The Company's subsidiary Hiscox plc operates a defined benefit pension scheme based on final pensionable salary. The scheme closed to future accruals with effect from 31 December 2006 and active members were offered membership of a defined contribution scheme from 1 January 2007. The funds of the defined benefit scheme are controlled by the trustee and are held separately from those of the Group. 61% of any scheme surplus or deficit is recharged to Syndicate 33. The full pension obligation of the Hiscox defined benefit pension scheme is recorded and the recovery from the third-party Names for their share of the Syndicate 33 recharge is shown as a separate asset.

The gross amount recognised in the Group balance sheet in respect of the defined benefit scheme is determined as follows:

| | 2022 \$m | 2021 \$m |
|--|---------------|-------------|
| Present value of scheme obligations | 213.9 | 404.1 |
| Fair value of scheme assets | (234.8) | (369.0) |
| Net amount recognised as a defined benefit (surplus)/obligation | (20.9) | 35.1 |

As the fair value of the scheme assets exceeds the present value of scheme obligations, the scheme reports a surplus (2021: reports a deficit).

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit actuarial cost method. A formal full actuarial valuation is performed on a triennial basis, most recently at 31 December 2020, and updated at each intervening balance sheet date by the actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of AA rated corporate bonds that have terms to maturity that approximate to the terms of the related pension liability.

| | | | | | | | | | | | |
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27 Employee retirement benefit obligations continued

The scheme assets are invested as follows:

| At 31 December | 2022 \$m | 2021 \$m |
|----------------------------------|--------------|--------------|
| Investment assets | | |
| Pooled investment vehicles | 81.4 | 145.3 |
| Equities | 26.1 | 36.3 |
| Bonds | 122.2 | 182.2 |
| Derivatives | – | 0.2 |
| Assets held by insurance company | 2.5 | – |
| Cash | 2.6 | 5.0 |
| | 234.8 | 369.0 |

The amounts recognised in total comprehensive income are as follows:

| | Note | 2022 \$m | 2021 \$m |
|--|------|---------------|---------------|
| Past service cost | | – | – |
| Interest cost on defined benefit obligation | | 6.4 | 5.6 |
| Interest income on plan assets | | (6.0) | (4.6) |
| Net interest cost | | 0.4 | 1.0 |
| Administrative expenses and taxes | | – | – |
| Total expense recognised in operational expenses in the income statement | 9 | 0.4 | 1.0 |
| Remeasurements | | | |
| Effect of changes in actuarial assumptions | | (146.6) | (6.5) |
| Return on plan assets (excluding interest income) | | 104.7 | (31.4) |
| Remeasurement of third-party Names' share of defined benefit obligation | | 7.0 | 6.3 |
| Total remeasurement included in other comprehensive income | | (34.9) | (31.6) |
| Total defined benefit credit recognised in comprehensive income | | (34.5) | (30.6) |

The movement in the (surplus)/liability recognised in the Group's balance sheet is as follows:

| | 2022 \$m | 2021 \$m |
|---|---------------|-------------|
| Group defined benefit liability at beginning of year | 35.1 | 73.5 |
| Third-party Names' share of liability | (12.3) | (18.8) |
| Net defined benefit liability at beginning of year | 22.8 | 54.7 |
| Defined benefit cost included in net income | 0.4 | 1.0 |
| Contribution by employer | (13.5) | – |
| Credit from third-party Names | (0.1) | (0.2) |
| Foreign exchange movements | 0.1 | (1.1) |
| Total remeasurement included in other comprehensive income | (34.9) | (31.6) |
| Net defined benefit (surplus)/liability at end of year | (25.2) | 22.8 |
| Third-party Names' share of liability | 4.3 | 12.3 |
| Group defined benefit (surplus)/liability at end of year | (20.9) | 35.1 |

27 Employee retirement benefit obligations continued

A reconciliation of the fair value of scheme assets is as follows:

| | 2022 \$m | 2021 \$m |
|---|--------------|--------------|
| Opening fair value of scheme assets | 369.0 | 344.4 |
| Interest income | 6.0 | 4.6 |
| Cash flows | | |
| Contribution by the employer | 13.5 | – |
| Benefit payments | (12.1) | (8.8) |
| Assets held by insurance company | 2.6 | – |
| Remeasurements | | |
| Return on plan assets (excluding interest income) | (104.7) | 31.4 |
| Foreign exchange movements | (39.5) | (2.6) |
| Closing fair value of scheme assets | 234.8 | 369.0 |

A reconciliation of the present value of obligations of the scheme is as follows:

| | 2022 \$m | 2021 \$m |
|--|--------------|--------------|
| Opening present value of scheme obligations | 404.1 | 417.9 |
| Past service cost | – | – |
| Interest expense | 6.4 | 5.6 |
| Cash flows | | |
| Benefit payments | (12.1) | (8.8) |
| Assets held by insurance company | 2.6 | – |
| Remeasurements | | |
| Changes in actuarial assumptions | (146.6) | (6.5) |
| Foreign exchange movements | (40.5) | (4.1) |
| Closing present value of scheme obligations | 213.9 | 404.1 |

Assumptions regarding future mortality experience are set based on the S3PA (2021: S3PA) light tables. Reductions in future mortality rates are allowed for by using the CMI 2019 (2021: 2019) projections (core model) with 1.25% p.a. long-term trend for improvements.

The average life expectancy in years of a pensioner retiring at age 60 on the balance sheet date is as follows:

| | 2022 | 2021 |
|--------|------|------|
| Male | 28.9 | 28.9 |
| Female | 30.8 | 30.7 |

The average life expectancy in years of a pensioner retiring at 60, 15 years after the balance sheet date, is as follows:

| | 2022 | 2021 |
|--------|------|------|
| Male | 29.3 | 29.3 |
| Female | 30.9 | 30.8 |

The weighted average duration of the defined benefit obligation at 31 December 2022 was 15.0 years (2021: 19.9 years).

| | | | | | | | | | | | |
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27 Employee retirement benefit obligations continued

Other principal actuarial assumptions are as follows:

| | 2022 % | 2021 % |
|----------------------------|-----------|-----------|
| Discount rate | 4.95 | 1.80 |
| Inflation assumption (RPI) | 3.09 | 3.30 |
| Inflation assumption (CPI) | 2.54 | 2.70 |
| Pension increases | 2.89 | 3.10 |

The scheme operates under UK Trust law and the Trust is a separate legal entity from the Group. The scheme is governed by a board of trustees, comprised of member-nominated and employer-appointed trustees. The trustees are required by law to act in the best interests of scheme members and are responsible for setting certain policies together with the principal employer. The scheme is funded by the Group when required. Funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the statement of funding principles, schedule of contributions and recovery plan agreed between the trustees and the Group.

A triennial valuation was carried out as at 31 December 2020 and resulted in a deficit position of £78.0 million (\$106.6 million) on a funding basis. On 21 January 2022, the Group and the scheme's trustees agreed a recovery plan to reduce the deficit and to eliminate the deficit by 2027. No contributions were paid in 2021, following the advance payment made in December 2020 of £20.0 million (\$26.7 million) in respect of contributions due in 2021. Under the recovery plan, and taking into account the material improvement in the funding position since the valuation date, there are six payments of £10.0 million (\$13.5 million), which commenced in January 2022 and paid annually thereafter. The funding plan will be reviewed again following the next triennial funding valuation which will have an effective date of 31 December 2023.

While management believes that the actuarial assumptions are appropriate, any significant changes to those could affect the balance sheet and income statement. For example, an additional one year of life expectancy for all scheme members would increase the scheme obligations by £5.1 million (\$6.1 million) at 31 December 2022 (2021: £12.2 million (\$16.5 million)), and would increase/reduce the recorded net deficit/surplus on the balance sheet by the same amounts.

The most sensitive and judgemental financial assumptions are the discount rate and inflation. These are considered further below. CPI revaluation in deferment is used for contracted-out members. Contracted-in members are linked to RPI as well as for all pension in payment increases.

The Group has estimated the sensitivity of the present value of unfunded obligations to isolated changes in these assumptions at 31 December 2022 as follows:

| | Present value of unfunded obligations before change in assumption \$m | Present value of unfunded obligations after change \$m | (Increase) /decrease in obligation recognised on balance sheet \$m |
|--|--|--|---|
| Effect of a change in discount rate | | | |
| Use of discount rate of 5.95% | 213.9 | 185.6 | 28.3 |
| Use of discount rate of 3.95% | 213.9 | 249.6 | (35.7) |
| Effect of a change in inflation | | | |
| Use of RPI inflation assumption of 3.34% | 213.9 | 216.6 | (2.7) |
| Use of RPI inflation assumption of 2.84% | 213.9 | 211.2 | 2.7 |

28 Earnings per share

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

| | 2022 | 2021 |
|---|---------|---------|
| Basic | | |
| Profit for the year attributable to the owners of the Company (\$m) | 41.7 | 189.5 |
| Weighted average number of ordinary shares (thousands) | 344,130 | 342,551 |
| Basic earnings per share (cents per share) | 12.1¢ | 55.3¢ |
| Basic earnings per share (pence per share) | 9.8p | 40.2p |

Diluted

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

| | 2022 | 2021 |
|---|---------|---------|
| Profit for the year attributable to the owners of the Company (\$m) | 41.7 | 189.5 |
| Weighted average number of ordinary shares in issue (thousands) | 344,130 | 342,551 |
| Adjustments for share options (thousands) | 4,490 | 3,740 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 348,620 | 346,291 |
| Diluted earnings per share (cents per share) | 12.0¢ | 54.7¢ |
| Diluted earnings per share (pence per share) | 9.6p | 39.8p |

Diluted earnings per share has been calculated after taking account of 3,680,735 (2021: 3,611,707) Performance Share Plan awards, 352,505 (2021: 128,080) options under Save As You Earn schemes and 457,100 (2021: nil) employee share awards.

29 Dividends paid to owners of the Company

| | 2022 \$m | 2021 \$m |
|---|-------------|-------------|
| Final dividend for the year ended: | | |
| 31 December 2021 of 23.0¢ (net) per share | 79.2 | – |
| Interim dividend for the year ended: | | |
| 31 December 2022 of 12.0¢ (net) per share | 41.3 | – |
| 31 December 2021 of 11.5¢ (net) per share | – | 39.4 |
| | 120.5 | 39.4 |

The interim and final dividend for 2021 was paid either in cash or issued as a Scrip Dividend at the option of the shareholder. The interim dividend for the year ended 31 December 2021 was paid in cash of \$39.2 million and 20,231 shares for a Scrip Dividend. The final dividend for the year ended 31 December 2021 of 23.0¢ was paid in cash of \$78.9 million and 27,940 shares for the Scrip Dividend.

The interim dividend for 2022 was paid either in cash or issued as a Scrip Dividend at the option of the shareholder. The amounts were \$40.9 million in cash and 34,760 shares for a Scrip Dividend.

The Board recommended a final dividend of 24.0¢ per share to be paid, subject to shareholder approval, on 13 June 2023 to shareholders registered on 5 May 2023. The dividends will be paid in Sterling unless shareholders elect to be paid in US Dollars. The foreign exchange rate to convert the dividends declared in US Dollars into Sterling will be based on the average exchange rate in the five business days prior to the Scrip Dividend price being determined. On this occasion, the period will be between 23 May 2023 and 30 May 2023 inclusive.

A Scrip Dividend alternative will be offered to the owners of the Company.

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

| | | | | | | | | | | | |
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30 Contingencies and guarantees

The Group's parent company and subsidiaries may become involved in legal proceedings, claims and litigation in the normal course of business. The Group reviews and, in the opinion of the Directors, maintains sufficient provision, capital and reserves in respect of such claims.

The following guarantees have also been issued:

- (a) Hiscox Dedicated Corporate Member Limited (HDCM) and Hiscox Insurance Company (Bermuda) Limited (Hiscox Bermuda) provide assets under a Security and Trust Deed charged to Lloyd's of London, to meet any liabilities that occur from their interest in Syndicates 33 and 3624. At 31 December 2022, HDCM held \$170.8 million of investments (2021: \$245.3 million), \$17.1 million of cash (2021: \$1.8 million) and a \$241.0 million LOC (2021: \$241.0 million) in favour of Lloyd's of London under this arrangement. At 31 December 2022, Hiscox Bermuda held \$528.1 million of investments (2021: \$695.5 million), \$72.2 million of cash (2021: \$26.4 million) and a \$25.0 million LOC (2021: \$25.0 million) in favour of Lloyd's of London under this arrangement.
- (b) In 2020, HDCM entered into a \$65.0 million Funds at Lloyd's agreement under which the lending bank provides assets on HDCM's behalf under a security and trust deed charged to Lloyd's of London as part of the Company's Fund's at Lloyd's provision. At 31 December 2021 and 2022 the full \$65.0 million was utilised.
- (c) Hiscox plc renewed during 2022 its LOC and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks. The facility may be drawn in cash up to \$600.0 million (2021: £450.0 million) under a revolving credit facility or LOC up to \$266.0 million (2021: \$266.0 million). The terms also provide that the facility may be drawn in USD, GBP or EUR, or another currency with the agreement of the banks. At 31 December 2022, \$266.0 million (2021: \$266.0 million) was utilised by way of LOC to support the Funds at Lloyd's requirement and \$nil cash drawings were outstanding (2021: \$nil).
- (d) Hiscox Insurance Company Limited has arranged a LOC of £nil (2021: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's; the arrangement is collateralised with cash of £nil (2021: £50,000).
- (e) The Council of Lloyd's has the discretion to call a contribution of up to 5% of capacity if required from the managed syndicates.
- (f) As Hiscox Bermuda is not an admitted insurer or reinsurer in the USA, the terms of certain US insurance and reinsurance contracts require Hiscox Bermuda to provide LOCs or other terms of collateral to clients. Hiscox Bermuda has in place a LOC reimbursement and pledge agreement with Citibank for the provision of a committed LOC facility in favour of USA ceding companies and other jurisdictions, and also committed LOC facility agreements with National Australia Bank and Commerzbank AG. The agreements combined allow Hiscox Bermuda to request the issuance of up to \$470.0 million in committed LOCs (2021: \$470.0 million).

LOCs issued under these facilities are collateralised by cash, US government and corporate securities of Hiscox Bermuda. LOCs under these facilities totalling \$189.4 million were issued with an effective date of 31 December 2022 (2021: \$183.1 million) and these were collateralised by US government and corporate securities with a fair value of \$214.2 million (2021: \$201.7 million). In addition, Hiscox Bermuda maintained assets in trust accounts to collateralise obligations under various reinsurance agreements. At 31 December 2022, total cash and marketable securities with a carrying value of approximately \$23.2 million (2021: \$23.6 million) were held in external trusts. Cash and marketable securities with an approximate market value of \$495.5 million (2021: \$554.3 million) were held in trust in respect of internal quota share arrangements.

- (g) Hiscox Société Anonyme has arranged bank guarantees with respect to its various office deposits for a total of €339,196 (2021: €266,624). These guarantees are held with ING Bank (Belgium) €23,460 (2021: €23,460), ABN Amro (Holland) €44,749 (2021: €44,749), HypoVereinsbank – UniCredit (Germany) €229,007 (2021: €156,435) and ING Bank (Luxembourg) €41,980 (2021: €41,980). As a consequence of the cross-border merger with Hiscox Europe Underwriting Limited effective 1 January 2019, Hiscox SA has the obligations under guarantees that were previously held by Hiscox Europe Underwriting Limited during 2018.
- (h) See note 25 for tax-related contingent liabilities.

31 Capital commitments and income from subleasing

Capital commitments

Refer to note 24 for lease commitments and note 27 for the Group's funding contributions to the defined benefit scheme. The Group's capital commitments contracted for at the balance sheet date but not yet incurred for property, plant, equipment and software development was \$0.7 million (2021: \$12.9 million).

Income from subleasing

Hiscox acts as a lessor and sublets excess capacity of its office space to third parties.

The total future aggregate minimum lease rentals receivable by the Group as lessor under non-cancellable operating property leases are as follows:

| | 2022 \$m | 2021 \$m |
|--|-------------|-------------|
| No later than one year | 2.0 | 2.0 |
| Later than one year and no later than five years | 2.8 | 4.8 |
| | 4.8 | 6.8 |

32 Principal subsidiary companies of Hiscox Ltd at 31 December 2022

| Company | Nature of business | Country |
|---|-----------------------------------|----------------|
| Hiscox plc* | Holding company | Great Britain |
| Hiscox Insurance Company Limited | General insurance | Great Britain |
| Hiscox Insurance Company (Guernsey) Limited* | General insurance | Guernsey |
| Hiscox Holdings Inc. | Holding company | USA (Delaware) |
| ALTOHA, Inc. | Insurance holding company | USA (Delaware) |
| Hiscox Insurance Company Inc. | General insurance | USA (Illinois) |
| Hiscox Inc. | Insurance intermediary | USA (Delaware) |
| Hiscox Special Risks Agency (Americas) Inc. | Underwriting agency | USA (Delaware) |
| Hiscox Insurance Services Inc. | Insurance intermediary | USA (Delaware) |
| Hiscox Specialty Insurance Company Inc. | General insurance | USA (Illinois) |
| Hiscox Insurance Company (Bermuda) Limited* | General insurance and reinsurance | Bermuda |
| Hiscox Dedicated Corporate Member Limited | Lloyd's corporate Name | Great Britain |
| Hiscox Re Insurance Linked Strategies Limited | Investment manager | Bermuda |
| Hiscox Agency Limited | Lloyd's service company | Bermuda |
| Hiscox Holdings Limited | Insurance holding company | Great Britain |
| Hiscox Syndicates Limited | Lloyd's managing agent | Great Britain |
| Hiscox ASM Ltd. | Insurance intermediary | Great Britain |
| Hiscox Underwriting Group Services Limited | Service company | Great Britain |
| Hiscox Underwriting Ltd | Underwriting agent | Great Britain |
| Hiscox Société Anonyme* | General insurance | Luxembourg |
| Hiscox Insurance Services (Guernsey) Limited | Underwriting agency | Guernsey |
| Hiscox MGA Limited | Insurance intermediary | Great Britain |
| Hiscox Insurance Holdings Limited | Holding company | Great Britain |
| Hiscox Connect Limited | Service company | Great Britain |
| Hiscox Assure SAS | Insurance intermediary | France |
| Direct Asia Insurance (Holdings) Pte Ltd | Holding company | Singapore |
| Direct Asia Insurance (Singapore) Pte Limited | General insurance | Singapore |
| Direct Asia Management Services Pte Ltd | Service company | Singapore |

*Held directly by Hiscox Ltd.

All principal subsidiaries are wholly owned. The proportion of voting rights of subsidiaries held is the same as the proportion of equity shares held.

33 Related-party transactions

Details of the remuneration of the Group's key personnel, presented in Sterling, are shown in the annual report on remuneration 2022 on pages 112 to 121. A number of the Group's key personnel hold insurance contracts with the Group, all of which are on normal commercial terms and are not material in nature.

The following transactions were conducted with related parties during the year.

(a) Syndicate 33 at Lloyd's

Related-party balances between Group companies and Syndicate 33 reflect the 27.4% interest (2021: 27.4%) that the Group does not own, and are as follows.

| | Transactions in the income statement for the year ended | | Balances outstanding (payable) at | |
|---------------------------------------|---|----------------------------|---|----------------------------|
| | 31 December 2022 \$m | 31 December 2021 \$m | 31 December 2022 \$m | 31 December 2021 \$m |
| Hiscox Syndicates Limited | 6.5 | 5.8 | 5.9 | 2.3 |
| Hiscox Group insurance carriers | 6.7 | 8.7 | (90.6) | (74.8) |
| Hiscox Group insurance intermediaries | 5.1 | 4.2 | (4.6) | (9.2) |
| Other Hiscox Group companies | 44.5 | 35.4 | (1.6) | 11.7 |
| | 62.8 | 54.1 | (90.9) | (70.0) |

(b) Transactions with associates

Certain companies within the Group conduct insurance and other business with associates. These transactions arise in the normal course of obtaining insurance business through brokerages, and are based on arm's length arrangements.

| | 2022 \$m | 2021 \$m |
|--|-------------|-------------|
| Gross premium income achieved through associates | 14.0 | 17.5 |
| Commission expense charged by associates | 3.5 | 4.3 |

There were no material outstanding balance sheet amounts with associates.

Details of the Group's associates are given in note 14.

(c) Internal reinsurance arrangements

During the current and prior year, there were a number of reinsurance arrangements entered into in the normal course of trade between various Group companies. The related results of these transactions have been eliminated on consolidation.

34 Post balance sheet event

There are no material events that have occurred after the reporting date.

Additional performance measures (APMs)

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

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 4, operating segments. The combined ratio is calculated as the sum of the claims ratio and the expense ratio.

Return on equity (ROE)

Use of return on equity is common within the financial services industry, and the Group uses ROE as one of its key performance metrics. While the measure enables the Company to compare itself against other peer companies in the immediate industry, it is also a key measure internally where it is used to compare the profitability of business segments, and underpins the performance-related pay and pre-2018 share-based payment structures. The ROE is shown in note 6, 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 5, 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 positive or negative movement in ultimate losses on prior accident years between the current and prior-year balance sheet date, as shown in note 23.

Five-year summary

| | 2022 \$m | 2021 \$m | 2020 \$m | 2019 \$m | 2018 \$m |
|--|----------------|----------------|----------------|----------------|----------------|
| Results | | | | | |
| Gross premiums written | 4,424.9 | 4,269.2 | 4,033.1 | 4,030.7 | 3,778.3 |
| Net premiums written | 2,980.0 | 2,955.0 | 2,750.4 | 2,678.8 | 2,581.5 |
| Net premiums earned | 2,928.2 | 2,919.9 | 2,752.2 | 2,635.6 | 2,573.6 |
| Profit/(loss) before tax | 44.7 | 190.8 | (268.5) | 53.1 | 135.6 |
| Profit/(loss) for the year after tax | 41.7 | 189.5 | (293.7) | 48.9 | 117.9 |
| Assets employed | | | | | |
| Goodwill and intangible assets | 320.4 | 313.1 | 298.9 | 278.0 | 204.6 |
| Financial assets carried at fair value | 5,812.1 | 6,041.3 | 6,116.8 | 5,539.0 | 5,029.7 |
| Cash and cash equivalents | 1,350.9 | 1,300.7 | 1,577.2 | 1,115.9 | 1,288.8 |
| Insurance liabilities and reinsurance assets | (4,936.8) | (4,960.4) | (5,468.8) | (4,707.6) | (4,244.9) |
| Other net assets | (129.9) | (155.4) | (170.2) | (35.6) | (19.2) |
| Net assets | 2,416.7 | 2,539.3 | 2,353.9 | 2,189.7 | 2,259.0 |
| Net asset value per share (¢) | 701.2 | 739.8 | 689.0 | 768.2 | 798.6 |
| Key statistics | | | | | |
| Basic earnings/(loss) per share (¢) | 12.1 | 55.3 | (91.6) | 17.2 | 41.6 |
| Basic earnings/(loss) per share (p) | 9.8 | 40.2 | (71.5) | 13.5 | 31.2 |
| Diluted earnings/(loss) per share (¢) | 12.0 | 54.7 | (90.6) | 16.9 | 40.8 |
| Diluted earnings/(loss) per share (p) | 9.6 | 39.8 | (70.7) | 13.3 | 30.6 |
| Combined ratio (%) | 90.6 | 93.2 | 114.5 | 106.8 | 94.4 |
| Return on equity (%) | 1.7 | 8.1 | (11.8) | 2.2 | 5.3 |
| Dividends per share (¢) | 36.0 | 34.5 | – | 13.8 | 41.9 |
| Dividends per share (p) | 30.3 | 25.3 | – | 11.1 | 32.8 |
| Share price – high [†] (p) | 1,106.5 | 1,004.0 | 1,431.0 | 1,777.0 | 1,711.0 |
| Share price – low [†] (p) | 827.2 | 770.0 | 666.4 | 1,213.0 | 1,332.0 |

[†]Closing mid-market prices.

The five-year summary is unaudited.