Hiscox Ltd full year results
For the year ended 31 December 2022

"Delivering on our strategic priorities"

	2022	2021
Gross premiums written	$4,424.9m	$4,269.2m
Net premiums earned	$2,928.2m	$2,919.9m
Underwriting profit	$269.5m	$215.6m
Profit before tax	$44.7m	$190.8m
Earnings per share	12.1¢	55.3¢
Total ordinary dividend per share for the year	36.0¢	34.5¢
Net asset value per share	701.2¢	739.8¢
Group combined ratio	90.6%	93.2%
Return on equity	1.7%	8.1%
Investment return	(2.6)%	0.7%
Positive prior year development	$239.1m	$148.9m

Highlights

- Gross premiums written increased by 3.6% to $4,424.9 million (2021: $4,269.2 million), helped by an attractive rate environment across the Group, despite FX headwinds from a strengthening US Dollar.

- Strong underwriting profit of $269.5 million (2021: $215.6 million), the highest since 2015, up 25.0% on prior period, notwithstanding another year of elevated large natural catastrophe and man-made losses. Group combined ratio of 90.6% achieved.

- Hiscox Retail achieved a combined ratio of 94.8%, which returns the segment to the 90%-95% combined ratio range, a year ahead of the stated target, and we expect to operate within this range going forward[1].

- Hiscox Retail gross premiums written increased 5.1% in constant currency to $2,272.1 million (2021: $2,290.0 million), driven by strong growth in our commercial business. On a go-forward basis[2], Hiscox Retail grew 6.6% in constant currency.

  - Europe continued to grow strongly, up 13.6% year-on-year in constant currency, now passing the €500 million milestone.

  - A year of transition for Hiscox USA, as the business delivered two major change initiatives – repositioning of the broker portfolio which completed in the first half of the year and re-platforming of the digital partnerships and direct (DPD) business, which is now substantially complete. Excluding the impact of the former, Hiscox USA grew 5.6% year-on-year.

  - As a result of platform migration the US DPD business grew 9.7%, as previously guided. As the partnership business embeds on the new technology, growth will continue to be temporarily moderated with a subdued first quarter before building momentum towards the middle of the 5% to 15% range in 2023. Once the embedding of the partnership business is complete, growth is expected to accelerate, with no change to longer-term growth expectations.

  - The completion of the two change initiatives in the US combined with ongoing good growth in Europe and improving momentum in Hiscox UK means Hiscox Retail growth is expected to trend towards the middle of the 5% to 15% range in 2023.

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[1] Under IFRS 4.
[2] Adjusted for the reduction in gross premiums written in the US broker channel business over the course of 2021 and in the first half of 2022 to strategically reshape the portfolio towards smaller business customers with revenues below $100 million.

- In Hiscox London Market, our focus continues to be on disciplined growth and building balanced portfolios at attractive returns.
  - Gross premiums written declined 4.8% to $1,114.9 million (2021: $1,171.4 million), mainly due to the underwriting actions taken on the property binder portfolio. The attractive rating environment means London Market is expected to grow gross premiums written in 2023.
  - A strong combined ratio of 84.8% (2021: 89.1%) represents a 4.3 percentage points improvement on the prior year, after absorbing net losses from Hurricane Ian ($40 million) and Ukraine ($34 million). The business is building a strong track record of profitability with a third consecutive year of delivering a combined ratio in the 80% range.
- In Hiscox Re & ILS strong top-line growth is underpinned by ILS inflows in H1 2022 and an improving underwriting and rating environment.
  - Gross premiums written up 28.5% to $1,037.9 million, crossing the $1 billion milestone for the first time (2021: $807.8 million).
  - Combined ratio of 81.6% (2021: 68.0%) after absorbing Hurricane Ian ($90 million) net losses.
  - As a result of deploying organic capital at 1/1 2023 renewals, Re & ILS's January 2023 net premiums written were up 49% year-on-year.
- No material change to previously announced Group net losses from Hurricane Ian ($135 million) and the Russia/Ukraine conflict ($48 million).
- Conservatively reserved with a 8.9% margin above actuarial best estimate (2021: 11.7%). As uncertainty on prior-period losses reduced, we have moderated the margin to be at the upper end of the 5% - 10% range.
- Completed two legacy portfolio transactions (LPT) in 2022. Overall 23% of 2019 and prior years' gross reserves are reinsured up to a 1-in-200 downside risk through a total of four LPTs executed over the last two years.
- Deploying additional organically generated capital into the highly attractive reinsurance market, while remaining strongly capitalised with estimated Bermuda Solvency Capital Requirement (BSCR) of 197%.
- Investment result loss of $187.3 million (2021: profit of $51.2 million), primarily due to unrealised mark-to-market losses in our bond portfolio which are expected to unwind as the bonds mature. Bond reinvestment yield of 5.1% at 31 December 2022 (up from 1.0% at 31 December 2021) represents significant upside for 2023. The investment portfolio remains defensively positioned with short duration and 93% of fixed income portfolio in investment grade bonds.
- Final dividend of 24.0¢ per share.

Aki Hussain, Group Chief Executive Officer, Hiscox Ltd, commented:

"I am very pleased with the progress made across the Group during 2022, as we delivered the strongest underwriting result in seven years. We have a refined strategy, a new experienced and energetic leadership team, we have made significant progress in rolling out new-generation technology in the USA and Europe and we are enjoying our highest employee engagement scores in ten years.

"The outlook for 2023 is very positive. We are facing favourable market conditions in all of our key markets; our talented teams supported by a strong balance sheet and financial flexibility are set to make the most of the significant opportunities ahead.

ENDS

A conference call for investors and analysts will be held at 10:00 GMT on Wednesday, 8 March 2023.

Participant dial-in numbers:

United Kingdom (Local): 020 3936 2999
All other locations: +44 20 3936 2999
Participant access code: 864230

Inside information

This announcement contains inside information.

The person responsible for arranging and authorising the release of this announcement on behalf of the Company is Marc Wetherhill, Group Company Secretary and General Counsel.

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Notes to editors

About The Hiscox Group

Hiscox is a global specialist insurer, headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). Our ambition is to be a respected specialist insurer with a diverse portfolio by product and geography. We believe that building balance between catastrophe-exposed business and less volatile local specialty business gives us opportunities for profitable growth throughout the insurance cycle.

The Hiscox Group employs over 3,000 people in 14 countries, and has customers worldwide. Through the retail businesses in the UK, Europe, Asia and the USA, we offer a range of specialist insurance for professionals and business customers as well as homeowners. Internationally traded, bigger ticket business and reinsurance is underwritten through Hiscox London Market and Hiscox Re & ILS.

Our values define our business, with a focus on people, courage, ownership and integrity. We pride ourselves on being true to our word and our award-winning claims service is testament to that. For more information, visit www.hiscoxgroup.com.

HISCOX

Chairman’s statement

Before I provide my usual commentary on the business, we have announced with our 2022 results that I will be stepping down as Chairman during 2023, and the Board has commenced the search for my successor.

After 37 years at Hiscox and 50 in the industry I am very happy that I will be passing the baton when the business is in such a good place – excellent leadership, strongly capitalised, with favourable market conditions and huge opportunities ahead.

An important job for any Chairman is overseeing a Chief Executive transition and I have been glad not only to ensure a seamless transition from Bronek to Aki but also to work more closely with Aki in this, his first year as Group CEO. Aki has brought new insights and developed a strong talented Executive team, and when the time comes, I will retire a happy shareholder.

And now for the balance of my report.

Performance

It has been a pivotal year for Hiscox, with new leadership and an evolved strategy being tested by a turbulent operating environment, and I am very pleased with our performance.

Although it has been an active year for catastrophes, both man-made and natural, we have made a strong underwriting profit of $269.5 million thanks to the discipline of our teams. This good performance has been offset by unrealised investment losses on our bond portfolios, but we expect these to unwind as our bonds mature.

An important job for any Chairman is overseeing a Chief Executive transition and I have been glad not only to ensure a seamless transition from Bronek to Aki but also to work more closely with Aki in this, his first year as Group Chief Executive Officer. Aki has brought new insights and developed a strong, talented Executive team. Aki has embedded a refined strategy that is reducing the volatility profile for the Group. He has also assembled an impressive team who are delivering technological and operational changes that are being well received by both business partners and our people.

People

We had to navigate a challenging employment market during the year, as the war for talent continued. I am therefore pleased that we have not only maintained top talent but also attracted many more.

Aki’s first key appointment was Paul Cooper, our Group Chief Financial Officer, who joined the business in May. He has over 25 years of financial services experience across both the retail and Lloyd’s insurance markets and is already bringing valuable external perspectives to our organisation. I remember Paul from his previous time at Hiscox, when he was Finance Director for Hiscox UK and Europe, and have enjoyed working with him again.

After 15 years with the Group, Amanda Brown, our Chief Human Resources Officer, retired during 2022, and I would like to thank her for her sage counsel and clarity of thought over the years, which I have personally valued and so too has our Board. She has been succeeded by Nicola Grant, who joined us from ING Group and brings a wealth of experience in engaging and leading large workforces across multiple markets.

At the same time Jon Dye joined as Hiscox UK Chief Executive Officer. Jon is a recognised industry leader with solid CEO experience and a fantastic track record of building profitable businesses. His broker relationships, leadership and energy are already making a difference.

These appointments, along with the promotion of Stéphane Flaquet to Group Chief Operations and Technology Officer, have resulted in a very capable new Group Executive Committee formed under Aki’s leadership.

Beyond the top team, I am extremely proud that we are reporting our best employee engagement score for ten years. Not only do the overwhelming majority of our people feel proud to work at Hiscox (84%), they would also recommend Hiscox as a great place to work (81%) and believe that Hiscox has an outstanding future (76%). Aki has to take a lot of credit for this, along with his leadership team.

Environmental, social and governance (ESG)

In a year of pronounced geopolitical and macroeconomic challenges, ESG has not been far from our minds and conversations. Aki will cover in his Chief Executive's report the environmental and governance aspects that the business has been thinking about, and the huge amount of work that has been done to support our colleagues on the 'social' side of ESG. But as Chair of the Hiscox Foundation in the UK, our charitable foundation, I am especially proud that we have donated $1.8 million to good causes this year.

This has included one-off support and multi-year partnerships, in line with our three strategic pillars of charitable giving, as well as targeted donations that recognise the Russia/Ukraine conflict, floods in Pakistan, and the rising cost of living where – to reflect the rising costs that charities are facing – we increased our donations to multi-year partners in line with inflation for the current financial year. It is also why we are working with MyBnk for an extended period to support their delivery of expert-led financial education to school children and young people across the UK, recognising the importance of learning financial capability skills from a young age.

I know that playing an active part in our communities matters to our people too because they spent over 1,400 hours volunteering during 2022, supporting not only some of our office charity partners such as Spear Bethnal Green and Colchester Foodbank, which are chosen by employees, but also causes that are personally important to them.

Outlook

We live and work in turbulent geopolitical times and this is where the insurance market can come into its own. As a specialist insurer offering coverage across classes that include political violence, kidnap and ransom, cyber, the full range of professional indemnity and property damage we are well placed to help customers manage their risks. The opportunities in our big-ticket businesses are huge and the rating environment is with us in a way that you could argue we haven't seen for decades. We will still be trimming the sails in various places, recognising our lower volatility profile, but there is nothing like a price rise to reduce volatility.

The opportunities are equally huge in our retail businesses, where the hard work over the last three years to replace core systems is reaching a point where they can propel these businesses in their next growth phase. With new leadership in Hiscox UK and strengthened leadership in Hiscox USA and Hiscox Europe, each business is attractively positioned for what lies ahead.

In concluding this, my last Chairman's statement, I truly believe we are on the cusp of something great – ready to make the most of the excellent markets before us.

Robert Childs
Chairman

Chief Executive's report

In my first year as Group Chief Executive Officer, I am pleased to report the Group delivered a strong result during a year of heightened geopolitical uncertainty, economic unpredictability and natural catastrophe losses. An underwriting profit of $269.5 million (2021: $215.6 million) and a combined ratio of 90.6% (2021: 93.2%) is a testament to the disciplined execution of our strategy of building more balanced portfolios to drive reduced earnings volatility. The current complex underwriting environment presents opportunities for businesses like ours, with underwriting excellence at the core, backed by a strong balance sheet. I am excited about the hard market in reinsurance, which is a necessity to reverse multi-year losses suffered by the industry. These are the best conditions we have seen in over a decade and our talented and experienced underwriters have the financial flexibility to deploy capital to make the most of the opportunities ahead.

2022 has been a year of delivery for our Retail business with many key milestones achieved. In the USA, our largest retail market, we completed the strategic repositioning of the broker channel business and substantially delivered the technology transformation programme of our DPD business, setting us up for growth acceleration in 2023. In the UK we transitioned to new leadership under Jon Dye, an industry veteran with huge ambition for our business, and in Europe we passed the milestone of half a billion Euros of gross premiums written. Importantly, we have achieved our target of returning the Retail combined ratio to within the 90% to 95% range a year ahead of schedule, which is a testament to the decisive actions we have taken.

The business is in great shape and it is at this juncture that after 37 years of committed service, Robert Childs, Hiscox Chairman, has announced his intention to step down. I have personally greatly valued his ability to drive clarity in our decision-making, his advice and human approach, and the support he has given me ever since I joined the business and particularly now as CEO. He has been instrumental in transforming Hiscox into a successful global business and I wish him all the best in his well-earned retirement.

Rates

2022 performance benefitted from a favourable rate environment across all Hiscox businesses, with rates in reinsurance now exhibiting all the signs of a hard market. This is underpinning continued rate strengthening in primary insurance, mainly wholesale.

Hiscox Re & ILS benefitted from an average risk adjusted rate increase of 13% in the period, above our expectations. This is driven primarily by North American property and retrocession, with rates up 14% and 16% respectively, with Florida exhibiting particularly hard market conditions. Specialty lines also experienced double-digit increases, driven by cyber and terrorism, with rates up 42% and 26% respectively. Since 2017, this business has achieved cumulative rate increases of over 50% across the portfolio.

The reinsurance marketplace is undergoing a seismic shift, with 2022 rates above the 2012 level, and we anticipate material improvement across nearly all lines for 2023. Hurricane Ian served as a catalyst, among other factors, following many years of losses across the sector, leading to significant improvement in the rating environment. Capacity continued to reduce during 2022 both in the traditional arena and the ILS space, as a result of another year of industry losses and volatility in the investment markets. This is leading to a true hard market for catastrophe-exposed risks. We are witnessing the best market conditions in over a decade and have deployed additional capital at January renewals, achieving risk-adjusted rate increases of 45% in property and 26% in specialty.

In 2022, Hiscox London Market benefitted from an average rate increase of 6%, which was ahead of our expectations. Since 2017, this business has achieved cumulative rate increases of 70%. Rate growth remained positive for all classes of business except D&O, which is already very attractively priced, having achieved cumulative rate increases of over 240% since the end of 2017. Overall the rate outlook for 2023 is positive, underpinned by the macro-economic environment and reinsurance costs, with the strongest growth expected in terrorism and property lines.

While pricing in Hiscox Retail is generally less cyclical, in 2022 it benefitted from an average rate increase of 7%. This was led by Hiscox Europe where on average rates were up 8%, underpinned by double-digit rate increases in cyber, commercial property and traditional professional indemnity. In Hiscox USA on average rates were up 7%, with strong rate growth in cyber and allied health. Hiscox UK saw rate increases of 5% on average, with strong rate momentum in cyber, commercial property and entertainment.

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Overall, the premium growth achieved by the Group through rate and indexation in 2022 kept pace with our inflation assumptions. As we look forward, the rate outlook for 2023 remains strong, particularly in reinsurance.

Claims

2022 was another year with elevated large losses, both natural catastrophe and man-made, so it is pleasing to see that in spite of these challenges Hiscox maintained strong profitability, delivering a Group combined ratio of 90.6%. There are no material changes to previously announced net loss estimates for Hurricane Ian and the Russia/Ukraine conflict.

As previously communicated, the Group reserved $135 million net of reinsurance including reinstatement premiums for Hurricane Ian, based on an insured market loss of $55 billion. The majority of our exposure is in big-ticket lines: $90 million net in Re & ILS and $40 million net in London Market. This represents a modest exposure for Hiscox London Market, as the business had pulled back from under-priced Florida business in the preceding years. Estimated net losses for the Retail portfolio are modest at $5 million.

The Russia/Ukraine conflict tragically continues to be a live event. The human cost of this event is immense and long-lasting and our thoughts are with all those who are directly or indirectly impacted. Hiscox's estimated ultimate loss from all risks in the Ukraine and Russia remains unchanged at $48 million net of reinsurance[3], with just under three quarters of it attributable to Hiscox London Market. The majority of London Market's and all of Re & ILS's reserves comprise incurred but not reported (IBNR) losses. Hiscox London Market exited the aviation hull insurance business in 2018 and political risk/trade credit business in 2017.

While inflationary pressures continue to persist across our markets, the impact on our business is relatively contained due to the short-tail nature of our book, with the average duration of our liabilities at 1.9 years. Hiscox has a conservative reserving philosophy; continuously monitoring claims inflation trends and evaluating reserve adequacy to ensure we maintain profitability and a robust balance sheet position. In the first half of the year we proactively strengthened our best estimate by $55 million as a precautionary net inflationary load, and this remains unchanged after undertaking a similar review at the full year.

Throughout the course of 2022 we continued to proactively take action to manage volatility from the back-book, in particular in longer-tail lines where we have either exited portfolios or refined our underwriting strategy. In March, our Hiscox Re & ILS business executed an LPT, buying protection for our casualty reinsurance portfolio that is in run-off. Following that, in July, Hiscox London Market undertook an LPT to reinsure circa $116 million of reserves for 1993 to 2018 year of accounts. These deals, together with the two LPTs completed in 2021, mean that 23% of 2019 and prior years' gross reserves are reinsured up to a 1-in-200 downside risk.

At a Group level we also hold margin above best estimate as an additional buffer to compensate for the uncertainty in timing and cost of claims. At the end of 2022 the margin stood at 8.9%, down from 11.0% in the first half of the year. Through a combination of executing a number of LPT's and proactive action on addressing inflation, uncertainty on prior-period losses is reducing; consequently we have moderated the margin to be more in line with our target range of 5%-10%, although remaining at the upper end of the range. Furthermore the favourable prior-period run-off is reflected in reserve releases of $239 million in 2022, which are from all business segments.

With regards to the new business we are writing, we mitigate inflationary pressures through a combination of exposure indexation and rate increases. Our current pricing and reserving assumptions incorporate expected inflation which is a multiple of experience in recent times. Therefore, the increased premium we are collecting across the Group is keeping pace with inflation and our view of risk assumptions.

Hiscox Retail

Hiscox Retail comprises our retail businesses around the world: Hiscox UK, Hiscox Europe, Hiscox USA and Direct Asia. In this segment, our specialist knowledge and ongoing investment in the brand, distribution and technology reinforce our strong market position in an increasingly digital world.

Hiscox Retail grew gross premiums written by 5.1% in constant currency to $2,272.1 million (2021: $2,290.0 million) and added over 55,000 net new customers. Our commercial lines, which constitute over three quarters of Retail gross premiums written, grew 6.7% in constant currency, with strong momentum across the UK and Europe.

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[3] Including impact of reinstatement premiums.

We moderated our growth in Hiscox USA as we completed the US broker portfolio repositioning and substantially delivered the US DPD technology implementation. On a go-forward basis, Hiscox Retail grew 6.6% in constant currency. With these programmes complete, Hiscox Retail growth is expected to trend towards the middle of the 5%-15% range in 2023.

Hiscox Retail achieved a combined ratio of 94.8%, returning to the 90%-95% combined ratio range a year ahead of the stated target, despite the complex macroeconomic environment. We expect to operate within this range[4] going forward.

Our Retail business has been undergoing a multi-year technology transformation programme. The UK is developing next-generation e-trade capabilities for less complex broker intermediated business, complementing the direct-to-consumer digital platform. In 2022 we migrated the vast majority of the US DPD business onto the new technology stack, and core platform replacement is also underway in Germany and France, with Benelux to follow in 2023. Convenience for the customer is at the heart of our distribution philosophy. Whether our customers want to connect to a Hiscox employee or complete the customer journey entirely online, our combination of talented people, supported by these technology investments, creates the platform and opportunity to serve millions of customers. The technology enables greater levels of algorithmic underwriting, process automation, improved efficiency and will create operating leverage over time.

We will invest incrementally in brand across our Retail business in 2023. The Hiscox brand already has a strong market position, and it is the right time to bolster it further to drive growth over the long term.

Gross premiums written	$2,272.1 million (2021: $2,290.0 million)
Underwriting profit	$101.9 million (2021: $34.9 million)
(Loss)/profit before tax	$(3.4) million (2021: $54.9 million)
Combined ratio	94.8% (2021: 98.9%)

Hiscox UK

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

Hiscox UK gross premiums written were up 2.8% on a constant currency basis, but reduced by 6.4% to $778.0 million (2021: $831.1 million) in US Dollars due to the depreciation of Sterling. The business delivered a solid performance, with commercial lines showing strong growth of 8.5% in constant currency, boosted by rate improvements and excellent retention rates.

2022 marked strong growth in the number of online sales for UK direct commercial and we expect this trend to continue. The pace of our digital capability development, including e-trading for brokers, has significantly picked up this year and we continue to drive several strategic initiatives to improve our core digital capabilities.

The impact of the UK weather has been within our expectations.

Hiscox Europe

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

Hiscox Europe is the strongest growing business segment in the Hiscox Retail portfolio. Gross premiums written were up 13.6% in constant currency to $543.7 million (2021: $532.0 million), surpassing the €500 million milestone for the first time. All five markets in Europe delivered double-digit growth in constant currency, demonstrating our attractive, differentiated position and underpinned by strong growth in commercial lines of 16.2%.

Hiscox Germany, Europe's largest market, grew gross premiums written by 11.3% in constant currency to cross the €150 million mark. Hiscox Germany is a market leader in cyber, and continues to innovate and develop products that meet changing customer needs. In 2022, our German business launched a modular cyber product for businesses with less than €2.5 million in revenue. The modular approach allows customers to add cover as their

[4] Under IFRS 4.

needs change, and delivers a more efficient claims service should the need arise. After some early success, we plan to roll-out this new product in our other European markets.

The introduction of new core technology in our European businesses remains on track. This multi-year project is being implemented in phases with efficiencies gained as it progresses. Germany and France are already well underway and with Benelux to follow in 2023. The implementation is less complex than in the USA, as it is a country-by-country roll-out, and the digital business in Europe is nascent, although the potential is significant. We look forward to seeing significant benefits upon completion of the project not only for the business, in areas such as automation and efficiencies in policy administration, but also for customer experience in terms of market connectivity.

Hiscox USA

Hiscox USA focuses on underwriting small commercial risks distributed through brokers, partners and direct-to-consumers using both traditional and digital trading models. Our aspiration here remains to build America's leading small business insurer.

2022 was a year of transition for Hiscox USA, as the business delivered on two major change initiatives – the broker portfolio repositioning, through which we have exited circa $160 million of business since 2019, and the re-platforming of the US DPD business, which is now substantially complete. Hiscox USA's gross premiums written grew 2.1% to $897.9 million (2021: $879.2 million), up from 1.2% at the half year, as the effect of the broker business repositioning was weighted towards the start of the year.

While the overall growth of the US broker business was impacted by the tail of planned actions, in the second half, we have seen green shoots as our regional underwriting teams are back on the front foot, re-engaging with brokers to write profitable business in our go-forward lines. Our refreshed US senior leadership team and an enhanced business development function will strengthen the momentum behind this.

In the US DPD business, all direct-to-consumer customers have been on the new technology platform since June. Direct to consumer growth, as expected, was lower during the peak period of migration in the first half of 2022, but has started to accelerate notably since the end of the third quarter as the combination of new technology, a focused marketing drive and improved conversion rates take effect.

The migration of our partnership business, which represents two-thirds of US DPD, commenced in the second half of 2022, with the vast majority of partners now live on the new platform. Mirroring the direct experience, growth slowed during the peak migration period in the latter part of 2022. The partnerships business is now in the embedding phase which is expected to extend into the second half of 2023, as over 50,000 agents and producers who have access to the new portals, need time to develop familiarity with the technology and for partners to begin re-marketing the Hiscox platform. Consequently, we anticipate the production from new and existing partners to gradually ramp up through 2023, after a subdued first quarter 2023. We therefore expect US DPD to grow towards the middle of 5% to 15% range in 2023. Once embedding of partnership business is complete, growth is expected to accelerate.

Our partnerships team has already started to take actions to increase activity, at both the partner and agency level, to encourage the marketing of our platforms and to increase usage as we emerge from this period of technology migration. Following a two-year hiatus to the onboarding of new partners, in January 2023 we added 15 new partners to our digital platform and expect them to commence production in the second and third quarter.

The near and long term market opportunity is incredibly attractive. I expect momentum to build through the year as marketing takes effect; as new and existing partners and agents ramp up production and as technology benefits such as the potential for higher conversion rates begins to have a discernible impact.

Hiscox Asia

DirectAsia grew gross premiums written by 12% in constant currency to $52.5 million (2021: $47.7 million). Momentum picked up markedly in Singapore with the top line growing 19.5% due to the opening up of international travel, boosting travel insurance sales and motor partnerships. Thailand's premium growth was underpinned by partnership business.

Hiscox London Market

Hiscox London Market uses the global licences, distribution network and credit rating of Lloyd's to insure clients throughout the world.

Gross premiums written	$1,114.9 million (2021: $1,171.4 million)
Underwriting profit	$110.0 million (2021: $89.6 million)
Profit before tax	$53.0 million (2021: $104.8 million)
Combined ratio	84.8% (2021: 89.1%)

Hiscox London Market delivered a strong result in 2022, despite another active year of large losses. Our focus on building balanced portfolios delivered strong growth in selected lines, namely public D&O, general liability, upstream energy, terrorism and cargo; and at the same time reduced our exposure to what was under-priced catastrophe-exposed business in the binder portfolio. Overall, gross premiums written declined 4.8% to $1,114.9 million (2021: $1,171.4 million), with 3.3 percentage points due to planned reductions in property binder portfolios and the impact of Russian sanctions, which mainly affected our upstream energy and space portfolios. In addition, flood growth was tempered as competitive dynamics changed with National Flood Insurance Programme (NFIP) reducing prices, while we maintained our risk-based pricing approach. We expect competitive dynamics to improve following Hurricane Ian and as the demand for a flood specific product continues to grow in the US market given recent events.

Net premiums written increased 3.3%, as strong rate momentum made retaining more premium attractive.

Hiscox London Market delivered a $110.0 million underwriting profit, up 22.8% on the prior period. The combined ratio of 84.8% showed a 4.3 percentage point improvement year-on-year, despite a $40 million net loss from Hurricane Ian and $34 million net loss from the Russia/Ukraine conflict. This is the third consecutive year in which Hiscox London Market's combined ratio has been below 90%, which is a testament to the underwriting focus on creating more balanced and profitable portfolios.

Since 2018 we have reduced our property binder exposure by just under a half, non-renewing business which did not meet our profitability hurdles. The positive impact is clear to see in the robust underwriting result. I am pleased to report that the multi-year major changes in the property binder book are now substantially complete and we consider the remaining book to be rate adequate. On completion of this activity and in light of the ongoing attractive market conditions, we expect Hiscox London Market to grow gross premiums written in 2023, while continuing to maintain a disciplined approach.

We are also investing in our digital capabilities. Advances have been made in the digitalisation of pricing and underwriting models across general liability and terrorism. Throughout 2022 and into 2023 we have also been redesigning our FloodPlus and BindPlus systems so that they can be deployed in the Cloud, an important step which will make them scalable for future growth. At the same time, we have continued to make underwriting and pricing changes to maintain profitable growth in both lines. We will continue to drive further automation across our business to enhance our ability to select and price risks more effectively.

We also continue to innovate. For example, as economies across the globe are looking to transition to more sustainable energy production models, we are developing our strategy of participating in this shift. In the first half of 2023 we will launch a new ESG-focused Lloyd's sub-syndicate. At its early stage it will be nested within Syndicate 33 and lean on its existing stamp capacity. It will be complementary to Hiscox London Market's existing portfolio and will provide access to additional capacity for qualifying clients with positive ESG credentials, such as renewable power generators and energy storage providers. To further enhance the scale of this ESG syndicate, we will partner with third-party capital on our specialist ESG positive portfolio to supplement Syndicate 33's capacity. To build the portfolio we will utilise our existing underwriting talent and broker relationships to access clients while continuing to develop deep in-house expertise in the specialist sectors focused on the transition to the green economy, such as electric vehicles and renewables.

The outlook for 2023 is positive, as we are looking to broaden out in specialty and casualty lines through disciplined growth in attractively priced business. We will do this by working with our key broker relationships to seek and support attractive and profitable growth opportunities on their merit, and driving the entrepreneurial spirit of our talented underwriters.

Hiscox Re & ILS

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

Gross premiums written	$1,037.9 million (2021: $807.8 million)
Net premiums written	$268.1 million (2021: $274.2 million)
Underwriting profit	$57.6 million (2021: 91.1 million)
Profit before tax	$21.5. million (2021: $98.5 million)
Combined ratio	81.6% (2021: 68.0%)

Hiscox Re & ILS gross premiums written increased by 28.5% to $1,037.9 million (2021: $807.8 million) crossing the $1 billion milestone for the first time, as we benefitted from further hardening market conditions. Much of the growth was supported by ILS inflows in the first half of the year, while broadly maintaining our net written premium position. Excluding reinstatement premiums, gross premiums written grew 34.4%.

The business delivered a particularly strong performance in retrocession and North American and international property catastrophe lines, underpinned by increased demand and continued pressure on the supply of capacity in both the traditional and ILS space.

ILS assets under management (AUM) was $1.9 billion as at 31 December 2022 ($1.4 billion at 31 December 2021). During the first half of the year we secured net AUM inflows of $511 million. This was partly offset by $79 million net outflows in the second half. Despite the positive inflows of AUM in 2022, there is uncertainty within the market regarding the availability of new or replacement ILS capital in the near term, as a result of multiple years of significant loss events, latterly combined with economic volatility in the form of rapidly rising rates and decade-high inflation. In part, it is this uncertainty that drove improved rates and tightening of terms and conditions during the January 2023 renewals. It is into the resulting highly attractive market that Hiscox is deploying its own organically generated capital to fill the gap in the market that has been left by a combination of third-party capital contraction and retrenchment by some reinsurers.

Hiscox Re & ILS delivered a strong combined ratio of 81.6%, despite the $90 million net loss from Hurricane Ian. We continued to drive underwriting discipline by further reducing our exposure in the risk excess class. We have also successfully reduced our participations on aggregate excess of loss deals and will continue this disciplined underwriting action in 2023 designed to reduce exposure to secondary perils.

Investments

The total investment result was a loss of $187.3 million (2021: profit of $51.2 million), or a negative return of 2.6% (2021: positive return of 0.7%). Assets under management as at 31 December 2022 were $7.1 billion (2021: $7.3 billion).

Concern over inflation dominated the economic picture during 2022, as it remained at the highest levels in decades and proved persistent, exacerbated by disruptions to the global supply chain, lockdowns in China and the Russia/Ukraine conflict. Central banks responded with sharp rises in interest rates, pushing rates to levels last seen before the 2008 financial crisis. Despite high inflation and tightening monetary policy, unemployment remained low and economic growth was resilient across many regions. However, having seen interest rates rise sharply in developed markets, the focus shifted from inflation to the impact of higher interest rates on the economy. Growth expectations were revised down across the globe, and expectations of recession rose in key economies.

The upward move in risk-free rates, along with a weakening growth outlook, led to a repricing across a wide range of markets. Diversification was of limited help to portfolios given the broad spread of losses affecting most asset classes. Bond markets sold off as risk-free rates rose, leading to some of the weakest bond returns in decades. Credit spreads widened leading to losses on corporate bonds. Global equity indices ended the year down almost 20%, albeit a rally into year-end moderated the losses. Against this backdrop, the investment loss of $187.3 million was not unexpected. However, with 93% of our fixed income portfolio in investment grade bonds, most of the losses were mark-to-market. Our risk asset portfolios fell, though some exposures made absolute gains helping to alleviate the losses at the margin.

The reinvestment yield on the bond portfolio rose again in the final quarter to reach 5.1% as at 31 December 2022, up from 4.8% at the end of September 2022. The change during 2022 from the starting yield of just 1.0% is transformational for forward-looking returns. The short-dated nature of our portfolio means reinvestments are quickly raising the cash coupon component of returns. The portfolio has much improved prospects for investment returns in 2023 and beyond.

We have maintained a relatively defensive portfolio coming in to 2023. Duration remains short and credit quality remains high. Risk asset exposures are modest, with no direct exposure to UK commercial real estate, giving us room to add risk should opportunities arise. Otherwise we continue to look to incrementally improve long-term risk and capital-adjusted outcomes through further diversification.

Dividend, capital and liquidity management

In the continuing uncertain macroeconomic and geopolitical environment, Hiscox remains strongly capitalised against both regulatory and rating agency requirements.

The Hiscox Group Bermuda Solvency Capital Requirement (BSCR) ratio is estimated at 197%, as at 31 December 2022. The slight reduction to prior year follows an increase in capital allocation to Hiscox Re & ILS at January 2023 renewals as we deployed capital in a highly attractive market, in line with expectations. We remain comfortably above the S&P A rating threshold and significantly above the regulatory capital ratio requirement.

As the year progresses, we will continue to assess the opportunity and may deploy further capital if the market conditions persist. As we write the vast majority of our reinsurance business in the first half, there is an element of seasonality in the half-year solvency position which is smoothed out at the year-end due to continued capital generation, currently underpinned by improved underwriting conditions and investment result outlook.

The Group's available liquid resources are sufficient to execute against the business plan and act as a buffer to cover opportunities or market events, with fungible liquidity of around $1 billion. During September 2022, the Group issued £250 million of five-year unsubordinated unsecured notes[5]. The transaction was in excess of three times oversubscribed, demonstrating strong sentiment and market confidence in the Group. The issuance of the notes was timed to coincide with the redemption of £275 million unsubordinated debt[6] during December 2022. The funds raised mean that the Group continues to have strong liquidity and appropriate leverage of 20.6%.

The Board believes that paying a dividend is one important indicator of the financial health of the Group. Having carefully considered the capital requirements of the business, the Board has recommended to shareholders for approval the payment of the final dividend at 24.0 cents per share. This brings our total dividend for the year to 36.0 cents per share. The record date for the dividend will be 5 May 2023 and the payment date will be 13 June 2023. The Board proposes to offer a Scrip alternative, subject to the terms and conditions of Hiscox's 2022 Scrip Dividend Scheme. The last date for receipt of Scrip elections will be 22 May 2023 and the reference price will be announced on 31 May 2023. Further details on the dividend election process and Scrip alternative can be found on the investor relations section of our corporate website, www.hiscoxgroup.com.

People

During the year I took important steps to refresh our leadership team – the Group Executive Committee (GEC) – and the full team is now in place. Jon Dye, our new UK Chief Executive Officer, and Nicola Grant, our new Group Chief Human Resources Officer, joined the GEC in September; as well as Stéphane Flaquet who was appointed to the newly created role of Group Chief Operations and Technology Officer. Paul Cooper also joined the Executive team earlier in the year as our new Group Chief Financial Officer. The GEC contains a wealth of experience and knowledge combined with energy and passion and I look forward to working with them to deliver on the many opportunities that lie ahead of us.

At the forefront of my mind is always that people are our greatest asset. The future success of Hiscox depends on our ability to attract, nurture and retain high-calibre talent. A key focus this year has therefore been to enhance our employee value proposition to not only encourage these behaviours but exceed our employees' expectations. I am proud of the benefits that are available at Hiscox such as HSX:26, under which every permanent employee owns a part of the Group through the share grant we launched earlier in the year, and our sabbatical programme which entitles staff with five years of continuous service to an additional four weeks of paid leave. We also refreshed our global diversity, equity and inclusion (DEI) strategy and vision across the Group and put in place a new Group DEI

[5] Fixed rate of 6.00 per cent paid annually in arrears.
[6] Fixed rate of 2.00 per cent paid annually in arrears.

policy to better reflect our intent and approach. In addition, in recognition of the difficult economic circumstances currently facing our workforce, we also paid out a cost of living lump sum to our UK, European and Bermudian employees most impacted by the rising costs of energy, food and fuel.

The refined strategy, improving financial performance and distinctive benefits are having a positive effect; this is captured in our 2022 employee engagement scores which are our highest in ten years. Our people believe in the strategy and in our outstanding future. Clearly an engaged employee base bodes well for the drive and energy needed to seize the opportunities ahead and grow our business.

Finally, I want to highlight the completion of our long-anticipated London office move. On 31 October our London-based team moved into new office space at 22 Bishopsgate. This is the location where we have the largest concentration of people and is a meaningful milestone for Hiscox. The carefully thought out space has been designed as a place for us to carry out our business in a modern and collaborative environment, enabling new ways of working with each other and with our business partners.

Environmental, social and governance (ESG)

During 2022, we focused on further embedding our ESG structures, processes and policies and I was particularly proud to see our efforts to date recognised in an MSCI ESG rating upgrade from A to AA.

We started the year with the publication of our new greenhouse gas (GHG) targets for the Group and since then we have made solid progress towards embedding them in the business. We have started to develop a low-carbon transition plan for the Group to set out in more detail the journey towards meeting our ambitious targets, and intend to publish more information on this in line with UK regulatory requirements. We are also making good progress towards the first of our interim targets for transitioning our investment portfolio, with approximately 20% of our corporate bond portfolio having net-zero/Paris Agreement-aligned targets as at year-end.

We are continuing to consider the right approach for Hiscox when it comes to sustainable underwriting and investing, taking into account both our ESG exclusions policy and our responsible investment policy. In big-ticket underwriting, we monitor all risks according to their ESG profile and continue to decline and non-renew risks in line with our exclusions policy. Through this same tracking process we are able to monitor the positive risks we are supporting such as wind and solar energy, and electric vehicles. In reinsurance, we have exited from all business where 30% or more of subject premium is derived from restricted areas, and we continue to monitor our portfolio composition against our ESG focus areas, capturing programmes declined for ESG reasons in regular internal reporting. We have also made strong progress on the investment side where ESG is fully embedded in our investment processes: net-zero wording is now in all segregated investment manager mandates; we have enhanced the ESG credentials of our emerging market bond portfolio; and an investments-focused ESG dashboard is now a regular feature of Investment Committee reporting. Our sustainable assets including green/ESG bonds are now over $300 million, with over 5% of bond portfolios in green and ESG-labelled bonds.

I am especially excited about the potential for our ESG-focused Lloyd’s sub-syndicate.

2023 outlook

I am very optimistic about the outlook for 2023. Our Retail business is primed to accelerate growth towards the middle of 5%-15% range in 2023. We have completed the necessary underwriting actions in the US broker business and substantially completed the technology transition in US DPD; the UK is reinvigorated under new leadership and ambition, and Europe continues to go from strength to strength. Marketing spend has increased in all Retail markets to support our growth efforts.

The reinsurance market conditions are the best we have seen in over a decade. Hiscox is a net beneficiary of reinsurance rate hardening. The scale and breadth of our business, as well as the long-standing relationships developed with our reinsurance panel, have been an essential part of ensuring we secured the required retrocession protection to support our 2023 business plan.

Hiscox Re & ILS has the expertise, strong balance sheet and financial flexibility to capitalise on the current trading conditions. As a result of deploying our organic capital at 1 January 2023 renewals, our net premiums written in January 2023 were up 49% year-on-year. In 2023, net premium written growth is expected to exceed gross premium written growth.

Our London Market business is building a solid and dependable track record of profitability, and with the property portfolio changes now mostly complete, I expect to see the business grow as we continue to deploy underwriting aggregate with discipline in the improving market conditions. In addition, with the work underway to create leading capabilities in digital trading and underwriting the energy transition, there is excitement in the business about the coming years and the opportunity to play a key role in the London Market.

We expect the investment result, which has been a headwind over the last 12 months, to become a tailwind in 2023, as bond reinvestment yields reached 5.2% at the end of February.

Last but not least, change in how we present our numbers to the market is coming in the form of IFRS 17; however, this is purely a change in accounting standard, which has no impact on our business fundamentals. The strategy and the economics of the business are unchanged.

Finally, I would like to thank our employees, business partners and shareholders for their continued support.

Aki Hussain
Group Chief Executive Officer
8 March 2023

HISCOX

Condensed consolidated income statement

For the year ended 31 December 2022

	Note	**2022 Total $m**	2021 Total $m
Income			
Gross premiums written	6	**4,424.9**	4,269.2
Outward reinsurance premiums		**(1,444.9)**	(1,314.2)
Net premiums written		**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		**2,928.2**	2,919.9
Investment result	9	**(187.3)**	51.2
Other income	10	**46.5**	56.8
Total income		**2,787.4**	3,027.9
Expenses			
Claims and claim adjustment expenses		**(2,110.1)**	(2,185.5)
Reinsurance recoveries		**781.8**	755.1
Claims and claim adjustment expenses, net of reinsurance		**(1,328.3)**	(1,430.4)
Expenses for the acquisition of insurance contracts		**(1,015.8)**	(1,017.9)
Reinsurance commission income		**260.3**	283.2
Operational expenses	10	**(642.3)**	(622.7)
Net foreign exchange gain		**30.6**	0.7
Total expenses		**(2,695.5)**	(2,787.1)
Total income less expenses		**91.9**	240.8
Finance costs	11	**(48.1)**	(50.8)
Share of profit of associates after tax		**0.9**	0.8
Profit before tax		**44.7**	190.8
Tax expense	12	**(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	14	**12.1¢**	55.3¢
Diluted	14	**12.0¢**	54.7¢

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

HISCOX

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2022

	2022 Total $m	2021 Total $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	**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 to the condensed consolidated financial statements are an integral part of this document.

HISCOX

Condensed consolidated balance sheet

At 31 December 2022

	Note	2022 $m	2021 $m
Assets			
Employee retirement benefit asset	19	**20.9**	-
Goodwill and intangible assets		**320.4**	313.1
Property, plant and equipment		**133.1**	90.4
Investments in associates		**5.6**	5.7
Deferred tax assets		**53.7**	67.3
Deferred acquisition costs		**450.1**	436.9
Financial assets carried at fair value	16	**5,812.1**	6,041.3
Reinsurance assets	13	**3,899.8**	3,908.0
Loans and receivables including insurance receivables		**1,671.6**	1,678.2
Current tax assets		**4.0**	4.9
Cash and cash equivalents		**1,350.9**	1,300.7
Total assets		**13,722.2**	13,846.5
Equity and liabilities			
Shareholders' equity			
Share capital		**38.7**	38.7
Share premium		**517.6**	516.8
Contributed surplus		**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	19	**-**	35.1
Deferred tax liabilities		**0.2**	0.1
Insurance liabilities	13	**8,836.6**	8,868.4
Financial liabilities	16	**636.2**	746.7
Current tax liabilities		**14.1**	21.3
Trade and other payables		**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 to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated statement of changes in equity

For the year ended 31 December 2022

	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	-	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	-	0.2	-	-	-	**0.2**	-	**0.2**
Dividends paid to owners of the Company	-	-	-	-	(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	-	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	-	0.7	-	-	-	**0.7**	-	**0.7**
Dividends paid to owners of the Company	-	-	-	-	(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 to the condensed consolidated financial statements are an integral part of this document.

Condensed consolidated statement of cash flows

For the year ended 31 December 2022

	Note	2022	2021
		$m	$m
Profit before tax		**44.7**	190.8
Adjustments for:			
Net foreign exchange gains		**(30.6)**	(0.7)
Interest and equity dividend income	9	**(119.5)**	(88.1)
Interest expense	11	**48.1**	50.8
Net fair value losses on financial assets	9	**254.2**	57.9
Depreciation, amortisation and impairment	10	**60.0**	58.3
Charges in respect of share-based payments	10	**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	19	**(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		**0.1**	0.1
Proceeds from the issue of loan notes		**279.1**	-
Distributions made to owners of the Company	15	**(119.8)**	(39.2)
Repayment of borrowings	16	**(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	18	**1,350.9**	1,300.7

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

Notes to the condensed 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 condensed 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).

The basis of preparation and summary of accounting policies applicable to the Group's condensed consolidated financial statements can be found in Note 2 to the 2022 Annual Report and Accounts. The comparative figures are consistent with those presented in the Group's 2021 Annual Report and Accounts, except where noted. The Group has adopted new and amended accounting standards that are effective for annual periods beginning on 1 January 2022 and the adoption of these have no material impact on the Group's condensed consolidated financial statements.

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:

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. The impact on equity on adoption is not expected to be material. IFRS 9 has been endorsed by the UK Endorsement Board.

IFRS17 Insurance Contracts

IFRS 17 replaces IFRS 4 and is effective for annual periods beginning on or after 1 January 2023. IFRS 17 establishes specific principles for the recognition, measurement and presentation of insurance contracts issued and reinsurance contracts held by the Group. The Group has estimated the net impact to equity at 1 January 2022, the transition date, 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 IFRS17 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. IFRS 17 has been endorsed by the UK Endorsement Board.

Further information about these new accounting standards and their impact on the future reporting and presentation of the Group's results is disclosed in note 2 of the Annual Report and Accounts.

The Group's consolidated financial statements from which the condensed financial statements have been extracted have been audited. The auditor's report on the consolidated financial statements is unqualified and does not contain an emphasis-of-matter paragraph.

The condensed 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.

2. Basis of preparation (continued)

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 condensed consolidated financial statements.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The condensed consolidated financial statements are presented in US Dollars millions ($m) and rounded to the nearest hundred thousand Dollars, unless otherwise stated.

These condensed consolidated financial statements were approved on behalf of the Board of Directors by the Group Chief Executive Officer, Aki Hussain and the Group Chief Financial Officer, Paul Cooper. Accordingly, the financial statements were approved for issue on 8 March 2023.

3. Use of estimates and judgements

In preparing these condensed consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Estimates and assumptions are continually evaluated and are based on management's knowledge of current facts and circumstances, and their expectations of future events.

Significant accounting estimates

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 on the balance sheet 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 established liability.

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. 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).

Estimated Premium Income

Another key estimate contained within the Group's condensed consolidated financial statements is an estimate of gross premium 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 written premiums in the consolidated income statement and premiums receivable from insureds and cedants recorded on the consolidated balance sheet.

Employee Benefits

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.

Deferred Tax Asset

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. 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.

3. Use of estimates and judgements (continued)

Significant judgements

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

4. Financial, insurance and other risk management

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.

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 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.

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. Please refer to the 2022 Annual Report and Accounts for more information on risk management.

5. Related-party transactions

Transactions with related parties during the period are disclosed in note 33 of the Group's 2022 Annual Report and Accounts.

6. Operating segments

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

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

Hiscox Retail brings together the results of the Group's retail 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 previously 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.

HISCOX

6. Operating segments (continued)

Year ended 31 December 2022

	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**
Net premiums written	1,976.8	735.1	268.1	-	**2,980.0**
Net premiums earned	1,946.0	725.8	256.4	-	**2,928.2**
Investment result	(98.9)	(54.4)	(34.0)	-	**(187.3)**
Other income	15.9	7.4	20.8	2.4	**46.5**
Total income	1,863.0	678.8	243.2	2.4	**2,787.4**
Claims and claim adjustment expenses, net of reinsurance	(874.8)	(313.0)	(140.5)	-	**(1,328.3)**
Expenses for the acquisition of insurance contracts	(531.4)	(207.7)	(16.4)	-	**(755.5)**
Operational expenses	(453.8)	(102.5)	(62.7)	(23.3)	**(642.3)**
Net foreign exchange gains	-	-	-	30.6	**30.6**
Total expenses	(1,860.0)	(623.2)	(219.6)	7.3	**(2,695.5)**
Total income less expenses	3.0	55.6	23.6	9.7	**91.9**
Finance costs	(6.4)	(2.6)	(2.1)	(37.0)	**(48.1)**
Share of profit of associates after tax	-	-	-	0.9	**0.9**
Profit/(loss) before tax	(3.4)	53.0	21.5	(26.4)	**44.7**
100% ratio analysis*					
Claims ratio (%)	44.4%	43.8%	50.9%	-	**44.8%**
Expense ratio (%)	50.4%	41.0%	30.7%	-	**45.8%**
Combined ratio (%)**	94.8%	84.8%	81.6%	**-**	**90.6%**

HISCOX

6. Operating segments (continued)

Year ended 31 December 2021

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Gross premiums written	2,290.0	1,171.4	807.8	-	**4,269.2**
Net premiums written	1,969.3	711.5	274.2	-	**2,955.0**
Net premiums earned	1,958.6	690.3	271.0	-	**2,919.9**
Investment result	26.9	15.8	8.8	(0.3)	**51.2**
Other income	22.8	19.1	11.3	3.6	**56.8**
Total income	2,008.3	725.2	291.1	3.3	**3,027.9**
Claims and claim adjustment expenses, net of reinsurance	(985.9)	(333.9)	(110.6)	-	**(1,430.4)**
Expenses for the acquisition of insurance contracts	(524.9)	(193.9)	(15.9)	-	**(734.7)**
Operational expenses	(435.7)	(92.0)	(64.7)	(30.3)	**(622.7)**
Net foreign exchange gains	-	-	-	0.7	**0.7**
Total expenses	(1,946.5)	(619.8)	(191.2)	(29.6)	**(2,787.1)**
Total income less expenses	61.8	105.4	99.9	(26.3)	**240.8**
Finance costs	(6.9)	(0.6)	(1.4)	(41.9)	**(50.8)**
Share of profit of associates after tax	-	-	-	0.8	**0.8**
Profit/(loss) before tax	54.9	104.8	98.5	(67.4)	**190.8**
100% ratio analysis*					
Claims ratio (%)	50.0%	49.5%	40.0%	-	**48.9%**
Expense ratio (%)	48.9%	39.6%	28.0%	-	**44.3%**
Combined ratio (%)**	98.9%	89.1%	68.0%	**-**	**93.2%**

* 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.

** 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.

6. Operating segments (continued)

The tables presented below contain the net premiums earned, claims, acquisition expenses and operational expenses (excluding corporate centre expenses) at 100% ownership, to enable calculation of the ratios included in the operating segments.

Year ended 31 December 2022

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Total $m
Net premiums earned	1,975.5	977.0	300.6	3,253.1
Claims and claim adjustment expenses, net of reinsurance	(876.2)	(427.5)	(153.1)	(1,456.8)
Expenses for the acquisition of insurance contracts	(539.6)	(275.3)	(23.3)	(838.2)
Operational expenses	(456.8)	(125.1)	(68.8)	(650.7)

Year ended 31 December 2021

	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Total $m
Net premiums earned	1,985.0	924.1	313.3	3,222.4
Claims and claim adjustment expenses, net of reinsurance	(991.7)	(457.8)	(125.2)	(1,574.7)
Expenses for the acquisition of insurance contracts	(531.8)	(252.5)	(16.6)	(800.9)
Operational expenses	(439.1)	(114.0)	(71.1)	(624.2)

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7. Net asset value per share and net tangible asset value per share

	2022		2021	
	Net asset value (total equity)	**Net asset value per share**	Net asset value (total equity)	Net asset value per share
	$m	**cents**	$m	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).

8. 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.

9. Investment result

i. Analysis of investment result

The total investment result for the Group comprises:

	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	**(188.8)**	55.4
Net fair value gains on derivative financial instruments	**8.5**	1.7
Investment expenses	**(7.0)**	(5.9)
Total result	**(187.3)**	51.2

HISCOX

9. Investment result (continued)

ii. Investment return

	2022		2021	
	Return $m	**Yield %**	Return $m	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 return – financial assets	**(188.8)**	**(2.6)**	55.4	0.7

10. 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.

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).

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

11. Finance costs

	2022 $m	2021 $m
Interest charge associated with borrowings	**32.2**	30.7
Interest and expenses associated with bank borrowing facilities	**2.5**	7.5
Interest and charges associated with Letters of Credit	**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.

As at 31 December 2022, the total amount utilised by way of Letter of Credit to support the Funds at Lloyd's requirement was $266.0 million (2021: $266.0 million).

12. Tax expense

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

The amount charged in the condensed consolidated income statement comprises the following:

	2022 $m	2021 $m
Current tax expense	**2.8**	4.4
Deferred tax expense/(credit)	**0.2**	(3.1)
Total tax charged to the income statement	**3.0**	1.3

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.

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13. Insurance liabilities and reinsurance assets

	2022 $m	2021 $m
Gross		
Claims and claim adjustment expenses outstanding including IBNR	**6,960.2**	7,045.9
Unearned premiums	**1,876.4**	1,822.5
Total insurance liabilities, gross	**8,836.6**	8,868.4
Recoverable from reinsurers		
Claims and claim adjustment expenses outstanding including IBNR	**3,437.0**	3,492.8
Unearned premiums	**462.8**	415.2
Total reinsurers' share of insurance liabilities	**3,899.8**	3,908.0
Net		
Claims and claim adjustment expenses outstanding including IBNR	**3,523.2**	3,553.1
Unearned premiums	**1,413.6**	1,407.3
Total insurance liabilities, net	**4,936.8**	4,960.4

Net claims and claim adjustment expenses include releases of $239.1 million (2021: $148.9 million) related to reserves established in prior reporting periods.

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.

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%).

13. Insurance liabilities and reinsurance assets (continued)

The development of net claims reserves by accident years are detailed below.

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:	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	
one year 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		
two years later	863.1	897.8	1,022.0	1,215.3	1,563.6	1,708.9	1,464.2	1,814.7			
three years later	799.4	845.2	1,015.8	1,239.7	1,563.4	1,532.8	1,415.8				
four years later	794.1	820.1	1,015.9	1,279.5	1,450.9	1,459.6					
five years later	770.7	798.7	1,044.8	1,213.4	1,363.4						
six years later	769.4	793.5	1,007.6	1,142.2							
seven years later	769.9	782.1	963.5								
eight years later	754.2	754.3									
nine years later	741.0										
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.

13. Insurance liabilities and reinsurance assets (continued)

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.

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

14. Earnings per share

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

	2022	2021
Profit for the year attributable to owners of the Company ($m)	**41.7**	189.5
Weighted average number of ordinary shares in issue (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 owners of the Company ($m)	**41.7**	189.5
Weighted average number of ordinary shares in issue (thousands)	**344,130**	342,551
Adjustment 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 and 352,505 (2021: 128,080) options under Save As You Earn schemes and 457,100 (2021: nil) employee share awards.

15. 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.

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15. Dividends paid to owners of the Company (continued)

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.

16. Financial assets and liabilities

i. Analysis of financial assets carried at fair value

	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	**1.1**	1.1
Total financial assets carried at fair value	**5,812.1**	6,041.3

ii. Analysis of financial liabilities carried at fair value

	2022 **$m**	2021 $m
Derivative financial instruments	**0.3**	0.2
Total financial liabilities carried at fair value	**0.3**	0.2

iii. Analysis of financial liabilities carried at amortised cost

	2022 **$m**	2021 $m
Borrowings	**628.8**	743.7
Accrued interest on borrowings	**7.1**	2.8
Total financial liabilities carried at amortised cost	**635.9**	746.5

16. Financial assets and liabilities (continued)

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.

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: $4.6 million).

iv. Investment and cash allocation

	2022		2021	
	$m	**%**	$m	%
Debt and fixed income holdings	**5,426.6**	**76.3**	5,528.1	75.8
Equities and investment funds	**339.1**	**4.8**	461.2	6.3
Cash and cash equivalents	**1,350.9**	**18.9**	1,300.7	17.9
Total	**7,116.6**	**100.0**	7,290.0	100.0

v. Total investments and cash allocation by currency

	2022 **%**	2021 %
US Dollars	**68.9**	64.8
Sterling	**16.6**	21.9
Euro	**10.4**	8.9
Other currencies	**4.1**	4.4

17. Fair value measurements

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

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

17. Fair value measurements (continued)

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

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

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 intrading entities which are invested in various quoted investments. The fair value of these investment funds are based on the net asset value of the fund reported by independent pricing sources or the fund manager.

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, corporate bonds 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 both investment managers and investment custodians as discussed above. The Group records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US government agencies and corporate securities are based on a limited number of transactions for those securities and as such the Group considers these instruments to have similar characteristics to those instruments classified as Level 2. Also included within Level 2 are units held in traditional long funds and long and short special funds and over-the-counter derivatives.

Level 3 contains investments in limited partnerships, unquoted equity securities and the 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).

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.

17. Fair value measurements (continued)

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

	31 December 2022 Financial assets			
	Debt and fixed income holdings $m	Equities and investment funds $m	Insurance-linked funds $m	Total $m
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/(losses) in the year on securities held at the end of the year	**1.3**	**(2.4)**	**1.7**	**0.6**

	31 December 2021 Financial assets			
	Debt and fixed income holdings $m	Equities and investment funds $m	Insurance-linked funds $m	Total $m
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/(losses) in the year on securities held at the end of the year	0.1	-	(0.4)	(0.3)

18. Condensed consolidated cash flow statement

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

Included within cash and cash equivalents held by the Group are balances totalling $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.

19. Employee retirement benefit obligations

The table below provides a reconciliation of the movement in the Group's net defined benefit (surplus)/liability recognised in the Group's balance sheet:

	2022	2021
	$m	$m
Group defined benefit liability at beginning of the year	**35.1**	73.5
Third-party Names' share of liability at beginning of the year	**(12.3)**	(18.8)
Net defined benefit liability at beginning of the year	**22.8**	54.7
Total remeasurements included in other comprehensive income	**(34.9)**	(31.6)
Contribution by employer	**(13.5)**	-
Other movements	**0.4**	(0.3)
Net defined benefit (surplus)/liability at end of the year	**(25.2)**	22.8
Third-party Names' share of liability at end of the year	**4.3**	12.3
Group defined benefit (surplus)/liability at end of the year	**(20.9)**	35.1

Remeasurements include changes in actuarial assumptions, predominantly the application of a higher discount rate (2021: higher discount rate) being applied to the scheme liabilities and the reduction (2021: increase) in the fair value of the scheme assets. There was a contribution paid by the company of $13.5 million in 2022 (2021: nil).

Other movements include the defined benefit cost recognised in operating expenses and exchange gains/losses.

20. Post balance sheet events

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

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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 6, 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 8, along with an explanation of the calculation.

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

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