HISCOX

Financial condition report

Hiscox Ltd including:

Hiscox Insurance Company (Bermuda) Limited
Hiscox Capital Ltd

For the year ended
31 December 2018

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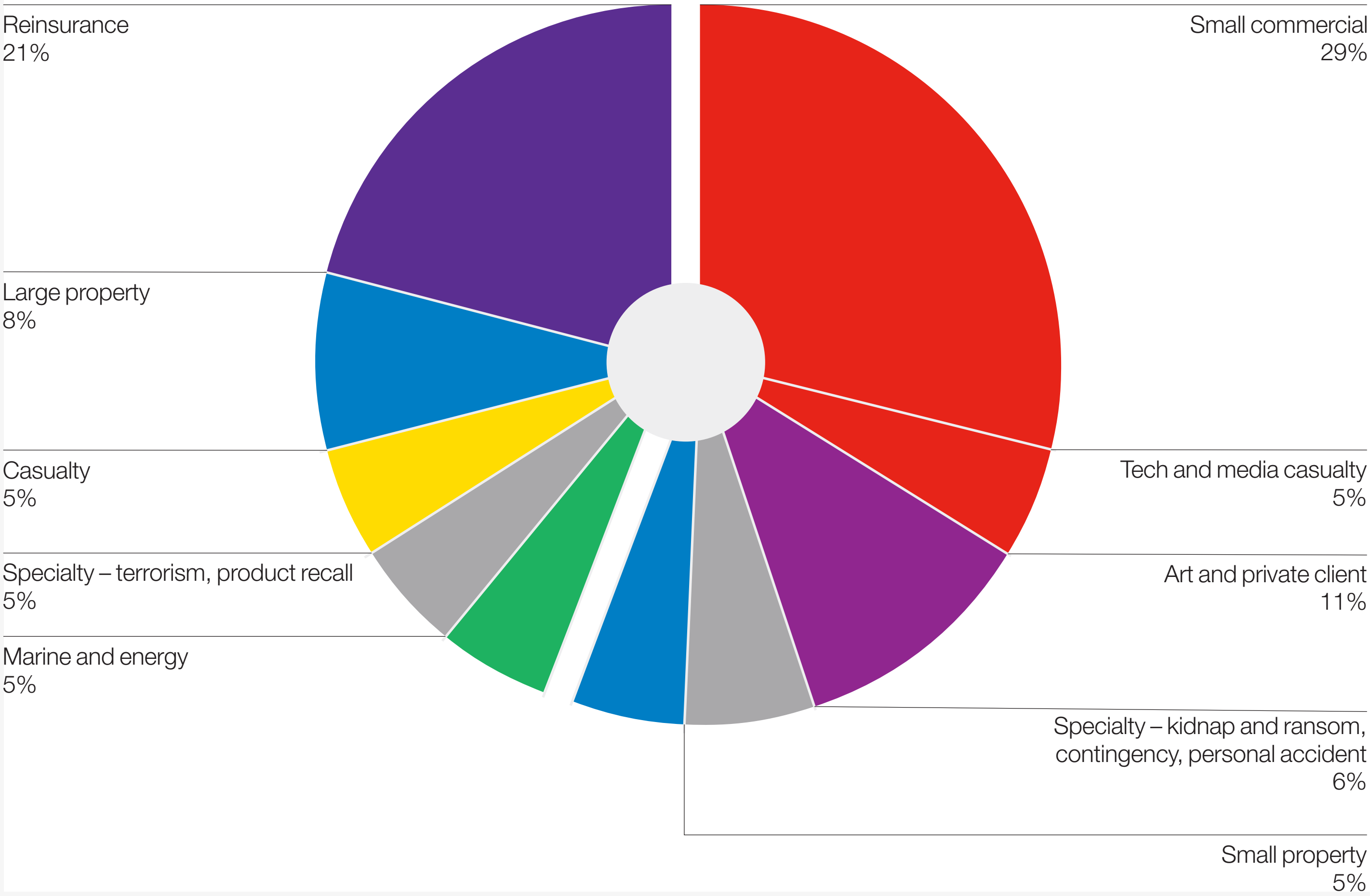
Hiscox is a diversified international insurance group with a powerful brand, strong balance sheet and plenty of room to grow. We are listed on the London Stock Exchange, headquartered in Bermuda and currently have over 3,300 staff across 14 countries and 34 offices. We can trace our roots back to 1901 and have grown organically over time from our beginnings in the Lloyd's market.

Our ambition is to be a respected specialist insurer in key geographies and product lines, valued by our customers, business partners and shareholders. Our values define our business, with a focus on quality, courage, excellence in execution and our people. Our success is due to strong underwriting discipline, a long-held strategy of building balance within the business, and sound capital management. The Group always underwrites for profit, not market share, and we actively manage our business mix according to the conditions in each sector.

Total Group controlled income for 2018
100% = $4,224 million

Big-ticket business
- Larger premium, globally traded, catastrophe-exposed business written mainly through Hiscox London Market and Hiscox Re & ILS.
- Shrinks and expands according to pricing environment.
- Excess profits allow further investment in retail development.

Retail business
- Smaller premium, locally traded, relatively less volatile business written mainly through Hiscox Retail.
- Growth between 5-15% per annum.
- Pays dividends.
- Specialist knowledge differentiates us and investment in brand builds strong market position.
- Profits act as additional capital.



Executive summary

In accordance with its Insurance (Public Disclosure) Rules 2015 the Bermuda Monetary Authority (BMA) requires Bermudian insurers to publish annually a Financial Condition Report (FCR). The purpose of the FCR is to provide stakeholders, including policyholders, regulators and shareholders with additional information on the financial condition of the insurer over and above that contained in the annual financial statements.

The FCR contains qualitative and quantitative information of Hiscox's business and performance, governance structure, risk profile, solvency valuation, and capital management.

Business and performance summary

The ultimate parent of the Hiscox Group (Hiscox) is Hiscox Ltd, which is incorporated in Bermuda and has a FTSE 100 listing on the London Stock Exchange. Hiscox Ltd and its subsidiaries, including: Hiscox Insurance Company (Bermuda) Limited (HIB) and Hiscox Capital Ltd (HCL) comprise the Hiscox Group, which is supervised by the BMA.

Hiscox's principal activity is the transaction of general insurance business, in particular personal and commercial insurance, as well as reinsurance. Personal insurance includes: high-value household, fine art and collectibles as well as luxury motor vehicles. Commercial insurance is focused on small- and medium-sized businesses, particularly for professional indemnity and other liabilities such as employment liability, property risks and specialist lines of business.

Governance structure summary

There is an established system of governance with clear segregation of duties and delegation of responsibilities to various committees reporting to the Hiscox Ltd Board of Directors. Similarly, HIB and HCL have formalised committee structures. Ultimate responsibility resides with the Boards of Directors of each of these companies. Each Board meets at least four times a year and is provided with appropriate and timely information to enable it to review business strategy, trading performance, business risks and opportunities, solvency and regulatory compliance.

Hiscox operates a three lines of defence model, which establishes clear duties, roles and responsibilities in order to manage the full range of risks to which it is exposed. There are clear reporting lines to the Board at all levels within the organisation to ensure that information is appropriately communicated.

Capital management summary

The Group operates with a strong solvency position. The amount of capital held at year end 2018 (after the payment of the final dividend on 12 June 2019) is approximately $2.38 billion*, comfortably meeting regulatory, rating agency and internal capital requirements. Our year-end 2018 BSCR solvency ratio is 210%.

The BMA is planning to phase in changes to the BSCR over a three-year period, starting at the end of 2019, which is expected to reduce the BSCR solvency ratio. The Group expects to maintain an appropriate margin of solvency after these changes have taken effect. The total impact of this change, once it has been fully phased in, is expected to reduce the BSCR solvency ratio by approximately 20-30 percentage points.

The Group monitors its capital requirements based on both external risk measures, set by regulators and the rating agencies, and its own internal guidelines of risk appetite. We have ample capital, and have the ability to transfer this capital across the Group if required.

Decisions on optimal capital levels are an integral part of Hiscox's business planning and forward-looking assessment of risk processes, which cover a three-year time horizon.

There were no material changes to Hiscox's governance structure and capital management approach during the reporting period. Further details are included in this report.

*$2.38 billion available capital post final dividend, comprised of net tangible assets of $2,113 million, subordinated debt of $350 million, less final dividend of $80 million.

Geographic locations

The Hiscox Group has over 3,300 people in 14 countries. Our operations span every continent and we are not overly reliant on any one of our divisions for the Group's overall profit.

A. Business and performance

A.1. Business

The Hiscox Group ('Hiscox'), headquartered in Hamilton, Bermuda, comprises Hiscox Ltd and its subsidiaries (see Appendix I). Hiscox Ltd's ordinary shares are listed on the London Stock Exchange. In addition to Hiscox Ltd, Hiscox Insurance Company (Bermuda) Limited and Hiscox Capital Ltd, Class 4 and Class 3B insurers, respectively, are registered and domiciled in Bermuda.

As at 31 December 2018, Hiscox Ltd had been notified of the following interests of 5% or more of voting rights in its ordinary shares:

Massachusetts Financial Services Company	13.08%
BlackRock, Inc.	8.13%
FMR LLC	7.97%
Invesco Limited	6.19%

Insurance supervisor and group supervisor

Hiscox Ltd, HIB, and HCL are supervised by the Bermuda Monetary Authority (BMA). The contact details are as follows:

The Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton
Bermuda

Lead supervisor: Collin J Anderson
Email: cjanderson@bma.bm
Phone: +1 441 278 0317

Approved auditor

The Group's auditor is PricewaterhouseCoopers Ltd. (Bermuda). The contact details are as follows:

PricewaterhouseCoopers Ltd.
Washington House
4th Floor, 16 Church Street
Hamilton HM 11
Bermuda

Engagement partner: Arthur Wightman
Email: arthur.wightman@bm.pwc.com
Phone: +1 441 295 2000

A.2. Performance

Underwriting performance

Hiscox is a specialist insurer with a diverse portfolio of business by geography and product. HIB and HCL underwrite a variety of reinsurance business. The following represents the (re)insurance business written for the period by business segment on a Group and legal entity basis.

	Hiscox Ltd		HIB		HCL	
Line of business	2018 GWP ($000)	2017 GWP ($000)	2018 GWP (US$000)	2017 GWP (US$000)	2018 GWP ($000)	2017 GWP ($000)
Property catastrophe*	512,687	503,405	387,798	342,427	26,407	28,987
Property	1,032,505	832,074	84,087	58,324	129,723	123,779
Personal accident	53,139	53,608	–	3,890	19,792	20,633
Aviation	7,657	26,762	–	(108)	1,372	11,303
Credit/surety	14,632	11,570	–	1,027	3,691	2,892
Energy offshore/marine	168,604	163,169	–	–	58,886	59,310
US casualty	331,914	283,246	1,336	3,906	113,975	111,963
US professional	502,946	548,731	42,117	152,897	–	81,225
US specialty	34	12,015	18,975	2,018	516	5,577
International motor	58,883	110,631	–	–	(923)	17,806
International casualty non-motor	1,032,893	740,810	274,494	229,226	88,418	3,813
Retro property*	62,447	–	65,700	–	–	–
Total	3,778,341	3,286,021	874,507	793,607	441,857	467,288

Source: BSCR – Schedule IV.
*During 2018, the Group standardised the line of business mapping to ensure consistency.

The following represents the (re)insurance business written for the period by geographical region on a Group and legal entity basis.

Hiscox Ltd

Geographical location	2018 GWP ($000)	2017 GWP ($000)
North America	1,925,936	1,610,938
United Kingdom	746,292	660,556
Europe (excluding UK)	460,570	400,018
Worldwide*	416,371	409,862
Other**	229,172	204,647
Total	3,778,341	3,286,021

Subsidiary	HIB		HCL	
Geographical location	2018 GWP ($000)	2017 GWP ($000)	2018 GWP ($000)	2017 GWP ($000)
Africa and Middle East	2,293	2,221	4,795	3,178
Australia and New Zealand	16,205	13,828	7,495	6,155
Asia	52,919	37,728	12,962	7,891
Central and South America, Caribbean	10,471	8,756	9,472	7,941
United Kingdom	162,253	140,836	20,098	19,555
Europe (excluding UK)	104,238	83,512	20,426	22,674
North America	382,030	403,185	294,356	342,428
Worldwide*	144,098	103,541	72,253	57,466
Total	874,507	793,607	441,857	467,288

*Represents policies that provide global coverage. **All other geographic locations not specified above.

Investment performance

The following represents the market values and performance of our investment portfolio on a Group and legal entity basis:

Hiscox Ltd	2018 Market value ($000)	2017 Market value ($000)	2018 Performance ($000)	2017 Performance ($000)	2018 Performance %	2017 Performance %
Debt and fixed income securities	4,574,994	4,630,828	57,507	54,241	1.3	1.2
Equities and units in unit trusts	398,093	451,305	(27,513)	53,434	(6.2)	12.9
Deposits with credit institutions/ cash and cash equivalents	1,289,587	874,947	12,494	4,840	0.8	0.5
Total	6,262,674	5,957,080	42,488	112,515	0.7	2.0

Source: Hiscox Ltd Annual Report and Accounts.

HIB	2018 Market value ($000)	2017 Market value ($000)	2018 Performance ($000)	2017 Performance ($000)	2018 Performance %	2017 Performance %
Debt and fixed income securities	1,235,858	1,270,689	16,916	14,791	1.3	1.2
Equities and units in unit trusts	129,240	144,842	(10,097)	21,919	(7.4)	15.5
Deposits with credit institutions/ cash and cash equivalents	213,452	111,960	1,156	469	0.7	0.3
Total	1,578,550	1,527,491	7,975	37,179	0.5	2.5

Source: GAAP financial statements.

HCL	2018 Market value ($000)	2017 Market value ($000)	2018 Performance ($000)	2017 Performance ($000)	2018 Performance %	2017 Performance %
Debt and fixed income securities	424,793	550,534	21,741	5,859	4.5	1.2
Equities and units in unit trusts	97,048	105,160	(4,992)	13,400	(4.9)	17.6
Deposits with credit institutions/ cash and cash equivalents	94,692	12,172	1,220	–	2.3	0.0
Total	616,533	667,866	17,969	19,259	2.6	3.8

*For HCL, return on deposits with credit institutions/cash and cash equivalents is included in return on debt securities.
Source: GAAP financial statements.

Material expenses

The Group's material expenses are driven by claims, acquisition and operational expenses. Claims activity in 2018 has reduced due to fewer catastrophe-based claims in 2018 versus 2017. Acquisition costs continue to increase reflecting the Group's investment in marketing, which supports our retail business growth strategy. Other expenses includes the additional financing cost of the £275 million corporate bond issued in 2018, further regulatory expenses and continued investment in IT transformation.

	Hiscox Ltd		HIB		HCL	
	2018 ($000)	2017 ($000)	2018 ($000)	2017 ($000)	2018 ($000)	2017 ($000)
Net claims and claims adjustment expenses	1,225,830	1,372,951	339,622	293,032	311,789	450,537
Net acquisition costs	641,686	615,742	28,188	29,778	18,147	43,469
Other expenses (excluding foreign exchange and finance costs)	605,581	554,013	9,932	8,242	70,497	56,481
Total	2,473,097	2,542,706	377,742	331,052	400,433	550,487

Source: Hiscox Ltd Annual Report and Accounts; HIB and HCL BSCR – Form 2 SFS.

B. Governance structure

B.1. Board and executive

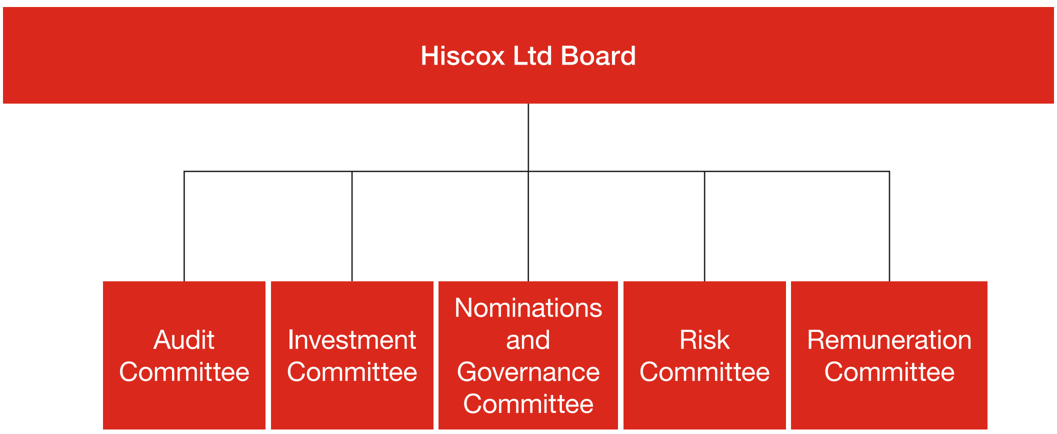
Hiscox has established and continues to maintain a sound corporate governance framework that includes principles on levels of authority, accountability, responsibility, compliance and oversight. Hiscox's governance framework has regard for international best practice on effective corporate governance. Hiscox Ltd, HIB and HCL (collectively, the Companies) also comply with the BMA's Insurance Code of Conduct under Section 4 of the Insurance Act 1978 and the Insurance (Group Supervision) Rules 2011, as applicable. The Companies are further guided by the BMA Guidance Note on Corporate Governance March 2005.

Ultimate responsibility for the sound and prudent governance of the Companies rests with the respective Boards of Directors (Boards). The Ltd Board consists of the Non Executive Chairman, the Group Executives and Independent Non Executive Directors. Details of the Board members and their experience can be found in Appendix II. The Boards are responsible for ensuring that corporate governance policies and practices are developed and applied in a prudent manner.

To guide the Boards' responsibilities, the Companies have documented Bye-Laws, Board Terms of Reference, Board Committee Terms of Reference and organisational charts. The Boards generally meet four times a year and operate within the established governance framework, with established Terms of Reference. The Boards are supplied with appropriate and timely information to enable them to review business strategy, trading performance, business risks and opportunities. The Boards undertake to review annually the effectiveness of the Companies' governance frameworks.

The Ltd Board has appointed and authorised a number of committees to manage aspects of the Group's affairs including financial reporting, internal control and risk management. Each committee operates within established written Terms of Reference and each committee Chairman reports directly to the Board.

Structure of the Committees to the Board



The Audit Committee

The Audit Committee of Hiscox Ltd comprises the Non Executive Directors and meets four times a year. The Committee as a whole is considered to have competence relevant to the sector in which the Company operates. The Committee operates according to Terms of Reference published on the Group's website and assists the Board on matters of financial reporting, risk management and internal control and to determine the external auditor's fees.

The Committee monitors the scope, results and cost effectiveness of the internal and external audit functions, the independence and objectivity of the external auditors, and the nature and extent of non-audit work undertaken by the external auditors together with the level of related fees. The Audit Committee receives reports from the auditors who also attend meetings of the Committee to report on the status of their audit and any findings. This allows the Committee to monitor the effectiveness of the auditors during the year. Senior management and external auditors attend Audit Committee meetings at the discretion of the Chairman, as appropriate.

The Investment Committee

The Investment Committee comprises the Independent Non Executive Directors, the Chief Executive and the Chief Financial Officer, is chaired by Robert Childs and has oversight of the Group's investments. The Committee approves the investment strategy and overall risk appetite. It meets four times a year and makes appropriate recommendations to the Board.

The Nominations and Governance Committee

The Nominations and Governance Committee comprises the Non Executive Directors and is chaired by Robert Childs, who is also Chairman of the Hiscox Ltd Board. The Committee meets as required determined by the Chairman, however no less than once a year. The Committee's role is to monitor the structure, size and composition of the Hiscox Ltd Board and, when Board vacancies arise, to nominate for approval by the Board, appropriate candidates to fill those roles. The Group believes that opportunity should be limited only by an individual's ability and drive. The Committee considers diversity, including gender diversity, when recommending appointments to the Board.

The Committee has a policy in place to ensure that the candidate pool for each new appointment includes at least one female but does not consider it appropriate to set quotas for diversity.

The Committee also has a role in considering the succession planning for Executive Directors and senior managers, and to make recommendations on the succession planning for the Chairman and the Chief Executive and other members of the senior management group.

The Nominations and Governance Committee has assumed responsibility for the review of potential conflicts, therefore a specific Conflicts Committee is no longer required.

The Risk Committee

The Risk Committee of the Board oversees the Group's risk management framework and advises the Board on how best to manage the Group's risk profile. The Committee meets four times per year. The Committee comprises the Non Executive Directors. As part of the annual risk management cycle, HIB also has a Risk Committee, which generally meets four times per year.

The Remuneration Committee

The Remuneration Committee comprises the Independent Non Executive Directors and meets four times a year. The Remuneration Committee takes care to recognise and manage conflicts of interest when receiving views from Executive Directors or senior management or consulting the Chief Executive about its proposals. No Executive is permitted to be present when the Committee discusses his or her remuneration. Executive Directors are subject to malus and clawback provisions in relation to their remuneration.

B.2. Management and governance structure

The Executive Committee

The Executive Committee comprises Senior Executives and normally meets every six weeks. It makes recommendations to the Board and approves various matters.

The Committee approves senior appointments and remuneration outside the scope of the Nominations and Governance Committee, approves operational policy, takes decisions on annual budgets, business plans, mergers and acquisitions, considers significant issues raised by management and approves exceptional spend within the limits established by the Board. Below this there are local management teams that drive the local businesses.

Corporate governance

Hiscox Ltd is required by Listing Rules applicable to overseas entities with a premium listing on the London Stock Exchange, to make prescribed disclosures in respect of its corporate governance arrangements. This includes an annual statement confirming its compliance with the UK Corporate Governance Code (the Code) and disclosure of its governance arrangements against a set of principles and provisions contained in the Code.

The Boards have unlimited access rights to the respective company information and have the authority to seek independent counsel as required.

It is the responsibility of the Board to ensure the effectiveness of the governance framework, redefining the framework where necessary. Action may be delegated to Board Committees, management or individual staff members. The Boards regularly monitor the Companies' risk profiles and assess against established strategies and objectives.

The roles and activities of the Chairman and Chief Executive are distinct and separate. The Chairman is responsible for running an effective Board including oversight of corporate governance and meets periodically with the Senior Independent Director. The Chief Executive has responsibility for running the Group's business.

The Hiscox Ltd Board comprises the Non Executive Chairman, three Executive Directors, and eight Independent Non Executive Directors, including a Senior Independent Director. The Board has appointed and authorised a number of Committees to manage aspects of the Group's affairs including financial reporting, internal control and risk management. Each Committee operates within established written terms of reference and each Committee Chairman reports to the Board on the Committee's activities.

B.3. Remuneration

Hiscox has a single remuneration policy which is applicable to all legal entities and therefore applies to all members of staff supplying intra-group services, including Board members.

The primary objective of Hiscox Group is to deliver strong shareholder returns across the cycle and consistently grow dividends and net asset value per share, while providing innovative insurance solutions to meet customer needs. The aim is to achieve this by building a diversified business which gives flexibility throughout the cycle.

When setting targets for its business units, the Group seeks to motivate strong performance but in a manner which encourages sustainable behaviours in line with the defined risk appetite of individual entities including HIB and HCL. The variable pay elements for staff supplying services to HIB and HCL are structured with these strategic objectives in mind.

Return on equity (ROE) and growth of net asset value per share are key measures of performance. From 2018, vesting of the long-term incentive plan has been subject to growth of net asset value per share plus dividends. The use of ROE measures ensure profitability measures also take into account the capital base utilised in the generation of profits, while growth in net asset value is a key strategic goal and is clearly linked to the delivery of long-term shareholder returns. The structure of the incentive arrangements and the targets set and assessed are intended to be inherently risk-adjusted taking into account exposure to current and future risk. The bonus and incentive funding mechanism is set at a level which is deemed by the Board's Remuneration Committee to be fully affordable and not produce outcomes which would compromise financial stability.

B.4. Fitness and propriety requirement

The Nominations and Governance Committee monitors the composition of the Board and considers its diversity, balance of skills, experience, independence and knowledge to ensure that it remains appropriate.

Fitness and propriety is assessed for any prospective Directors prior to their joining the Board and there is a formal induction process for new Directors. Induction training for new Directors of Hiscox Ltd includes an overview of the Code requirements, and on an annual basis a report is made to the Hiscox Ltd Audit Committee on the Companies' compliance with The Code.

Existing Directors are provided with the opportunity to attend training sessions. Hiscox considers an appropriate Board member to have a balance of skills, experience, independence and knowledge. The evaluation typically includes a review focused on these four areas. The evaluation also reviews how the Board has worked together overall as a unit.

Senior Executives are assessed both when an individual is initially appointed and on an ongoing basis. The initial assessment is conducted during the hiring stage through the interview process. Ongoing assessments are conducted via the Group's formal performance and development review process.

B.5. Risk management and solvency self-assessment

Hiscox has an enterprise-wide approach to managing risk. Exposures are monitored and evaluated across the Group including Hiscox Ltd, HIB and HCL to assess the level of risk being taken and risk mitigation approaches, as described in the risk management framework policy.

The overall objective of risk management is to optimise risk-return decision-making while ensuring that the total exposure remains within the parameters set by the respective Boards. The risk management framework provides a formal structure for risk governance and risk-based decision-making as well as a controlled and consistent approach for how risk is identified, measured, mitigated, monitored and reported across the Group. It supports innovative and disciplined underwriting across many different classes of insurance by guiding our appetite and tolerance risk. The risk management framework is underpinned by the system of internal control, which provides a consistent approach for the design and operation of internal controls to manage our key risks.

Risk policies addressing each main risk type describe the specific approaches to identify, measure, manage and report on these risk exposures and are reviewed on an annual basis.

The risk management framework is reviewed regularly in light of changes to the Group's risk profile, the external environment and evolving industry practice on risk management and governance. During 2018, we continued the refresh of our system of internal control.

The Group Risk team is responsible for designing and overseeing the implementation of the risk management framework and continually improving it. The team works with the business units to understand how they maintain the first line of defence and whether they need to make changes in their approach. The team is also responsible for monitoring that the business meets regulatory expectations around enterprise risk management and reporting on risk to the Board and the Risk Committee.

The Risk team is led by the Chief Risk Officer, who reports to the Group Chief Executive Officer and the Chair of the Group Risk Committee.

2017 and 2018 have seen the recruitment and on-boarding of business unit risk managers who provide risk management advice on the ground, further enhancing the breadth and capability of the second line.

Key exposures are identified, measured, managed and reported during the course of the year for Hiscox Ltd, HIB and HCL using various processes and tools.

These include:

- using qualitative and quantitative approaches to assess risk exposure (in aggregate and by risk type) against Board-approved risk appetite and limits;
- performing independent model validation on the Group's risk and capital models to assess modeling methodology, approach, limitations and output;
- risk reporting focused on topical live issues with actions and mitigation plans;
- stress and scenario testing, performed to identify and measure the likelihood and impact of potential events;
- specific risk reviews that provide a deeper understanding of key risks and potential exposures to the business;
- the risk and control register, which sets out the material risks for each entity, the key controls in place to mitigate them, and owners accountable for the management of each risk and operation of each control;
- the risk and control self-assessment (RCSA) process conducted at least annually, reviewing the risk and control register for completeness and accuracy. Each risk owner is required to review their risks and score them for inherent and residual (post controls) risk. Actions are put into place with risk owners where gaps are identified.

The Board and management teams for Hiscox Ltd, HIB and HCL review a number of these processes and tools during the year.

Risk management framework

Risk identification, including risk definition and risk owner

Risk identification is achieved by clearly defining an exposure (e.g. identifying the potential drivers and consequences of the risk) and identifying a risk owner responsible for managing the exposure.

Risk appetite and risk measurement

Risk appetite communicates the nature and degree of risk the respective boards are prepared to take to meet their strategic objectives and business plan. Risk measurement assesses actual exposures using various quantitative and qualitative methods, and facilitates the prioritisation of risk discussion and mitigating actions.

Risk mitigation

Risk mitigation involves implementing and maintaining internal controls and other mitigating techniques to manage, reduce or eliminate risk exposures as part of the overall system of internal control.

Risk monitoring

Risk monitoring uses various methods to track exposures and the effectiveness of controls (including key risk indicators, management information and analytics) and any necessary escalation of risks and action plans to the appropriate individuals or forums.

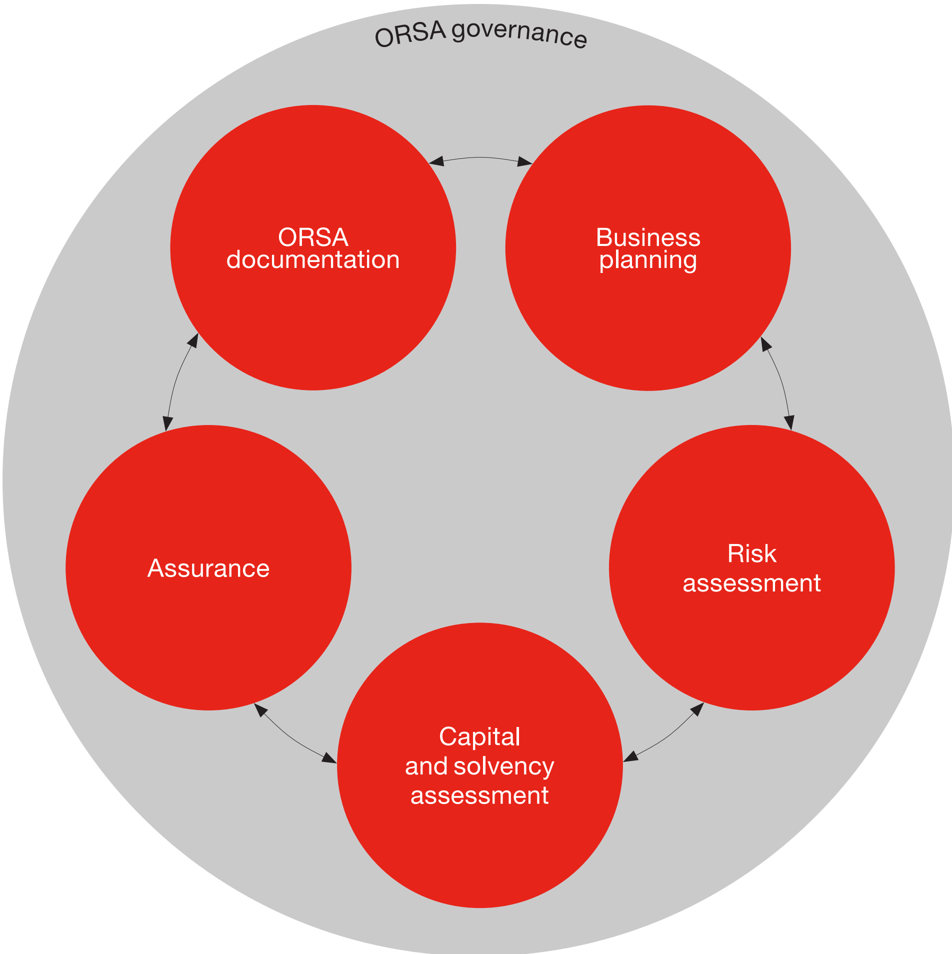
Risk reporting

Risk reporting describes the methods and forums used to discuss risk and control issues (e.g. prioritising the risk agenda, agreeing action plans and horizon scanning), and any necessary escalation of risks and action plans to the appropriate individuals or forums.

Risk management and solvency self-assessment systems implementation

The Group's Own Risk and Solvency Assessment (ORSA) process applies to Hiscox Ltd, HIB and HCL, culminating in the Group Solvency Self Assessment (GSSA) report for Hiscox Ltd and Commercial Insurer Solvency Self Assessment (CISSA) report for HIB on at least an annual basis. The ORSA for HCL focuses on the management and governance for the provision of corporate capital.

Hiscox's ORSA process is an evolution of its long-standing risk management and capital assessment processes. It is the self-assessment of the risk mitigation and capital resources necessary to achieve the strategic objectives of the Group and relevant insurance carriers on a current and forward-looking basis, while remaining solvent, given their risk profiles.



ORSA capital for the Group and HIB is based on Hiscox's own internally assessed capital requirements and is informed by the Group's risk and capital models, that together with the Bermuda Solvency and Capital Return (BSCR) form part of the BMA's annual solvency assessment.

ORSA capital for HCL is based on an assessment of the capital requirements for Hiscox's Dedicated Corporate Member's (HDCM) Funds at Lloyd's (FAL) at the start of the underwriting year.

The Board sets risk limits and tolerances, aligned to risk appetite that reflect the amount of risk that it is willing to accept as a business. These limits are set based on the proportion of core capital that the Board is willing to risk in taking a related strategy or business plan 'bet'. Current risk exposure (in aggregate and by the key risk type) is monitored against these pre-defined limits throughout the year.

Both the risk management framework and ORSA process are implemented and embedded in operations across the Group including Hiscox Ltd, HIB and HCL. Risk management roles and responsibilities, including how they relate to each of these, are coordinated across a 'three lines of defence model'.

There are also a number of (formal and informal) committees and working groups across the first and second lines of defence that facilitate the management and oversight of risk. These focus on specific risks such as exposure management, reserve, investment, credit, capital and liquidity and emerging risks. There is also a Group Risk and Capital Committee (GRCC) and Group Underwriting Review Committee (GURC) that oversee and make wider Group decisions on risk.

The respective Boards are at the heart of Hiscox's risk governance, are responsible for setting risk strategy and appetite, and for overseeing risk management, including the implementation and design of the risk management framework. Oversight of risk management practices is delegated by the Hiscox Ltd and HIB Boards to Risk Committees that advise the Boards on how best to manage the entities' risk profiles. The Risk Committees monitor actual exposure to inform forward-looking strategic and tactical decisions, and review the effectiveness of risk management activities. The Risk Committees rely on frequent updates from Group Risk, from within the business and from independent risk experts.

Relationship between the solvency self-assessment, solvency needs, and capital and risk management systems

The ORSA process is a formal continuous process encompassing the strategy and business plan, the composition and dynamics of the current and forward-looking risk profile, the quality and quantity of capital needed to support these plans, and the robustness of each entity's current and prospective solvency and liquidity.

The ORSA seeks to identify and measure all material risks, and aids in the decision-making process regarding which risks each entity seeks to eliminate, transfer or retain within its agreed risk appetite and tolerance. The ORSA also facilitates the identification of contingent sources of liquidity and capital support to ensure strategic objectives are achieved.

The ORSA process is evidenced during the course of the year as part of the risk monitoring and reporting that is presented to the Board and/or Risk Committee. ORSA reports are formally reviewed and approved by senior management, the Group CRO and the respective Risk Committees. They are approved by the respective Boards.

Three lines of defence model

1

First line of defence
Owns risk and controls

The first line of defence is responsible for ownership and management of risks on a day-to-day basis, and consists of everyone at every level in the organisation, as all have responsibility for risk management at an operational level.

2

Second line of defence
Assesses, challenges and advises on risk objectively

The second line of defence provides independent oversight, challenge and support to the first line of defence. Functions in the second line of defence include the Group risk team and the compliance team.

3

Third line of defence
Provides independent assurance of risk control

The third line of defence is made up of the internal audit function, which provides independent assurance to the Board that risk control is being managed in line with approved policies, appetite, frameworks and processes. It also helps verify that the system of internal control is effective.

B.6. Internal controls

System of internal control

Hiscox has an enterprise-wide approach to the design and operation of the system of internal controls that applies across the Group including Hiscox Ltd, HIB and HCL. The controls are documented in the Risk and Control Register.

Internal controls exist to increase operational effectiveness and efficiency, to promote accountability, to enable the business to actively manage its risks and to support compliance with each entity's regulatory and legal obligations. The corporate governance structure and the Group's culture are key elements of its system of internal control.

The Group's system of internal control comprises the internal control framework, administrative and accounting procedures, transparent reporting arrangements at all levels (implemented through the three lines of defence model) and the compliance function. In addition, the Group internal audit function provides independent assurance to the Group Board, the Group Audit Committee and the Boards of its subsidiaries on the ongoing effectiveness of the internal control system and the Group risk team provides advice and guidance on the internal controls environment, as well as independent second line oversight.

The internal control framework and the management of internal controls to mitigate risk exposures are integral components of the Hiscox Risk Management Framework. Underpinning this, the Group's policies for each material risk type include details of roles and responsibilities in relation to the ownership or performance of key controls. The internal control framework is documented in the risk and control register, with an assessment being performed at least annually through the Risk and Control Self-Assessment (RCSA) process.

There are also clear escalation and reporting procedures in place, supported by the Group's risk governance and culture. Where a matter is required to be escalated, the escalation route will depend upon the severity of the matter and whether the relevant risk is critical in nature. Critical risks are those which are deemed to have the highest inherent risk to the Group.

Compliance function

The Group compliance function provides advisory, monitoring, reporting, training and compliance risk management services. It advises on the design and enhancement of internal controls to ensure regulatory compliance and operates some internal controls itself.

The compliance function provides regular reports to the Boards on the management of compliance risk and the impact of any future changes in the regulatory environment on the Company. The compliance function is also responsible for the creation and implementation of internal regulatory policies and for monitoring the adherence to these policies. In carrying out its duties, the compliance function is entitled to full and unrestricted access to all of the Group's activities and to the Boards.

Internal audit

The Group internal audit function provides objective and independent assurance advice to the Group Board, the Group Audit Committee (GAC) and the Boards of its subsidiaries over the processes and systems of internal control and risk management in operation across the Group. Its work is based on an internal audit plan of reviews which is developed using a risk-based approach. In carrying out its duties and responsibilities, internal audit is entitled to full and unrestricted access to all of the Group's activities, records, property and information and full and free access to the GAC.

Internal audit is independent of the activities that it audits in order to ensure unbiased judgments and impartial advice to the GAC and to management. In order to ensure this independence and objectivity, the internal audit team members report directly to the Head of Group Internal Audit, whose primary reporting line is to the Chair of the Group Audit Committee for matters relating to internal audit and to the Group CFO for other administrative matters.

Actuarial function

The actuarial function is responsible for:

- co-ordinating the calculation of reserves (e.g. ensuring that the methodologies and underlying models used for this purpose are appropriate);
- assessing the sufficiency and quality of the data used;
- monitoring claims experience and comparing those against the amounts predicted by the actuarial models;
- providing opinions on the Group's underwriting policy and reinsurance arrangements.

The actuarial function is made up of qualified individuals who have expert knowledge of actuarial and financial mathematics, led by the Hiscox Group Chief Actuary. It is operationally independent from the revenue-generating management and administrative functions for the purposes of forming and formulating actuarial views and opinions. Potential conflicts of interests are mitigated by ensuring adequate segregation of responsibilities, distinct reporting lines and the use of external parties where necessary. In carrying out its duties and responsibilities, the actuarial function is entitled to:

- full and unrestricted access to all of the Group's relevant activities, records, property and information;
- scope of work and techniques, allocate and apply resources, set frequencies and select appropriate subjects in order to meet its objectives;
- the assistance of staff across the Group where necessary to fulfil its objectives.

Outsourcing

The purpose of the Hiscox Group outsourcing policy is to set out the Group's strategy and process for selecting and managing outsourced services. The outsourcing policy sets out the strategy and process for selecting and managing outsourced services, governed by this policy, that satisfy all applicable regulatory requirements whilst optimising the value that HIB and HCL obtain from its service providers. The policy provides an approach that addresses the need to identify, assess and manage the potential operational risks of outsourcing resulting from significant changes to people, processes and systems. The Group has not outsourced any control functions (i.e. actuarial, risk management, compliance and internal audit). The provision of all staff required to operate the business is conducted through Group service companies.

C. Risk profile

Hiscox's material risks and how these are mitigated

The key risk types that Hiscox is exposed to in its activities consist of strategic risk, insurance (underwriting and reserve) risk, market (investment and liquidity) risk, credit risk, operational risk, regulatory and legal risk and Group risk. Our collective risk knowledge informs every important decision we make.

Risks are monitored by the first and second lines to ensure exposures remain within agreed risk appetite and limit. Breaches in appetite or significant control deficiencies are escalated to senior management and the respective Board and/or Risk Committee for action.

A combination of proprietary and external models and qualitative measures are used to measure and quantify these risks. Changes in risk exposure are expected over time and result from internal drivers (e.g. strategic decisions) and external factors (e.g. market conditions).

Risks are controlled and mitigated in several ways, and monitored and reported across each of the three lines of defence. Significant exposures across each of the main risk types and how they are managed are detailed below.

Strategic risk

The possibility of adverse outcomes that may result from strategic 'bets'/business initiatives taken or not taken by Hiscox. This may include business expansion or contraction, mergers and acquisitions, negative impacts to reputation or brand, or failure of the Board to provide adequate oversight of the business or make appropriate business decisions.

Hiscox considers its success to be due to a long-held strategy of building balance via a symbiotic relationship between its 'Big-ticket' and 'Retail' segments, which has proven to deliver in the short, medium and long term across market and underwriting cycles. The combined focus on reinsurance, London Market insurance and retail insurance provides the Group with a natural hedge against major catastrophe events and market cycles. This approach has enabled the Group to remain profitable whilst the industry has suffered from reduced prices as a result of new capital entering the market. The business plan is also aligned to the Group risk appetite set by the Board, to ensure individual and aggregate exposure remains within set parameters.

The Group's emerging risk forum assesses risks and opportunities with potential to impact the business. Annual wide-ranging and detailed stress testing and scenario analysis helps identify unanticipated dependencies and correlations between risks, which could impact the Group's strategy. Stress testing and scenario analysis is described further in section C2.

Underwriting risk

The risk that insurance premiums will not be sufficient to cover future insurance claims and associated expenses. It also encompasses people, process and system risks directly related to underwriting, such as human error in paying invalid claims or misquoting premium prices.

Hiscox aims to be flexible and adaptive in the lines of business it writes according to market conditions and the Group's overall risk appetite. Hiscox rejects business that is unlikely to generate underwriting profits and regularly monitors pricing levels, producing detailed monthly reports on how pricing and exposures are developing, so that it quickly identifies and controls any problems created by deteriorating market conditions. Hiscox rewards its staff for producing profit not revenue, which helps to maintain underwriting discipline in soft markets.

Reserve risk

The risk of unsuitable case reserves (e.g. over- or under-reserving) and/or insufficient technical reserves in place to meet incurred losses and associated expenses.

Hiscox makes financial provisions for unpaid claims, defence costs and related expenses to cover its ultimate liability both from reported claims and from incurred but not reported (IBNR) claims. If insufficient reserves were put aside to cover exposures, this could affect the Group's future earnings and capital.

The provisions made to pay claims reflect Hiscox's own experience and the industry's view of similar business. They are also influenced by historical trends in reserving patterns; loss payments and pending levels of unpaid claims; and awards as well as potential change in historic rates arising from market or economic conditions. Provisions are set above the actuarial mid-point to reduce the risk that actual claims may exceed the amount set aside.

The provision estimates are subject to rigorous review by all areas of the business, as well as from independent actuaries. The relevant Boards approve the amount of the final provision, on the recommendation of dedicated reserving committees.

Market risk

The threat of unfavourable or unexpected movements in the value of Hiscox assets and/or the income expected from them.

Hiscox invests the cash received from clients in premiums and the capital on the balance sheet until it might be needed to pay claims. These funds are inevitably exposed to market investment risk. Investment risk also encompasses the risk of default of counterparties, which is primarily with issuers of bonds in which Hiscox invests, and investment managers.

The Group's investment objective is to maximise the investment result in the prevailing financial, economic and market conditions without undue risk that could affect the Group's capacity to underwrite. In striking a balance between risk and return, the overriding philosophy is to avoid an investment loss and, hence, not to jeopardise the Group's capacity to underwrite and pay claims as they arise. Funds held for reserves are invested primarily in high-quality bonds and cash and as far as possible, are maintained in the currency of the original premiums for which they are set aside, to reduce foreign exchange risk.

Hiscox's fixed-income fund managers operate within guidelines as to the type and nature of bonds in which to invest, which reflect the rate at which we expect to pay claims, while providing them some flexibility to enhance returns.

A proportion of funds is allocated to riskier assets, principally equities. The Group takes a long-term view on these assets so that it can achieve the best risk-adjusted returns.

It makes an allocation to less volatile, absolute return strategies within its risk assets so as to balance its desire to maximise returns with the need to ensure capital is available to support underwriting throughout any downturn in financial markets.

Liquidity

The risk that the Group or the individual entities are unable to meet cash requirements from available resources to pay liabilities to customers or other creditors within appropriate or required time scales. Also, the risk that Hiscox incurs excessive costs by becoming forced sellers of assets or raising money quickly to meet its obligations. The failure of the Group's liquidity strategy could have a material adverse effect on the Group's financial condition and cash flows.

The Group's investment policy recognises the demands created by its underwriting strategy, so that some investments may need to be sold before maturity or at short notice. A high proportion of the investment portfolio is held in liquid assets, which reduces the risk that they may make losses if they had to be sold quickly. Funds held for reserves are invested primarily in high-quality, short duration bonds and cash so the Group can meet its aim of paying valid claims quickly.

The Group's cash requirements can normally be met through regular income streams (e.g. premiums, investment income, existing cash balances or by realising investments that have reached maturity) – the biggest of which is insurance premiums – while the Group's outflows largely relate to expenses and payments to policyholders through claims. The Group forecasts its cash flow for the week, month, quarter or up to two years ahead, depending on the source. It also runs tests to estimate the impact of a major catastrophe on the cash position to identify potential issues.

Hiscox maintains extensive borrowing facilities. These arrangements have been made with a range of major international banks to minimise the risk of one or more institutions being unable to honour commitments to us.

This risk is controlled in a variety of ways but, ultimately, risks are reported and monitored centrally. Verification that risks are either kept within agreed limits or temporary breaches for unique situations are appropriately escalated to the relevant Board committee and either approved or corrected.

Credit risk

The risk of loss or adverse financial impact due to counterparty default or failure to meet obligations with agreed terms.

Reinsurance

Hiscox buys reinsurance to protect it but if a reinsurer was unable to meet its obligations to the Group, this could put a strain on the Group's earnings and capital, and harm its financial condition and cash flows. Hiscox only buys reinsurance from companies that it believes to be financially strong. A dedicated Group Credit Committee must approve every reinsurer used, based on an assessment of financial strength, trading record, payment history, outlook, organisational structure and external credit ratings.

The Group's credit exposures to these companies are closely monitored, as are the companies themselves, so that the Group can quickly identify any potential problems. Hiscox considers public information, its own experience of the companies, their behaviour in the marketplace and consultants' and rating agencies' analysis.

Brokers

Hiscox may lose money if a broker fails to pass a customer's premium to the Group, or if the broker fails to pass the claims payment to the policyholder.

Hiscox monitors its exposure to brokers on an ongoing basis, having a continuous dialogue with core brokers to quickly identify and resolve any credit issues that arise. Such monitoring takes into account a number of factors which can include credit rating, financial position, financial performance, payment history and market factors.

In some instances for large losses, Hiscox pays policyholders directly to reduce broker credit risk on material transactions.

Operational risk

The risk of direct or indirect loss resulting from internal processes, people or systems, or external events.

The Group's operational risks are actively managed through its system of internal control, stress and scenario testing and recovery and contingency planning. Examples of notable operational risk areas in this reporting period are included below.

Regulatory change

The insurance industry is exposed to continuous regulatory change, which may impact the capital that insurers are required to hold. Hiscox is also exposed to new and emerging risks, including through legal or political decisions or legislative changes.
The Group supports sound prudential regulation as a key element in the stability and sustainability of the insurance and wider financial markets in which it operates. It continuously monitors new regulation and reviews internal processes to facilitate compliance. Hiscox's approach is to combine local expertise with a globally consistent risk management framework to manage regulatory change and provide effective compliance with the varied and evolving requirements.

Information security (including cyber security)

Information security risk relates to not protecting information which could compromise the confidentiality, availability or integrity of data. Cyber security risk is the threat to the Group from globally connected networks such as the internet. It differs from the exposure posed by underwriting cyber risks, which is considered an insurance risk. Information security risk can result in loss of profit, and legal, regulatory and reputational consequences. Information security risk is managed as a business risk, not an IT responsibility.

Hiscox has dedicated information security resources who provide advice on information security design and standards and an information security group, including experts from around our business, to assess and manage these threats. Hiscox's cyber strategy combines industry standard perimeter security with data-centric protection for specific highly-confidential information.

Hiscox constantly deploys and evolves systems, policies and procedures to mitigate internal and external threats to the IT infrastructure.
Stress testing and scenario analysis considers the impact and likelihood of information security exposures to assess their effect on the business as well as potential management actions, including response plans.

Information technology and systems failure

The risk from major IT, systems or service failure which can significantly impact the business.

Hiscox has dedicated IT resources who support its technology needs and oversee critical systems and applications. Stress testing and scenario analysis considers the impact and likelihood of an IT or systems failure, to assess the effect on the business and discuss what management actions could be taken to mitigate the risk.

A formal disaster recovery plan is in place to deal with workspace recovery and the retrieval of communications, IT systems and data should a major incident occur. These procedures would enable the Group or relevant entity to move the affected operations to alternative facilities quickly. The plan is tested regularly and includes simulation tests.

Project risk and change management

The risk that projects and/or change initiatives are not delivered to plan, budget or specification, or that the risks inherent in projects, or the interdependencies across projects, are not appropriately managed.

All major programmes have dedicated project governance structures to oversee the delivery of the programme, including risk management aspects. Programme sponsors also provide updates to the Board and Risk Committee as appropriate.

The heads of change provide portfolio level oversight of risks, issues and resource needs across projects.

The Programme Assurance Office provides oversight across all major programmes. It provides senior management with an independent view of the progress, risks and issues within the programmes, as well as the linkages between them.

C.1. Material risk concentrations

Concentrations within risk types are actively considered and managed through functional committees, often measuring exposures against agreed limits (e.g. underwriting exposures assessed via catastrophe models and other exposure management techniques, and investment concentrations measured against agreed maximum limits per security or asset type/market). This may include the modeling and/or analysis of risk concentrations within individual risk types.

C.2 Investment in assets in accordance with the prudent person principles of the code of conduct

Under the 'prudent person' principle, the Group only assumes investment risks that it can properly identify, measure, monitor and control, taking into consideration its capital needs and resources, short-term and long-term sources and uses of funding liquidity, policyholder obligations and the protection of the interests of policyholders and beneficiaries.

Stress testing and sensitivity analysis to assess material risks

Stress testing and scenario analysis is performed in conjunction with risk owners across the business for key risk types including underwriting, reserve, market, credit and operational risk. Individual and aggregate scenarios are developed, considering the dependencies between risk types, as well as reverse stress tests that assess business viability and capital resilience. Future management actions in response to testing results are also identified. Specific scenarios are developed as a tool to validate output from the Group risk and capital models.

The conclusions and recommendations are reported to the Risk Committees and represent a key component of the ORSA process. The most recent stress testing and scenario analysis supports the view that capital and liquidity levels are satisfactory to comply with the contractual obligations and internal and external capital requirements, and assessed loss impact is within tolerance.

D. Solvency valuation

A fundamental premise underlying the economic balance sheet (EBS) framework is that assets and liabilities are valued on a consistent economic basis. This common principle postulates the reduction or elimination, where possible, of accounting mismatches where no underlying economic mismatches exist.

Our assets and liabilities are valued using market values or the fair value option allowable under international financial reporting standards (IFRS). Insurance technical provisions are valued based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure. A risk margin is applied to reflect the uncertainty inherent in the underlying cash flows.

For other assets and liabilities where no fair value is readily available we use the value as determined under IFRS.

The material differences between shareholder's equity as stated in the financial statements versus available statutory capital and surplus can be summarised as follows:

- the subordinated debt is treated as Tier 2 ancillary capital versus a liability in the financial statements;
- current IFRS uses the unearned premium and deferred acquisition cost approach for unexpired risks and undiscounted reserves for past claims related to expired risks. For the statutory capital and surplus we use the discounted best estimate of fulfilment cash flows;
- exclusion of goodwill, prepayments and certain intangible assets that cannot be sold separately.

D.1. Valuing assets

The Company has used the valuation principles outlined by BMA's 'Guidance Note for Statutory Reporting Regime' for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair-value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date).

D.2. Valuing liabilities

Insurance technical provisions are valued based on best estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure with an appropriate liquidity adjustment.

In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows, which is calculated using the cost of capital approach and a risk-free discount rate term structure. The discount rate term structures are prescribed by the BMA for each reporting period.

The best estimate for the loss and loss expense provision is calculated by using generally accepted accounting principles reserves as the starting point and then performing a series of adjustments:

- removal of prudence margins;
- incorporation of expected reinsurance counterparty defaults;
- incorporation of events not in data (ENID);
- other adjustments related to consideration for investment expenses, etc.;
- discounting of cash flows.

The best estimate earned reserve position from the quarterly reserving process is used to form the basis for the claim provisions. The reserves are adjusted to allow for ENIDs, which is done by applying a series of uplift factors to the gross and net reserves for each class of business.

Reinsurance recoveries are estimated using known estimates plus an expected recovery rate to the gross IBNR estimates. These recovery rates are based on the reinsurance programme purchased, historic recovery rates and underwriters' estimates. An explicit deduction for counterparty risk is made to future reinsurance recoveries.

Cash flow patterns are applied by class, currency and year of account, split by the individual provisions. Cash flows are then discounted using prescribed rates from the BMA.

There are no guarantees or options which materially affect the calculation of the best estimate. Any relevant guarantees would be identified through discussions with underwriters and the impact of guarantees would be valued based on best estimate claims provisions.

The best estimate for the premium provision is calculated by using the unearned premium reserve based on generally accepted accounting principles, adjusting for bound but not incepted business as at 31 December 2018 and applying expected future loss ratios, expense ratios and appropriate claims pay-out patterns to derive cash flows, which are then discounted.

	Hiscox Ltd		HIB		HCL	
Technical provisions	2018 ($000)	2017 ($000)	2018 ($000)	2017 ($000)	2018 ($000)	2017 ($000)
Best estimate loss and loss expense provision	2,621,541	2,465,783	719,668	623,845	871,193	845,600
Best estimate premium provision	370,884	441,785	1,768	52,408	180,556	156,348
Risk margin	148,727	174,138	44,083	80,863	44,615	82,273
Total technical provisions	3,141,152	3,081,706	765,519	757,116	1,096,364	1,084,221

Source: BSCR – Form 1 EBS.

E. Capital 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 pay customer claims as they arise, 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 a significant margin;
- to maintain financial strength ratings of A in each of its insurance entities.

The Group sets the amount of capital required in its funding structure in proportion to risk. It then manages the capital structure and makes adjustments in 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's activities are funded by a mixture of capital sources including issued equity share capital, retained earnings, Letters of Credit, bank debt, long-term debt and other third-party insurance capital.

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 modeling 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. During the year the Group was in compliance with individual capital requirements imposed by regulators in each jurisdiction where the Group operates and with the Group solvency requirements imposed on Hiscox Ltd by the BMA.

E.1. Eligible capital

The BMA uses a three-tiered capital quality assessment system for assessing the statutory capital and surplus 'eligible capital'. The tiered capital system classifies capital instruments with different qualities into different tiers, based on their loss absorbency characteristics. Tier 1 is the most loss-absorbent (able to absorb or respond to losses under all circumstances), going down to Tier 3, which is the least loss-absorbent. Eligibility limits are then applied to each tier in determining the amounts eligible to cover regulatory capital requirement levels.

The BMA requires that at least 80% of the minimum solvency margin (MSM) and 60% of the enhanced capital ratio (ECR) is met by Tier 1 capital. The Group aims to hold substantial Tier 1 basic capital in excess of the Authority's regulatory capital requirements. The Group also holds $363 million in Tier 2 ancillary capital, in the form of subordinated debt issued in November 2015, $25 million approved Letter of Credit and $77 million of assets transferred from Tier 1, as a result of an excess of assets held against best estimate policyholder technical provisions.

E.2. Fungibility of capital

We consider fungibility of capital to be the availability and transferability of capital across the Group. The Group monitors its capital requirements based on

Regulatory capital requirements

Hiscox Ltd	2018 Amount ($000)	2018 Ratio %	2017 Amount ($000)	2017 Ratio %
Minimum margin of solvency	633,350	–	611,908	–
Enhanced capital requirement	1,396,022	210	1,260,229	235
HIB	**2018 Amount ($000)**	**2018 Ratio %**	**2017 Amount ($000)**	**2017 Ratio %**
Minimum margin of solvency	327,940	–	297,603	–
Enhanced capital requirement	331,486	218	329,371	316
HCL	**2018 Amount ($000)**	**2018 Ratio %**	**2017 Amount ($000)**	**2017 Ratio %**
Minimum margin of solvency	141,626	–	184,737	–
Enhanced capital requirement	335,530	267	738,945	121

During 2018 the BMA permitted HCL to start using the Class 3B BSCR model. Management considers that this framework more appropriately recognises the risks in HCL compared to the previous bespoke model used for year end 2017.

both external risk measures, set by regulators and the rating agencies, and its own internal guidelines of risk appetite. In the normal course of business, subsidiaries are often required to secure obligations by entering into collateral arrangements or provide financial guarantees. If required, the Group can source additional funding from revolving credit and Letter of Credit facilities. Standby funding from these sources comprised $800 million at 31 December 2018 (2017: $500 million), of which $50 million was utilised at 31 December 2018 (2017: $10 million).

F. FCR declaration

To the best of my knowledge and belief, this financial condition report represents the financial condition of Hiscox Ltd, Hiscox Insurance Company (Bermuda) Limited and Hiscox Capital Ltd as at 31 December 2018, in all material respects.

Bronek Masojada
Chief Executive
Hiscox Ltd

Aki Hussain
Chief Financial Officer
Hiscox Ltd

Eligible capital

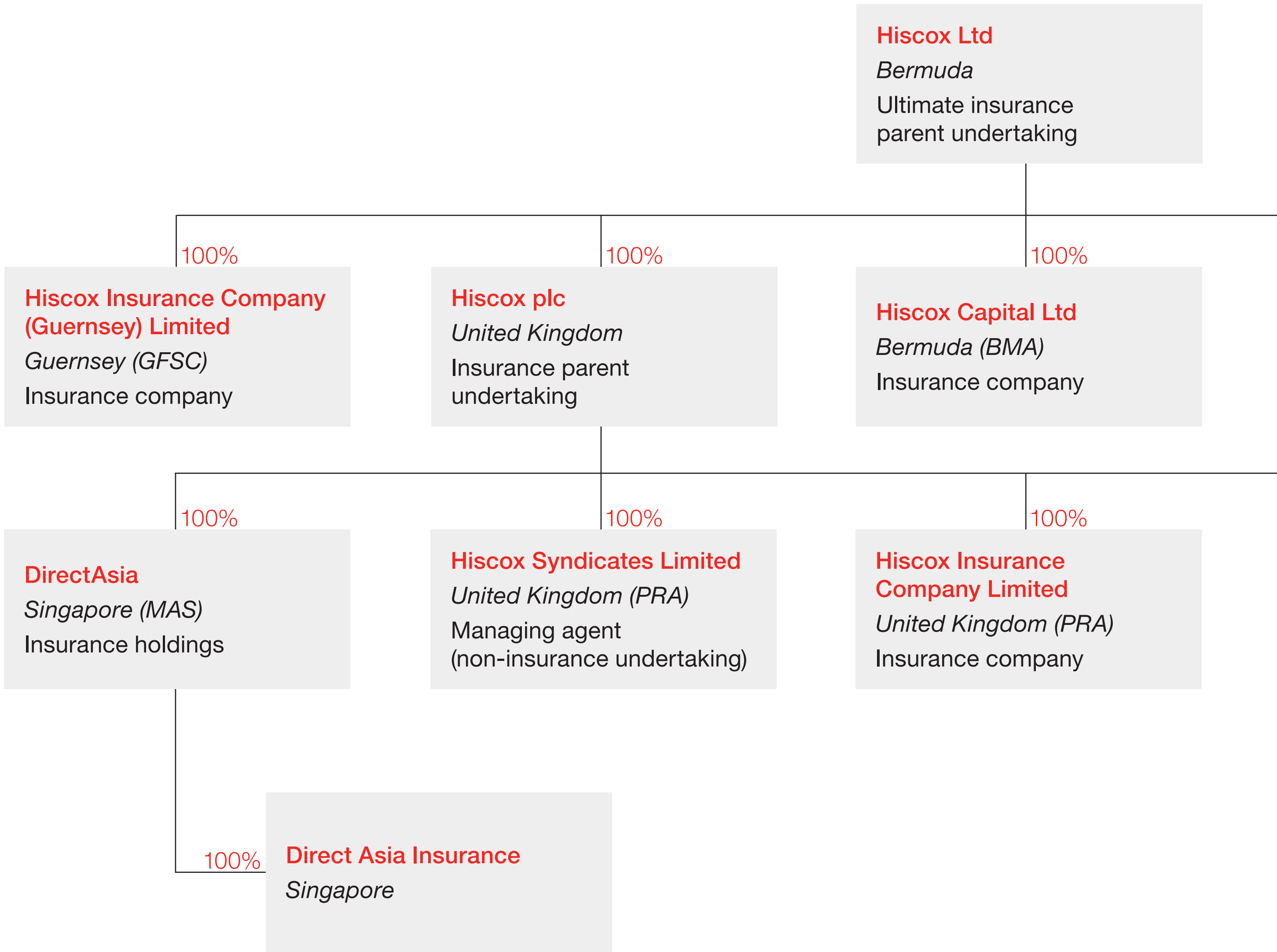
	2018 Tier 1	2018 Tier 2	2018 Tier 3	2017 Tier 1	2017 Tier 2	2017 Tier 3
Hiscox Ltd ($000)	2,445,338	465,578	–	2,542,884	392,319	–
HIB ($000)	601,034	96,889	–	981,618	32,647	–
HCL ($000)	871,354	25,000	–	885,445	5,000	–

Source: BSCR – summary.

Appendix I
Hiscox family tree (abridged)

Key

% shareholding and voting rights
Name of insurance group member
Location of head office (and regulator IF APL)
Principal activity



MAS – Monetary Authority of Singapore
BMA – Bermuda Monetary Authority
GFSC – Guernsey Financial Services Commission
PRA – Prudential Regulation Authority

100%
Hiscox Insurance Company (Bermuda) Limited
Bermuda (BMA)
Insurance company

100%
Hiscox SA
Luxembourg
Insurance carrier

100%
Kiskadee Capital Ltd
Bermuda (BMA)
Holding company

100%
Hiscox Insurance Company Inc.
United States
(US state regulator)
Insurance company

100%
Hiscox Dedicated Corporate Member Limited
United Kingdom
Lloyd's corporate name

Cardinal Re Ltd
Bermuda (BMA)
Special purpose insurer
100%

Hiscox Re Insurance Linked Strategies Ltd
Bermuda (BMA)
Investment manager
100%

Appendix II
Board members' details and experience

Ltd Board	HIB Board	HCL Board
Robert Childs (Chairman)	Richard Watson (Chairman)	Richard Watson (Chairman)
Caroline Foulger Audit Committee Chair	Joel Aronchick Risk Committee Chair	Elizabeth Breeze
Michael Goodwin	Elizabeth Breeze	Aki Hussain
Thomas Hürlimann	Caroline Foulger	Michael Krefta
Aki Hussain	Aki Hussain	Marc Wetherhill
Colin Keogh Remuneration Committee Chair	Michael Krefta	
Anne MacDonald	Constantinos Miranthis	
Bronek Masojada	Adam Szakmary	
Robert McMillan	Marc Wetherhill	
Constantinos Miranthis		
Lynn Pike Risk Committee Chair		
Richard Watson		

Joel Aronchick
HIB Non Executive Director
Joel Aronchick was appointed to the HIB Board in May 2015, having initially joined the Board of Hiscox USA as a Non Executive Director in 2014. He is a retired Senior Executive of the Chubb Group of Insurance Companies, where he held a number of critical positions across different geographies during his 40-year tenure, and was a Director of several of Chubb's operating companies including Chubb Re. He has held a number of other board Directorships, predominantly within industry trade associations and also with the Associated Aviation Underwriters, a Joint Venture aviation insurance company.

Elizabeth Breeze
HIB and HCL Director
Elizabeth Breeze joined Hiscox in 2012, initially as the Group's Technical Accountant, a role which included advising on the initial set up of the Group's insurance-linked security (ILS) vehicles. In 2014 she was appointed Head of Finance for Hiscox UK, and in 2018 she returned to Bermuda to take up the role of CFO of Hiscox Re & ILS, having lived on the island for a number of years while working in the insurance audit and assurance practice at KPMG, where she qualified as a Chartered Accountant. She was appointed to the HIB Board on 6 December 2018.

Robert Childs
Hiscox Ltd Non Executive Chairman
Robert Childs joined Hiscox in 1986, served as the Active Underwriter of the Hiscox Lloyd's Syndicate 33 between 1993 and 2005, and was the Group's Chief Underwriting Officer until February 2013. In 2012 Robert joined the Council of Lloyd's. Robert was Chairman of the Lloyd's Market Association from January 2003 to May 2005. He is a Trustee of Enham (a charity for the disabled), former Chairman of the Advisory Board of the School of Management of Royal Holloway University of London, and Chairman of The Bermuda Society, and, in 2017, became Deputy Chairman of Lloyd's.

Caroline Foulger
Hiscox Ltd and HIB Non Executive Director
Caroline Foulger joined Hiscox Ltd as a Non Executive Director in January 2013 after having retired from a partnership at PwC on 31 December, 2012. She is Bermudian. In July 2014 she was appointed to the HIB Board. Until May 2012, she led PwC's Insurance and Reinsurance practice in Bermuda, and was also Head of the PwC Bermuda Government and Public Sector Practice. She is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Institute of Chartered Accountants of Bermuda and a member of the Institute of Directors. She is a Non Executive Director of the Bank of N.T. Butterfield & Son Limited and Oakley Capital Investments Limited.

Michael Goodwin
Hiscox Ltd Independent Non Executive Director
Michael Goodwin joined Hiscox in November 2017. He has over 25 years' experience in the insurance industry having worked for QBE Insurance between

1992 and 2012. He held a number of roles for QBE in the Australian and Asia Pacific markets and was the CEO for QBE Asia Pacific from 2007 to 2012. Michael is a Fellow of the Institute of Actuaries of Australia.

Thomas Hürlimann
Hiscox Ltd Independent Non Executive Director
Thomas Hürlimann joined Hiscox in November 2017. Thomas has 28 years' experience in banking, reinsurance and insurance. Most recently as CEO Global Corporate at Zurich Insurance Group, a business with US$9 billion premiums and a network in over 200 countries. Before that he worked at Swiss Re and started his career with National Westminster Bank. He holds an MBA from IMD.

Aki Hussain
Hiscox Ltd Executive Director and CFO
Aki Hussain joined Hiscox in 2016 from Prudential plc, where he spent seven years; latterly as Chief Financial Officer of Prudential UK and Europe. Prior to his time with Prudential, Aki held a number of senior roles in the financial services, telecoms and media sectors. He was Finance Director for the Consumer Bank division at Lloyds Banking Group until 2009, before which he was Finance Director for the Consumer division of ntl (now Virgin Media). Aki is a Chartered Accountant, having trained with KPMG.

Colin Keogh
Hiscox Ltd Non Executive Director
Colin Keogh joined Hiscox in November 2015. Colin has spent his career in financial services, principally at Close Brothers Group plc, where he worked for 24 years and was CEO from 2002 until 2009. Colin currently holds directorships at London-listed Virgin Money Holdings (UK) plc and is Chairman for a specialist financial services business Premium Credit Limited.

Michael Krefta
HIB and HCL Director
Mike joined Hiscox in 2003, working first as a management information analyst in the retail team before moving into catastrophe modeling as a senior analyst in the London Market business. Mike joined the reinsurance team in 2005, writing the global reinsurance account before moving on to run Syndicate 33's North America and Caribbean account in 2012. In 2013, Mike was appointed Director of Non Marine Underwriting for Hiscox Re and, in the same year, became a Hiscox Partner. In 2017, Mike relocated from London to Bermuda to become CEO of Hiscox Re & ILS.

Anne MacDonald
Hiscox Ltd Non Executive Director
Anne MacDonald joined Hiscox in May 2015. Anne has held the position of Chief Marketing Officer at four different Fortune 100 companies, marketing some of the most recognisable corporate names in the world – from Citigroup and Travelers to Macy's and PepsiCo. With an MBA from Bath University, Anne currently serves on the Board of Rentrak Corporation, the NASDAQ-listed global digital media measurement and research company serving the entertainment and advertising industries.

Bronek Masojada
Hiscox Ltd Executive Director and CEO
Bronek Masojada joined Hiscox in 1993. From 1989 to 1993 he was employed by McKinsey and Co. Bronek served as a Deputy Chairman of Lloyd's from 2001 to 2007 and was Chairman of the Lloyd's Tercentenary Research Foundation from 2008 to 2014. He is a past President of The Insurance Institute of London and immediate Past Master of The Worshipful Company of Insurers. He is currently a member of the Board of the Association of British Insurers.

Robert McMillan
Hiscox Ltd Non Executive Director
Robert McMillan joined the Hiscox Ltd Board in December 2010. He spent 24 years with the Progressive Insurance Corporation where he served in various positions including National Director of Product Development, then claims before becoming National Director of Marketing. He led Progressive's initiatives in multi-channel distribution, financial responsibility-based rating, and immediate response claims. He has received two United States patents related to motor insurance pricing. He has lectured on business innovation at the University of Virginia's Darden School of Business and at the Harvard Business School. He has been a Non Executive Director of Hiscox Inc. since March 2007.

Constantinos Miranthis
Hiscox Ltd Independent Non Executive Director
Costas Miranthis joined Hiscox in November 2017. He was President and CEO of PartnerRe, a position from which he stepped down in 2015. Prior to joining PartnerRe in 2002 he was a Principal of Tillinghast-Towers Perrin in its London office with responsibility for the European non-life practice. He is a Fellow of the Institute and Faculty of Actuaries and a member of the American Academy of Actuaries. He is also a past Chair of the European Reinsurance Association Board.

Lynn Pike
Hiscox Ltd Independent Non Executive Director
Lynn Pike joined Hiscox in May 2015. Lynn has 38 years' experience in the banking industry, most recently as President of Capital One Bank. Prior to Capital One, Lynn was President of Bank of America's Small Business Banking division, a US$2.1 billion revenue business, with oversight of 110,000 business clients and 2,000 employees. Dividing her time between California and Connecticut, Lynn currently serves on the private board of American Express Centurion Bank, Phoenix House Foundation and Bankwork$ Advisory Board.

Adam Szakmary
HIB Director
Adam Szakmary joined Hiscox in 2017 as Director of Underwriting for Hiscox Insurance Company (Bermuda) Limited. He joined from Blue Capital Management Limited, after initially working for

Montpelier Re, the former parent company of Blue Capital, where he was a founding executive of their Lloyd's platform. In 2012 he started Blue Capital as the founding Portfolio Manager and then in 2015 became CEO and Director of the platform.

Cindy Samuels
HIB and HCL Company Secretary
Cindy Samuels joined Hiscox in 2007. She is Bermudian. She has been working as a company secretary/corporate administrator since 1996. Cindy is Secretary of HAL, HCL, HIB, HSL, Blue Jay Reinsurance Ltd., Cardinal Re Ltd, Kiskadee Capital Ltd, Hiscox Re ILS Ltd, Hiscox Re ILS, Kiskadee Reinsurance 1 Ltd, Kiskadee Reinsurance 2 Ltd, and Assistant Secretary of Hiscox Ltd, Blue Jay Fund Ltd., Kiskadee Diversified Fund Ltd and Kiskadee Select Fund Ltd. Her previous employers were Appleby, Attride-Stirling & Woloniecki, Bank of Bermuda Limited, and Milligan-Whyte and Smith. She is a former Secretary and Vice President of The Sunshine League Children's Home and a former Secretary and President of Big Brothers Big Sisters of Bermuda.

Heather Shrubb
HIB and HCL Assistant Secretary
Heather Shrubb joined Hiscox in 2010. She is Bermudian. She has been working in administrative positions in the legal and financial services industries for many years. Heather is Assistant Secretary of HAL, HCL, HIB, HSL, Kiskadee Capital Ltd, Cardinal Re Ltd, Hiscox Re Insurance Linked Strategies Ltd, Kiskadee Reinsurance 1 Ltd, Kiskadee Reinsurance 2 Ltd. Her previous employers include Smith Barnard & Diel, Bank of Bermuda Limited, Butterfield Trust (Bermuda) Limited and HSBC Bank Bermuda Limited. She has served on the Board of the National Dance Foundation of Bermuda and is currently a board member of Poinciana Court Limited.

Richard Colin Watson
Hiscox Ltd Executive Director and CUO, HIB and HCL Chairman
Richard Watson joined Hiscox Syndicates in 1986 as Divisional Underwriter and became Managing Director in November 2005 until April 2009. He relocated to the USA to fill the position of CEO of Hiscox USA from April 2009 to June 2012. In September 2012 he returned to London to work as Group CUO of Hiscox Ltd a role he still maintains today. Richard serves as a Director of HIB, HIC, HICI, HIG, Hiscox Ltd, Hiscox Syndicates and Hiscox USA.

Marc Wetherhill
HIB Director and HCL Company Secretary
Marc joined Hiscox in 2017 as Group Company Secretary and General Counsel for Hiscox Limited. He joined from PartnerRe Group, where he was Chief Legal Counsel, Chief Compliance Officer and Secretary to the Board. Prior to his 14 years with Partner Re, Marc was a Solicitor with Appleby in Bermuda and Berryman in London – having qualified as a Solicitor in both England and Bermuda.

Glossary of terms

BMA	Bermuda Monetary Authority
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer
CUO	Chief Underwriting Officer
EBS	Economic balance sheet
ECR	Enhanced capital requirement
ENID	Events not in data
FAL	Funds at Lloyd's
GAC	Group Audit Committee
GCC	Group Credit Committee
GCM	Group Capital Model
GRC	Group Remuneration Committee
GRCC	Group Risk and Capital Committee
Group Rules	Insurance (Group Supervision) Rules 2011
GURC	Group Underwriting Review Committee
HAL	Hiscox Agency Ltd
HCL	Hiscox Capital Ltd
HDCM	Hiscox Dedicated Corporate Member Limited
HIB	Hiscox Insurance Company (Bermuda) Limited
HIC	Hiscox Insurance Company Limited
HICI	Hiscox Insurance Company Inc.
HIG	Hiscox Insurance Company (Guernsey) Limited
Hiscox	Hiscox Ltd
Hiscox Group/Group	Hiscox Ltd and its subsidiaries
Hiscox Re ILS	Hiscox Re Insurance Linked Strategies Ltd
HSL	Hiscox Syndicates Limited
IA	Internal audit
IBNR	Incurred but not reported
IELR	Initial expected loss ratio
IFRS	International financial reporting standards
Outsourcing policy	The Hiscox Group outsourcing policy
REMCO	The Remuneration Committee
Risk Co	The Risk Committee
RMC	Risk Management Committee
RMF	Risk management function
ROE	Return on equity
The Code	Insurance code of conduct
The Companies	Hiscox Ltd, Hiscox Insurance Company (Bermuda) Limited, and Hiscox Capital Ltd

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