Hiscox Ltd
Report and Accounts
2019

Hiscox is a diversified international insurance group with a powerful brand, strong balance sheet and plenty of room to grow.

We are listed on the London Stock Exchange, headquartered in Bermuda, and currently have over 3,100 staff across 14 countries and 35 offices.

Our products and services reach every continent, and we are one of the only insurers to offer everything from small business and home insurance to reinsurance and insurance-linked securities.

As a Bermuda–incorporated company, Hiscox is not subject to the UK Companies Act. As a company listed on the London Stock Exchange, we comply with the requirements set out in the UK Corporate Governance Code (2018) and the Listing Rules and Disclosure & Transparency Rules of the of the UK Listing Authority. Our remuneration report is consistent with UK regulations. Any additional disclosures over and above these requirements, have been made for the benefit of shareholders, on a voluntary basis.

Connected

Together,
build something
better.

A restless spirit runs through Hiscox, which means we are never fully satisfied with what we have achieved.

Why being connected is so important to us

At Hiscox, we know that you achieve more together than you ever can alone. Our growth and success have been built on teamwork. We understand that by working as one to achieve shared goals, celebrating together when things go right and supporting each other when they go wrong, the memorable moments become even more special.

We get more from being part of something bigger. That's why we encourage everyone to step up, not step back. We're not the kind of people to walk past a ringing phone, or a colleague who we can see needs a hand.

We take the time to get to know the people we work with and work for – our customers.

We have courage in our convictions, but are also not afraid to ask other people for their opinions – because someone else might have a better solution.

We remember that it's not all about making money and working hard. Take time to have fun.

And we think about the implications of our decisions on everyone else in our Group, our customers, our industry and our community, because we're committed to building a sustainable business with a legacy we can all be proud of.

That's why in 2019 we adopted 'connected' as one of our new core values. It simply states what we've always known – that by being connected to our past and to each other we can build a stronger future.

For more information on our values

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We are an ambitious bunch and what drives us onwards are the opportunities ahead.

We come together to conquer our challenges and celebrate our victories.

Our success depends on our relationships with a network of experts beyond our business.

We work collaboratively towards our shared goals.

We are in this for the long term; we want to build a business that lasts and that everyone is proud to be part of.

Chapter 1:
From purpose
to performance

Our key performance indicators (KPIs)

2019 showed the value of our long-standing strategy of building and broadening the balance in our business between big-ticket lines and more steady retail earnings.

Financial KPIs

*These comparative figures have been restated to reflect previously announced tax provisions. See note 2.2 of the financial statements.

$4,030.7m
Gross premiums written ($m)

2019	4,030.7
2018	3,778.3
2017	3,286.0
2016	3,257.9
2015	2,972.7

$2,635.6m
Net premiums earned ($m)

2019	2,635.6
2018	2,573.6
2017	2,416.2
2016	2,271.3
2015	2,194.1

$53.1m
Profit before tax ($m)*

2019	53.1
2018	135.6
2017	37.8
2016	480.0
2015	329.3

105.7%
Combined ratio (%)

2019	105.7
2018	94.9
2017	99.9
2016	84.2
2015	85.0

17.2¢
Basic earnings per share (¢)*

2019	17.2
2018	41.6
2017	8.1
2016	159.0
2015	108.5

43.4¢
Ordinary dividend (¢)

2019	43.4
2018	41.9
2017	39.8
2016	35.0
2015	36.1

768.2¢
Net asset value per share (¢)*

2019	768.2
2018	798.6
2017	817.1
2016	792.5
2015	790.0

670.6¢
Tangible net asset value per share (¢)*

2019	670.6
2018	726.2
2017	751.5
2016	737.7
2015	723.8

2.2%
Return on equity (%)*

2019	2.2
2018	5.3
2017	1.0
2016	22.5
2015	15.6

Non-financial KPIs

71%

Employee engagement (%)

Our annual global employee engagement survey looks at how connected we feel to Hiscox, our managers, teams and roles. The results are shared widely and heavy influence our people strategy. In 2019, this led to a Group-wide effort to improve manager effectiveness.

2019	71%
2018	74%
2017	77%
2016	78%
2015	79%

78%

Broker satisfaction – London Market

Each year, we survey our London Market broker partners to understand more about their experience of working with Hiscox throughout the year. Their feedback is a reflection of our products and service levels, so receiving consistently good scores matters to us.

2019	78%
2018	76%
2017	66%
2016	76%

Data only available from 2016.

89%

Customer satisfaction – UK

In the UK, customers who speak to one of our Insurance Experts in our Customer Experience Centre in York are asked to rate their experience of Hiscox at the end of the call. Whether they have phoned for advice, a quote, to purchase a new policy or make changes to an existing one, their feedback helps us to constantly improve our service.

2019	89%
2018	90%
2017	90%

Data only available from 2017.

4th

Glassdoor's Best Places to Work – UK

Anonymous employee reviews on recruitment website Glassdoor are used to inform their annual 'Best Places to Work' ranking, and we are pleased to have scored so favourably out of the 50 companies included.

2019	4th place
2018	7th place
2017	8th place

Data only available from 2017.

48%

Broker satisfaction – UK

We annually survey our UK broker partners to understand how satisfied they are with the service they have received from Hiscox, and how likely they would be to recommend Hiscox to their clients. After a decline in satisfaction levels in 2018, in response to our usual service levels being impacted by systems and process changes in our UK business, it is encouraging to see improved satisfaction scores this year.

2019	48%
2018	35%
2017	62%
2016	69%
2015	66%

4.8/5

Customer reviews using Feefo – USA

In the USA, we ask customers to review their experience of Hiscox post purchase. We do this using Feefo, which has a five-star rating system, and are pleased to maintain such high scores year after year even as the business grows.

2019	4.8
2018	4.7
2017	4.7
2016	4.8
2015	4.8

From purpose to performance

Good performance does not develop in isolation. It flows from the many decisions we make, informed by our purpose, values, culture and vision, and our success in implementing them.

Everything we do flows from our purpose, because we realise we can achieve more together than we can on our own. For our purpose to be effective it needs to be coherent and widely understood. It needs to underpin our values, which must be embedded throughout the business. Our culture needs to reflect those values. Our vision needs to be clear and attainable. All of that needs to feed into our strategy and how we execute it, taking into account our business model, our customers, our people and other stakeholders' expectations.

This is how we get from purpose to performance.

Our purpose, values, culture and vision

In 2019, one of our strategic initiatives was to develop a purpose and refresh our values.

We have had a strong set of values for decades and we believe that they should be lived, not paid lip service to. Over time, as a business grows and changes, it is all too easy for a set of values to become lost in people's day-to-day work and the business' evolving priorities. That is why, every five years or so, we undertake an exercise to refresh our values, to ensure they resonate with our employees and have a genuine impact on the way we behave.

During the year, we hosted 26 workshops attended by over 500 employees in 17 locations to find out what makes them proud to be part of Hiscox, what values resonate with them and what values they see being lived. The Executive Committee debated these results in depth and refined our values and their meaning. We strive to make our five values – courage, ownership, integrity, connected and human – the heart of everything we do. Our challenge is to ensure that everyone at Hiscox lives them every day. In 2020, one of our strategic initiatives is to ensure these values become embedded across the Group.

At the same time, the Executive Committee focused on developing a meaningful purpose for the Group. This articulates why we exist – not simply what we do, but why and how we do it differently. It's our collective sense of identity which gives us strength in adversity and power in pursuing a common goal.

Our purpose

As experts in risk, we give people and businesses the confidence to realise their ambitions.

We want to give our customers, whether they are a small business, a risk manager for a large corporate, a homeowner or a collector, the confidence to pursue their ambitions. We exist to offer them peace of mind, by providing advice, expertise, a safety net or simply an arm around them when they need it most.

Our culture

"Culture isn't something you can pay lip service to, or that you can impose from the top. We work very hard at nurturing it and one of the things that has pleased me most as the Group has grown is how our culture and values have acted as a magnet for talented people."

Robert Childs, Chairman

Read more about our culture and values in our Chairman's statement
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Our vision

For Hiscox to be the leading specialist insurer in material markets – not the biggest, but the most respected. We want to be known by customers for being true to our word, as a great place to work and grow for those who are ambitious and talented, and to be seen as an industry leader in attitude, sales growth, profits and value creation.

Hiscox was ranked fourth in Glassdoor's 'Best Places to Work' in the UK, according to employee reviews.

Hiscox values

Our strategy and how we operate

Our long-held strategy has delivered throughout the insurance cycle. Central to this is a simple business model.

A strategy of diversity by product and geography

Hiscox has a long-held strategy to ensure we are not overly reliant on any one of our divisions for the Group's overall profits. As the chart to the right shows, we maintain a balance between big-ticket business – larger premium, globally traded and catastrophe-exposed – and the smaller premium, locally traded, relatively less volatile retail business.

As the nature of risk evolves, we want to be diversified in both the range of insurance we write and its geographical spread. Our business is truly international, with over 3,100 staff across 14 countries and 35 offices and a portfolio of products and services that reach every continent. We are one of the few insurers to cover every size of business, from one-man-bands right up to the largest multinationals; an approach which means we can adapt to market conditions and which gives us opportunities for profitable growth throughout the insurance cycle.

Read more about our performance by product and geography in our Chief Executive's report

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A specialist product approach

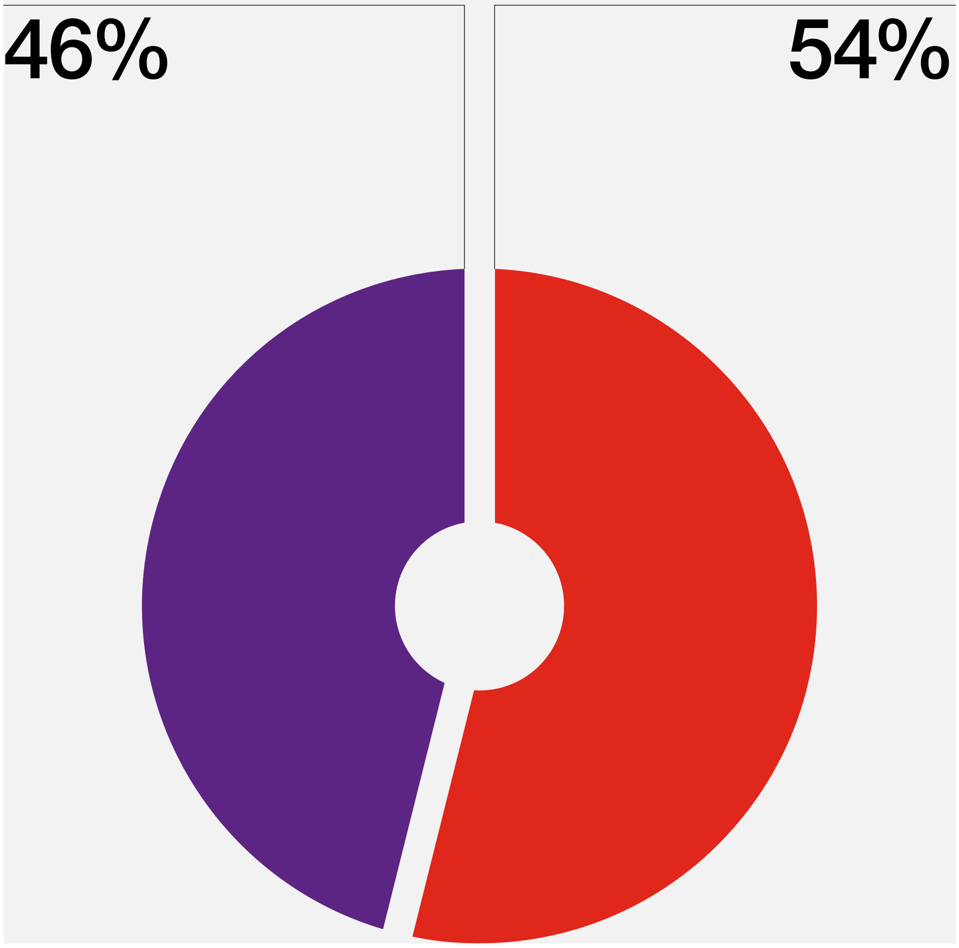
We seek to excel in our chosen markets, such as small business, flood or kidnap and ransom insurance. In some, such as fine art, we have deep foundations to build on; in others we are relative newcomers. To be successful in any of these fast-moving sectors, we invest in the right people, infrastructure and technology to give us the flexibility and nimbleness to respond quickly to changes. The common thread is our focus on niche products and services that differentiate us.

Big-ticket business

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

Retail business

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



Business model – a diversified portfolio, focused on organic growth

We aim to be industry leaders in material markets. We use our underwriting expertise in Bermuda and London to write larger premium, volatile or complex risks while building distribution and operational effectiveness in the UK, Europe, USA and Asia for our specialist retail products.

Customers – true to our word

We invest in creating a customer-focused ethos and a powerful differentiated brand that our target customers identify with.

Our people – a great place to work for the hard-working, ambitious and talented

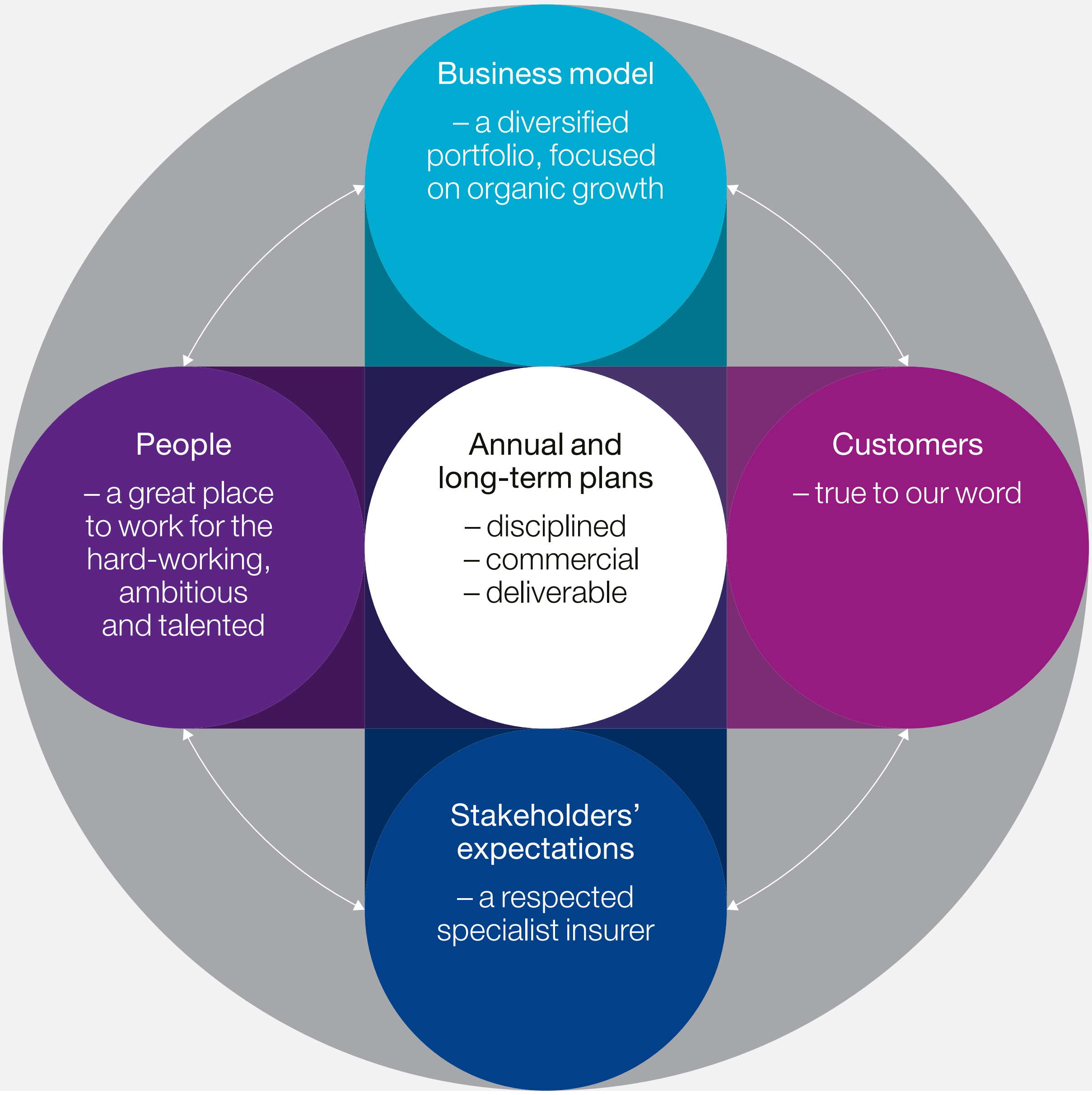
The quality of our people is a crucial factor in our continuing success. Their expertise, courage and dedication drive our reputation for quality and professionalism. In return, we strive to provide them with a work environment in which they can flourish.

Stakeholders' expectations – a respected specialist insurer

We constantly adapt to the evolving regulatory environment in each of our regions. We are accountable to our communities and responsible in how we operate.

Read more about our stakeholder engagement
32

A strategy built around our business model, customers, people and other stakeholders such as shareholders, regulators and communities



Business priorities and key risks

As an insurance business, understanding and managing risk is part of our DNA. This is how we will balance opportunity and risk in 2020.

Business priorities for 2020

Where we will focus our efforts in the year ahead.

Continuous optimisation of our underwriting portfolios

For 2020, actively managing our portfolio means a strong and sustained focus on underperforming lines, which we call Decile 10, where we will aggressively manage the lowest performing 10% of the business with investments in data and analytics. At the other end, through efficient capital allocation, we will grow our Quartile 1 top-performing lines.

Driving efficiency and disciplined execution

Our efforts are focused on delivering the major projects already under way, such as the systems changes taking place in our Retail businesses and our Group-wide finance transformation programme. These changes mean we are building a business that is fit for the future. We will also be driving a more disciplined approach to expenses and external commissions, and efficiently executing regulatory changes. We are now focused on embedding our approach in first-line teams and evolving our structures, processes and culture accordingly.

Embedding our refreshed values and vision

The new values and vision we developed in 2019 have been well received. They now need to become embedded throughout the business. For 2020, our focus will be to ensure they are well understood by everyone, demonstrated by our leadership, and visible in our daily life.

Read more about how we manage risks in our risk management section
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Read more about our key risks
hiscoxgroup.com/about-hiscox/risk-management

Key risks

As an insurance group, specific risks related to our business include:

Strategic risk

The possibility of adverse outcomes resulting from ineffective business plans and strategies, decision-making, resource allocation or adaptation to changes in the business environment. The Group's continuing success depends on how well we understand our clients, markets and the various internal and external factors affecting our business, and having a strategy in place to address risks and opportunities arising out of this. Not having the right strategy could have a detrimental impact on profitability, capital position, market share and reputation.

Underwriting risk

The risk that insurance premiums prove insufficient to cover future insurance claims and associated expenses. Likely causes include failing to price policies adequately, making poor risk selection decisions, allowing insurance exposures to accumulate to an unacceptable level, or accepting underwriting risks outside of agreed underwriting parameters. This includes people, process and system risks directly related to underwriting, such as human error in paying invalid claims or misquoting premium prices.

Reserving risk

The Group makes financial provisions for unpaid claims, defence costs and related expenses to cover liabilities both from reported claims and from 'incurred but not reported' (IBNR) claims. Reserving risk relates to the possibility of unsuitable case reserves and/or insufficient outstanding reserves being in place to meet incurred losses and associated expenses, which could affect the Group's future earnings and capital.

Credit risk

The risk of a reinsurance counterparty being subject to a default or downgrade that might cause them to renege on a reinsurance contract or alter the terms of an agreement. The Group buys reinsurance as a protection, but if our reinsurers found themselves unable to meet their obligations to us, this could put a strain on our earnings and capital and harm our financial condition and cash flows. Similarly, if a broker were to default, causing them to fail to pass premiums to us or pass the claims payment to a policyholder, this could result in Hiscox losing money.

Market risk

The threat of unfavourable or unexpected movements in the value of the Group's assets or the income expected from them. It includes risks related to investments – for example, losses within a given investment strategy, exposure to inappropriate assets or asset classes, or investments that fall outside of authorised strategic asset allocation or tactical asset allocation limits. It also includes issues of liquidity, which could result in the Group being unable to meet cash requirements from available resources within the appropriate timescales, such as being unable to pay liabilities to customers or other creditors when they fall due.

Operational risk

The risk of direct or indirect loss resulting from internal processes, people or systems, or from external events. This includes cyber security risk, which is the threat posed by the higher maturity of attack tools and methods and the increased motivation of cyber attackers, in conjunction with a failure to implement or maintain the systems and processes necessary to protect the confidentiality, integrity or availability of information and data. Operational risk also covers the potential for financial losses, information and cyber security risks which have legal, regulatory and reputational consequences, for example major IT, systems or service failures.

Regulatory, legal and tax governance

This relates to the business failing to act in accordance with its applicable regulatory requirements in all its applicable jurisdictions, or a deterioration in the quality of our relationship with one or more regulators. Legal risk is the risk of acting contrary to the relevant legal requirements in any of the jurisdictions in which we operate, while tax governance risk covers the consequences of any failure to act in accordance with relevant taxation laws or adapt to changes in taxation.

Why invest in Hiscox?
A track record of strong performance.

A focus on creating long-term shareholder value, with a progressive dividend policy

422%

total shareholder return over the last ten years, well above the FTSE All-Share of 118%.

$1.8bn

returned to shareholders since 2010.

3%

compound dividend growth over the last ten years.

A strong track record of creating profitable growth

By running a well-balanced business, underpinned by a clear set of values and characterised by a careful, disciplined approach to underwriting, our aim is to grow the business in a way that is organic, sustainable and profitable. As the chart opposite shows, over the past 26 years the Group's controlled income has been rising in a steady, sustained manner, despite the industry's innate volatility. That growth has been fuelled by progress across all our divisions and regions.

8%

compound growth over the last ten years in Hiscox Retail. Six per cent across the Group.

$30bn

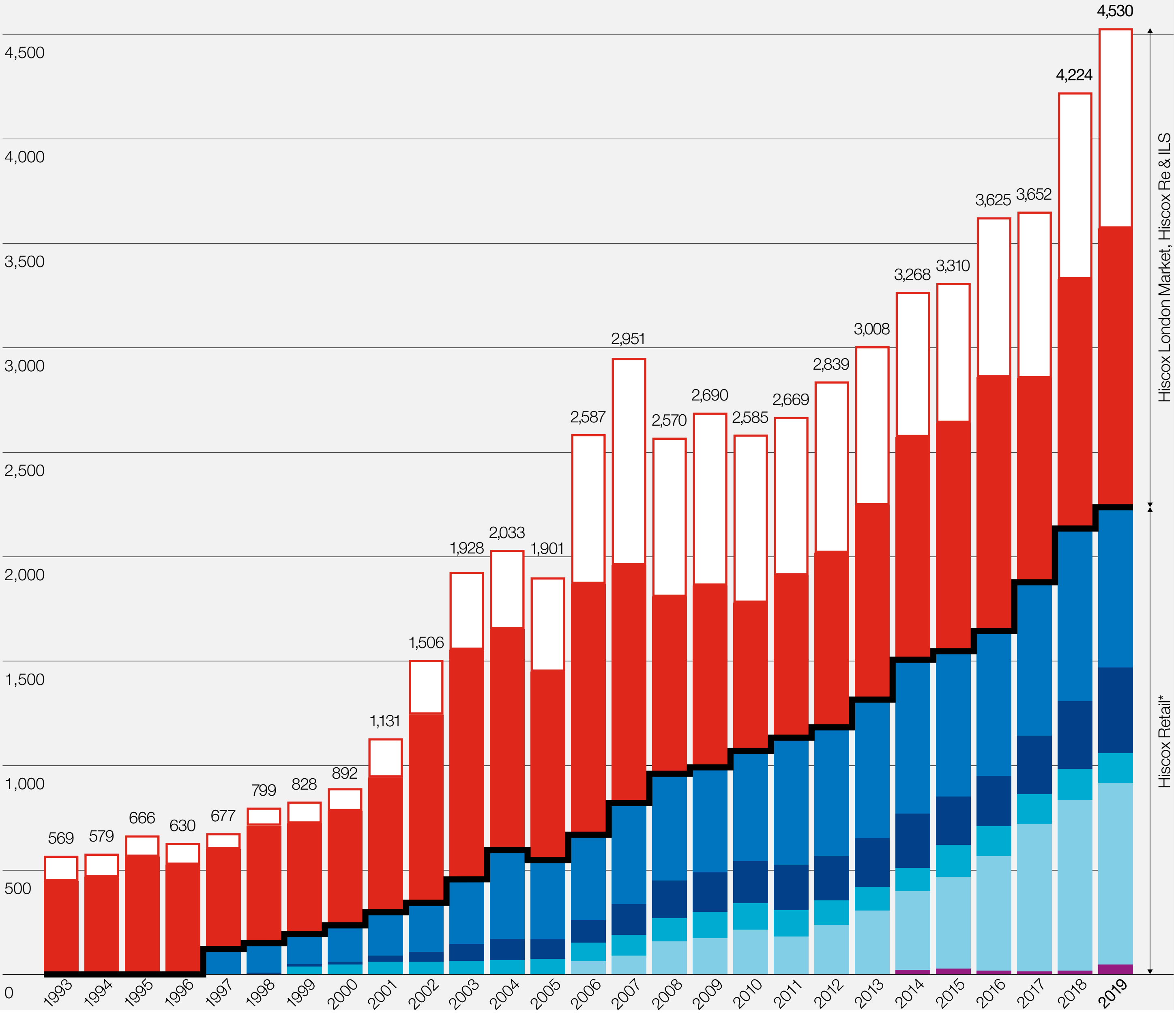
gross premiums written over the last ten years.

Total Group controlled income
($m)

Big-ticket business
- Hiscox Re & ILS
- Hiscox London Market

Retail business
- Hiscox UK
- Hiscox Europe
- Hiscox Special Risks
- Hiscox USA
- Hiscox Asia

*Hiscox Retail includes $1.5m GWP of fully reinsured run-off portfolios.



4,500
4,000
3,500
3,000
2,500
2,000
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0
569
579
666
630
677
799
828
892
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2,570
2,690
2,585
2,669
2,839
3,008
3,268
3,310
3,625
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Hiscox London Market, Hiscox Re & ILS
Hiscox Retail*

When one of our youngest Hiscox Re & ILS team members wanted to share with undergraduates his passion for insurance as being a great industry in which to work, he found a great way to connect Hiscox to university students.

He took the concept of a 'Hiscox University Challenge' and worked with colleagues throughout the Group to devise a programme that enabled students to cut their teeth on the sort of problems underwriters face every day, have professional skills training and meet Hiscox people, including Bronek, our CEO, to get a glimpse of what it's like to work here. The programme persuaded several of the students to pursue a career in insurance and they are now on our graduate trainee scheme.

Chapter 2:
A closer look

Chairman's statement

I am able to report a profit before tax of $53.1 million (2018: $135.6 million*), with the investment income of $223.0 million (2018: $38.1 million) being a key contributor to the result. Our strategy has remained the same as we continue to build our retail businesses to balance the more volatile big-ticket risks and it is working.

In 2019, the Retail businesses accounted for 54% of our overall gross premiums written and 73% of our net premiums written. As I have said before, the growth in the Retail arm demonstrates the power of compounding, each year we aim for between 5% and 15% growth. In 2019, Retail growth moderated to 7% (2018: 11.3%) in constant currency, in line with our expectations, given the result of action taken over the last 18 months to reduce in underperforming lines, and the impact of bedding in new IT systems and ways of working in the UK. Our US business accelerated growth as the year progressed, in the UK we are seeing momentum improve and our European business had another excellent year. The combined ratio for Hiscox Retail is 98.7%, outside of our target range of between 90%-95%, but still profitable, and it's needed to be as our big-ticket lines took a battering from a series of catastrophes in Japan and an active claims year in the London Market. Paying claims and restoring businesses is the raison d'etre of an insurance company. We have fulfilled our promise to pay this year, having paid out $1.2 billion in claims across the Group. The London Market has responded well, with increased prices across the board; the reinsurance market is a little slower to adjust and we will shrink accordingly.

Our balanced strategy means that we are still able to grow the dividend, despite a large loss year. As such, the Board is pleased to announce a final dividend of 29.6 cents, which is an increase of 3.5% in line with prior year dividend. The record date for the dividend will be 15 May 2020 and the payment date will be 10 June 2020.

Hiscox is a specialist insurer. We are not a generalist and aim to be very good at some things and leave other classes to the competition. The breadth of the reach of the Company, however, is increasingly impressive. In the big-ticket arena we participate as a significant participant in the ILS market and stretch all the way across into the retail business to offering personal and commercial customers online coverage. This innovative activity emanates from our restless culture of always trying to find a better way of doing insurance and reinsurance. I derive joy from seeing my colleagues creating new opportunities and making Hiscox such a stimulating environment and interesting place to work. New people are attracted by these qualities and the challenging careers we offer and I'm proud that we have been named in the top five of Glassdoor's Best Places to Work in 2020. This ability to attract talented and driven workers gives me confidence for the future.

In 2019, Hiscox London Market saw rate rises in 14 out 15 classes, overall up by 11% and continuing to rise.

The market

The market

The retail market in the USA is hardening in casualty lines, where we are seeing rate rises up to 13% in response to adverse claims trends. The action taken over the last 18 months to refocus our private company D&O and our media accounts is working. We are seeing increased competition in the UK direct-to-consumer commercial business and expect some impact following the IR35 legislation†, but we also see plenty of opportunity for profitable growth.

The reinsurance market has yet to show the same level of discipline as we have seen in our big-ticket insurance lines. It is felt that the very large reinsurers are happy to hold prices at last year's levels in order to squeeze some smaller players who are reliant on increasingly expensive retrocession. It was ever thus, and the dance will no doubt continue. It is very unlikely that the investment contribution will be so high in 2020 and hopefully reinsurance underwriting discipline will return. In the meantime, we will reduce our exposure, waiting for sense to prevail.

The big-ticket insurance business is getting interesting at last. In 2019, Hiscox London Market saw rate rises in 14 out of 15 classes, overall up by 11% and continuing to rise. The direction is good. We don't need to be greedy and drive huge volatility in pricing, but we need to be persistent in getting reasonable increases year-on-year to repair the damage done by a long decline. We have to be able to cover claims inflation, which has been equally persistent, driven by genuine increased costs but also by the ingenuity of lawyers to meet their budgets at the cost of ours.

Climate change

I have spent my working life wrestling with the impact of climate volatility on our business. The year-to-year nature of underwriting risk gives us a front row seat to climate variability. Investment in natural catastrophe research and modelling has always been important to us, and our market-leading catastrophe research team develops not just what we call the 'Hiscox view of risk', but now the 'Hiscox view of climate risk'. We will strengthen our expertise this year with two additional climate change researchers.

As debate around dealing with climate change and, more specifically, environment social and governance (ESG) issues, accelerate, so too do our efforts. We developed the Hiscox ESG framework during the year, which guides our efforts, with central themes that can be locally tailored and executed. We also publicly pledged our support for the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), and completed ESG disclosures for FTSE4Good, CDP, Dow Jones Sustainability Index and ClimateWise. Hiscox has been carbon neutral through offsetting since 2014. There is more to do, of course, and we are focused on the opportunity as well as the challenge that this brings.

The Board

We have a strong Board and Executive team. Our Non Executive Directors have a wealth of experience in insurance, reinsurance, marketing and banking, gained in all corners of the world. They have diverse backgrounds and importantly come from a number of different countries which is very important to us as we continue to build a global business. One test I always apply to a new Non Executive is that in some way, they have already been where we are going.

We enjoy having an Executive team that has had a long service with the Company, and a balance of experience and fresh thinking. This year, Richard Watson retired as Executive Director and Group Chief Underwriting Officer after 33 years with Hiscox. He has made a massive contribution to the business in that time in a variety of leadership roles and I thank him for everything he has done. He stays on with us as Non Executive Chairman of Hiscox Re & ILS and also as a Director of our London Market subsidiary. Both are roles he is admirably suited to, and qualified to do, and I am pleased we will continue to benefit from his expertise in this way.

Joanne Musselle replaces Richard as our new Chief Underwriting Officer for the Group and Executive Director. This was an internal appointment after an extensive search both inside and outside of Hiscox. Joanne has been with Hiscox since 2002 and has some very valuable experience under her belt, gained in claims management, as Chief Underwriting Officer for Hiscox UK & Ireland, and latterly as Chief Underwriting Officer of all our retail operations. I am delighted we will benefit from her expertise on the main Board.

Following nine years of service, at which point the UK Corporate Governance Code deems him not independent, Robert McMillan, stepped down from the Board in May. Bob's vast experience in building retail businesses has been invaluable and I am pleased that we will continue to benefit from his advice as he remains a Non Executive Director on our Hiscox USA Board.

We have the brand, talent and diversity of product and geography to make the most of the opportunities ahead.

Outlook

It is with great sadness that I report the death of Dr James King during 2019, who served on the main Board from 2006 to 2015 and was a valued counsellor. His sound common sense and incisive mind were very important to me. As a Bermudian, he was an able pilot helping us to navigate our arrival on Bermuda in 2006.

Culture and values

We periodically review our culture to make sure as a Group we have the right set of values to guide us.

We have recently finished a year-long initiative, which involved canvassing hundreds of employees from across the Group asking: what makes them proud to be a part of Hiscox, what values resonate with them and what values they see being lived. I am glad to say that this has resulted in some fine-tuning of our values to guarantee that they are fit for purpose for the future.

As a result of our values re-fresh we've adopted 'connected' as the theme of this year's Annual Report. It captures our sense of togetherness and our long-term commitment to building a sustainable business of which everyone can be proud. Part of that connectedness is also about looking out for each other, knowing the people we work with and creating networks beyond teams. I am proud of the WeMind initiative created in the UK by our employees; a mental health and well-being network that introduced mental health first aiders and oversees activities including a 'walk and talk club' to bring people together to discuss what's on their mind and delivered mental health training for over 100 people managers. It was gratifying for the team behind this initiative to receive the Outstanding Employee Network of the Year award at the European Diversity Awards 2019 and shows how our values are being lived by the people who work here. I thank them all for their hard work during the year.

Outlook

We aim to balance Hiscox Retail with the higher-volatility big-ticket businesses. Looking forward, we expect our retail business to get back on track, with better growth this year than last and an improved combined ratio. We will trim the reinsurance business to suit conditions. The London Market is seeing improvements in rates and conditions. In the past these improvements have made it straight through to much better returns. We have the brand, talent and diversity of product and geography to make the most of the opportunities ahead.

Robert Childs
2 March 2020

*Restated to reflect previously announced tax provisions. See note 2.2 to the financial statements.
†The new IR35 legislation that comes into effect from April 2020 will change the way in which contractor status is determined when working with medium and large organisations in the private sector.

Chief Executive's report

2019 showed the value of our long-standing strategy of building and broadening the balance in our business between big-ticket lines and more steady retail earnings.

Good performance by Hiscox UK and Hiscox Europe, combined with strong investment returns, offset the impact of a third year of catastrophe events and some adverse claims development in the big-ticket business and Hiscox USA. This allowed us to deliver a combined ratio of 105.7% (2018: 94.9%) and a pre-tax profit of $53.1 million (2018: $135.6 million*). This is below our ambitions and your expectations of us. We have taken necessary action which is having a positive impact.

Gross premiums written grew in constant currency by 8.1% to $4,030.7 million (2018: $3,778.3 million). We have seen good rate momentum in many areas, and will continue to grow in a disciplined way. We have cut over $200 million of underperforming business, but we are still growing having found new opportunities where conditions are good and rates are healthy. In the same way that our strategy of balance has given us resilience in the short term, it drives opportunities in the medium term and we are optimistic about the prospects for our $2.2 billion Retail business, and in the benefit of the repricing we are seeing in our London Market business.

I review each of our business areas in turn below.

Hiscox Retail

Hiscox Retail comprises our smaller ticket businesses in the UK, Europe, the USA and Asia, and our Special Risks business. In this division, our specialist knowledge and tailored products differentiate us and our ongoing investment in brand helps us build strong market positions.

Retail profits increased by 22% to $178.4 million (2018: $146.3 million*) with a combined ratio of 98.7% (2018: 93.6%). Investment returns were a material contributor and we were pleased that Hiscox Retail experienced continued positive prior year reserve development of $46 million (2018: $100 million) despite strengthening in a few poor performing lines.

As we said in our Q3 trading update, the 2019 combined ratio for Hiscox Retail is outside the 90-95% range we target for this division due to the impact of claims activity in the USA and a cautious approach to reserve development. Our US experience is due to three factors. First, like others in the US private company directors and officers' (D&O) market, we experienced an increase in claims costs on the employment practices liability element of the cover.

We now serve over 1.2 million retail customers generating $2.2 billion of premiums.

Hiscox Retail

Hiscox Retail

	2019 $m	2018 $m
Gross premiums written	2,196.3	2,087.1
Net premiums written	1,957.5	1,874.5
Underwriting profit	36.5	125.4
Investment result	133.9	19.9
Profit before tax	178.4	146.3†
Combined ratio (%)	98.7	93.6

†These figures have been restated to reflect previously announced tax provisions. See notes 2.2 and 4 to the financial statements.

Our lower D&O policy limits leaves us relatively insulated from 'jumbo awards', but the trickle-down effect increased average claim size. Second, the time to settle small business casualty claims in the USA has lengthened, increasing our currently outsourced legal costs. Finally, in line with our cautious approach, we are setting more prudent current year loss picks, and we expect to hold reserves for longer.

As we announced last year, we have responded firmly to these factors. We have reduced our private company D&O book from $80 million to less than $20 million and are investing in strengthening our internal claims capability to allow us to in-source more of our legal work. Rates for US private company D&O are turning and we are seeing increases of 13%. We are confident that our Retail combined ratio will improve by 1-2% per annum to return to our 90-95% combined ratio target range in 2022.

We now serve over 1.2 million Retail customers generating $2.2 billion of premiums, growth of 7.1% in constant currency (2018: 1 million customers and $2.1 billion GWP). A key priority has been building the brand as well as the infrastructure to operate effectively at this scale. In the last decade we have invested over $500 million in marketing of which $88.9 million was in the last year (2018: $69.7 million). We see the pay-off in brand awareness, affinity, consideration and decision to purchase, all of which are key drivers of our economics. Our multi-year IT modernisation programmes continue in order to support the growth ahead.

Our direct-to-consumer and partnerships businesses are thriving, seeing compound growth of 29% over the last three years. We focus largely on micro businesses, sole traders and businesses with fewer than ten employees, and 80% of our customers have premiums of less than $/£/€1,000.

The opportunity for Hiscox Retail remains enormous, with an addressable small business market in countries where we already operate of over $80 billion of premium income and growing. We estimate that we currently serve less than 2% of this highly fragmented sector. At the moment this opportunity is clearest in the USA where we are ahead of the competition, but inevitably some are now beginning to respond. Ongoing investment in marketing is essential as we continue to see greater value in investing for profitable growth, rather than running the business for short-term profitability. Building a small-ticket retail business takes time, but persistence pays off in market position, scale and long-term profitability. Our expectations for revenue growth for Hiscox Retail remain between 5-15%.

During the year, we made an additional tax provision of up to $60 million following a reappraisal of how we invested in, and classified, marketing activity historically. This additional provision has been presented as a prior year adjustment and, as a result, the previously disclosed profit for 2018 has been restated.

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 had a good year of recovery after a challenging 2018 as it adapted to a new IT system with new ways of working which impacted growth. Service levels have now improved and we appreciate the support of our brokers and customers while we worked hard to put things right. Gross premiums were up by 3.9% in constant currency to $746.4 million (2018: $749.6 million) with our commercial business growing by 9%.

The direct-to-consumer market remains competitive, particularly in commercial lines. Despite this, we are operating in healthy niche markets and have been able to grow premiums by around 10%. Looking forward, IR35 (the changing basis of taxation for independent contractors), may have a short-term modest impact on growth.

In household broker business, retention was impacted due to the tough pricing action taken over the last 18 months in response to market-wide claims trends such as the growing prevalence of escape of water claims. I am pleased to report a return to profitability and stability in top line, driven by our award-winning claims reputation.

Cyber is a growth area and we launched a new and enhanced product called CyberClear during the period. We are proud that it has been rated the most comprehensive cyber insurance policy for SMEs as the first and only policy to receive a 100% score in the Insurance Times Cyber Product Report.

The team's hard work was recognised with three industry awards; Insurance Times' Personal Lines Insurer of the Year and Cyber Product of the Year, and, at the British Insurance Awards, Insurance Provider of the Year.

An actively managed business mix

Total Group controlled premium 31 December 2019: $4,530 million
(Period-on-period in constant currency)

Small commercial	Reinsurance	Property	Art and private client	Specialty	Global casualty	Marine and energy
+10%↑	+11%↑	+4%↑	+1%↑	+1%↑	+28%↑	+17%↑
$1,568m	$982m	$574m	$456m	$446m	$275m	$229m
Professional liability Errors and omissions Private directors and officers' liability Cyber Commercial small package Small technology and media Healthcare related Media and entertainment	Property Marine Aviation Casualty Specialty	Commercial property Onshore energy USA homeowners Flood programmes Managing general agents International property	Home and contents Fine art Classic car Luxury motor Asian motor	Kidnap and ransom Contingency Terrorism Product recall Personal accident	Public directors and officers' liability Professional indemnity Large cyber General liability	Cargo Marine hull Energy liability Offshore energy Marine liability

We have an addressable market of 30 million small businesses in the USA.

Hiscox USA

Hiscox Europe

Hiscox Europe operates in Germany, France, Benelux, Iberia and Ireland. These businesses provide personal lines cover, including high-value household, fine art and classic car, as well as commercial insurance for small- and medium-sized businesses.

Our European operations had another excellent year, delivering $408.4 million in gross written premiums (2018: $372.2 million), an increase of 15.6% in constant currency. Our new carrier, Hiscox SA, started trading in January 2019, and we successfully transferred all policies to our new entity. This completed our Brexit restructuring for Hiscox Retail, a multi-year effort which cost us $18 million and required $50 million in incremental capital.

We continue to see strong demand for our professions, specialty commercial and cyber products across our businesses in Europe. This has enabled us to carve out a leadership position for these lines in Germany, Spain and Benelux.

We extended our footprint in Germany, opening offices in Berlin and Stuttgart, and expanded the team in Munich. Additional investment in marketing and distribution is having a positive impact, and the team were rewarded for their efforts with a 'Best in Industry' award for our claims management in D&O, cyber and professional indemnity from AssCompact, a popular broker publication.

In France we have seen a return to stronger profitability after several challenging years. This improvement has been driven by a period of portfolio adjustment which included the introduction of a new underwriting and pricing strategy. A continued focus on growing our partnerships business in Spain, through innovative solutions and by improving the service we offer, has seen a 20% increase in premium versus the prior year. We will continue to build on our successful partnerships in both France and Spain and actively explore new distribution opportunities in the technology and insurtech space.

The roll-out of our 'MyHiscox' broker extranet sites across Europe has made it easier for brokers to do business with us by providing them with access to additional products and self-service features. The robotic process automation (RPA) which has been rolled out across policy administration, claims and finance, has resulted in the automation of 115,000 transactions in 2019. This enables us to not only automate back-end processing but also further improves service levels for our brokers and partners.

Similar to the systems changes completed in the UK and under way in the USA, we are also about to begin the multi-year implementation of a new core platform for Europe, starting in Germany in 2020. This is a necessity to support the scale of the business.

Our business in Europe has grown since we opened our first office in Paris in 1995, with no business, and lots of ambition. It is now a consistent and important contributor to our profits. Hiscox Germany reached €100 million in premiums in 2019 and France will follow suit in 2020. The market in our segments in Europe is significant and our ambition is to have Hiscox Europe match Hiscox UK in scale and profits. This is a significant opportunity for us.

Hiscox USA

Hiscox USA underwrites small- to mid-market commercial risks through brokers, other insurers and distribution partners and directly to businesses online and over the telephone.

The business continues to achieve strong growth, with gross premiums written increasing by 6.8% over the year in constant currency to $865.0 million (2018: $809.6 million), growing to 11% in the second half. Despite market challenges in some casualty lines, Hiscox USA delivered a profit in 2019.

Our direct and partnerships division (DPD) continues to be the star performer to reach $275 million. It has benefited from our sustained investment in marketing and brand building. We launched our first fully integrated marketing campaign with ABC TV and Major League Baseball this year, and have continued to build on our ongoing 'Encourage Courage' campaign aimed at small businesses – all of which helps to differentiate us from our competitors.

Our broker channel business has seen strong growth in healthcare and general liability where rates are attractive, but a disciplined approach in private company D&O, media and entertainment business has resulted in a reduction in those areas throughout the year. The action we have taken in these lines is working, as we have seen an improvement in current year loss ratios. Like others in the market, we are seeing increased competition in mid-market cyber, which has led to reduced pricing and widening cover, and we are being selective.

Over 75% of all business we write at Lloyd's is bound electronically.

Hiscox London Market

Hiscox London Market

	2019 $m	2018 $m
Gross premiums written	967.9	877.7
Net premiums written	504.6	522.9
Underwriting (loss)/profit	(26.3)	68.2†
Investment result	50.6	10.8
Profit before tax	30.4	75.8†
Combined ratio (%)	104.4	89.3

†See note 4 to the financial statements.

Our preparations for the US IT systems changes, which are necessary to support our future growth plans, are progressing well, with roll-out to DPD expected during 2020.

We have an addressable market of 30 million small businesses in the USA and these investments in IT and marketing will help us achieve our ambitions.

Hiscox Special Risks
Hiscox Special Risks underwrites kidnap and ransom (K&R), security risks, personal accident, classic car, jewellery and fine art, with teams in London, Guernsey, Cologne, Madrid, Munich, Paris, New York, Los Angles and Miami.

Gross premiums written decreased by 3.1% in constant currency to $129.9 million (2018: $136.2 million). Our expertise in the K&R market has helped us maintain our leadership position in a very competitive environment. While others in the market are streamlining their offering, we remain focused on building out our expertise and will continue to innovate to preserve our market share. A highlight this year was a new product the team developed and brought to market in just two weeks to support our marine clients travelling to the Gulf following political tensions in Iran. It is precisely this responsiveness which sustains and builds our market position with customers.

Hiscox Asia
Our brand in Asia, DirectAsia, is a direct-to-consumer business in Singapore and Thailand that sells predominantly motor insurance. It grew gross written premiums by 36.6% in constant currency to $46.6 million.

Singapore and Thailand have attracted and retained record numbers of customers, driven by the success of new partnerships with firms like Prudential, Shell and Vicom. Similar partnerships with like-minded businesses will enable us to continue on this growth trajectory. An ongoing investment in brand has helped us to combat increased competition and supports our drive to reach scale.

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

Hiscox London Market's profits decreased to $30.4 million (2018: $75.8 million*) and the combined ratio deteriorated to 104.4% (2018: 89.3%). The most material adverse impact came from attritional losses in property, and large loss activity in D&O and alternative risk. We also suffered adverse prior-year development from healthcare, and prior-year catastrophes.

A second year of rising rates in the London Market has driven above-budget growth of 10.3% to $967.9 million (2018: $877.7 million), or 11.2% in constant currency. Positive momentum has continued in the majority of classes, spurred on by a withdrawal of capacity and the Lloyd's 'Decile 10' initiative which has instilled some much-needed discipline in the market. We have seen material rate increases in major property, cargo, hull, and general liability. In US public company D&O, rates are up by nearly 60% and we have grown substantially. These rate improvements are necessary after the extended soft market, however, in some areas such as Florida small property risks and personal accident, rates are still not reflective of the risk, and where necessary we will shrink.

In property, we are actively changing the portfolio mix and reducing our exposure in our household and commercial binders where we have suffered attritional losses alongside catastrophe losses from Hurricane Dorian. This action will improve underlying profitability in time; however, the 12-month terms on binder business means that we will not see the full benefits until 2021 and 2022. Terrorism delivered good profits in tough market conditions, despite being impacted by riots in Hong Kong and Chile.

Modernisation in the London Market is a multi-year, market-wide initiative which I believe is critical to the long-term success of Lloyd's. We have been strong supporters of the push towards electronic trading via Placing Platform Limited, an initiative which I chair, and I am pleased to say that over 75% of all business we write at Lloyd's is now bound electronically.

The goal for Hiscox London Market is 'to lead the way in emerging risk' and so we have been focused on driving awareness of new risks. We held a first-of-its-kind 'cyber cube' experiential event on the trading floor of Lloyd's of London which tested cyber security knowledge and promoted our new CyberClear365 product. We created a virtual reality simulation of a US hurricane and an app to assist our client's understanding of rising sea levels and the downstream impact for homes and communities. These events drive awareness and sales.

We are also leading the way in digital trading. Our FloodPlus product uses external data to price risks more precisely and

Both of our flagship Kiskadee Funds ended 2019 with positive returns, a good result in a challenging year.

Hiscox Re & ILS

Hiscox Re & ILS

	2019 $m	2018 $m
Gross premiums written	866.5	812.0
Net premiums written	216.7	241.5
Underwriting loss	(144.7)	(23.2)
Investment result	38.5	7.4
Loss before tax	(93.8)	(28.7)†
Combined ratio (%)	163.9	116.9

†See note 4 to the financial statements.

we drive down cost by using APIs to connect to US coverholders. We also use third-party capital to leverage our expertise, giving us larger lines to deploy through consortia for general liability, space, flood and product recall.

We are optimistic about conditions in the London Market and have increased our stamp capacity – the amount of business we can write through Lloyd's via Hiscox Syndicate 33 – by 19% year-on-year to £1.7 billion in 2020. This gives us the headroom to execute our plans, taking advantage of the ongoing price rises and dislocation in the market.

Hiscox Re & ILS

Hiscox Re & ILS comprises the Group's reinsurance teams, based in London and Bermuda, and insurance-linked securities (ILS) activity. The team underwrites on behalf of Hiscox and third-party capital partners, including other insurance companies, Lloyd's syndicates and capital market investors.

Hiscox Re & ILS has been impacted by another year of heavy catastrophe claims, resulting in a loss before tax of $93.8 million (2018: loss of $28.7 million*) and a 2019 combined ratio of 163.9% (2018: 116.9%). This is the third consecutive year of large events. Our long-standing relationships in the Japanese market meant that Typhoons Faxai and Hagibis had a material impact on us. We also experienced claims from Hurricane Dorian which impacted the Bahamas and the USA, as well as from the riots in Chile and wildfires in Australia. Unusually, Hiscox Re & ILS suffered prior year deteriorations due to the adverse development of 2018 Typhoon Jebi and the need to strengthen reserves for the healthcare business which we exited in 2017. All of these factors combined meant we had this poor result.

Gross premiums written grew by 7.4% in constant currency to $866.5 million (2018: $812.0 million), as rate improvement in loss-affected property lines and retrocession was offset by deliberate reductions in risk excess and our withdrawal from casualty reinsurance business. Throughout the year, the team remained disciplined in the face of underwhelming, albeit positive, rate improvement, still dampened by an overabundance of capacity despite three years of significant market losses.

Our ILS offering continues to see interest from new and existing clients, with assets under management at $1.5 billion. Both of our flagship Kiskadee funds ended 2019 with positive returns, a good result in a challenging year. We expect that ILS funds under management will decrease in 2020 as one of our investors has indicated that they will reduce their commitment to this asset class. At the beginning of 2019 we launched a new fund, giving ILS investors access to both reinsurance and primary insurance risk through the Hiscox Re and Hiscox London Market teams. The fund launched with $100 million in capital and we have been pleased with its performance in its maiden year. We also launched a new fund for 1 January renewals, offering investors a higher risk/reward profile to complement our existing medium and lower risk/return funds.

In such an uncertain environment as this, it pays to be disciplined and nimble. The vision for Hiscox Re & ILS is 'one team, unlocking capital and pioneering risk' and the goal is to bring together our capabilities from underwriting through to analytics, research and claims, in order to profit in changing markets. We continue to believe engaging with multiple capital sources will allow us to write a broader range of products, more of them, and at better margins. At the moment we do not expect to fully use all of the capital available to us in 2020 as rate increases continue to be below our targets. We therefore expect top line growth to remain subdued as we pursue a disciplined path.

Claims

It has been a busy year for claims in big-ticket lines and Hiscox USA as outlined previously; however, our Retail businesses in the UK and Europe had a relatively good claims experience.

For Japanese Typhoons Faxai and Hagibis, and Hurricane Dorian which impacted the Bahamas and the USA, we reserved $165 million and in addition we expect $25 million in reduced fees and profit commission.

In 2019, we had a small positive reserve release of $26 million (2018: $326 million) from prior years. Despite its challenges in the USA, Hiscox Retail had a positive prior year reserve development of $46 million (2018: $100 million). Hiscox London Market and Hiscox Re & ILS suffered deteriorations of $20 million in aggregate (2018: $126 million favourable). We seek to reserve cautiously and our reserves are set at 9.4% above actuarial estimates (2018: 11.0%). We expect that we will return to our more normal pattern reserve releases of 9% to 12% of opening reserves over the next three years. In 2020, we expect reserve releases to be between 3-5% of opening net reserves, returning to our normal pattern over the next three years.

Information technology and major projects

The significant investment we are making in replacing end-of-life

$1.2bn

paid out in claims across the Group.

technologies with new systems and processes has continued this year. Our Retail customer numbers have grown by 172% to 1.2 million over the last five years, and we need this improved infrastructure to meet their expectations for system availability, digital accessibility, and operational robustness. Regulators are also beginning to scrutinise the financial sector's operational resilience. Although our core system availability is currently over 99.9% these investments mean we are building a business with the infrastructure to support our future growth ambitions.

2019 saw the bedding in of the new Hiscox UK IT system. After a challenging period of adjustment in which broker service levels were not what we would have hoped, I am pleased to say we have seen a return to normalcy. Those products which are not on the new system will be migrated across by 2022. In the direct channel, the underwriting of 90% of direct commercial business and in the broker channel 60% of new business, is automated. The increased automation of simple underwriting process has freed our underwriters up to do what they do best by focusing their efforts on our most unusual or complex risks.

Hiscox USA worked on a new system in 2019 and 2020 will see this go live within our DPD business with the project concluding in 2021. Our US broker channel will follow once the new system has had the opportunity to embed. Hiscox Europe is at the start of a similar journey, with preparations under way to begin system changes in Germany, and so will benefit the most from our lessons learnt along the way.

We are now in the implementation period of our Group-wide finance transformation programme, which will replace our core finance systems and evolve the capabilities of our finance teams worldwide.

We expect that 2020 will be the last year of peak system change, with the volume of change dropping to a lower level from 2021. As the systems become fully functional we can expect to see benefits in the Group's expense ratio.

2020 will also see Hiscox develop a new UK location strategy. Hiscox London has been located at 1 Great St Helen's for the last 22 years and our lease will soon come to an end. Before moving into new premises, we have taken the opportunity to review our UK footprint in order to shape our UK-based activities to support growth at a lower cost. Over the next two to three years we will move up to 300 roles out of London to join the 750 Hiscox employees already working in other locations across the UK.

Investments

We manage our investment portfolio with two main objectives in mind: providing sufficient liquidity to pay claims and providing capital to support the underwriting business, while generating strong risk-adjusted returns. On all fronts, the investment portfolios delivered in 2019.

With the tailwinds of strong markets, our investment return was the best we have seen in several years. US bonds form the majority of our portfolios across the Group, and we maintained a modest allocation to equities and other risk assets. As a result of this strategy, our investments made $223.0 million (2018: $38.1 million) after deducting investment expenses, a return of 3.6% (2018: 0.7%).

Given the strength of markets in 2019, we do not expect a repeat in the year ahead. Government bond yields are lower and corporate bond spreads look tight. Having re-rated, equity markets are clearly less well placed than after the falls of 2018. Markets also seem relatively sanguine about political instability but this does not mean such events cannot have an impact; there is no shortage of events in the calendar in the year ahead, the US election amongst them. As such, we enter the year more cautiously, but remain prepared to add risk as opportunities present themselves.

People

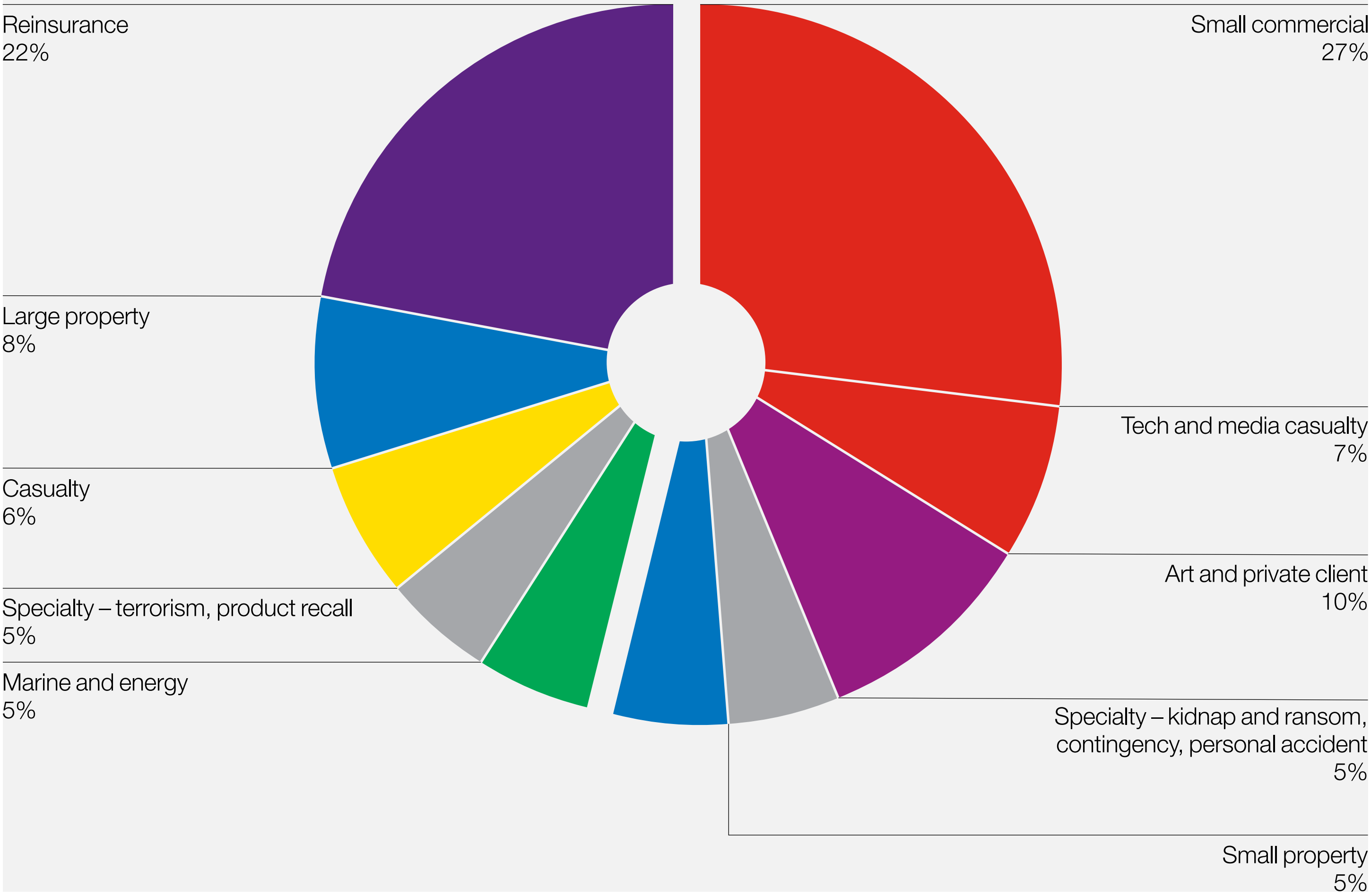
Building an insurance business requires a pile of money and a group of talented people. As capital will follow talent, we put a disproportionate effort on attracting, developing, retaining and rewarding talented people. This is a never-ending effort with different approaches being used at different levels of seniority.

In 2019 across Hiscox we received around 50,000 applicants for advertised roles, and hired 867. As a parent of children applying for junior roles, I became aware that for many companies the recruitment process can be like a black hole – you apply and hear nothing, not even an acknowledgement. Hiscox was better than this, but not always good enough. In 2019 we re-engineered our approach to job seekers, thinking of them with the same care and intelligence that we apply to customers. We introduced a net promoter score for all applicants, a brave decision when we have 58 rejections for every successful applicant. I am pleased to report that our net promoter score amongst those who were unsuccessful after interview improved by 26 points over the year, a real vindication of a recruitment approach much more in tune with our human value.

Strategic focus
Total Group controlled income for 2019
100% = $4,530 million

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

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



We are still a small and successful player in many of our areas with plenty of room to grow.

Outlook

For many years at a senior level, we have practised personalised career development and succession planning to ensure that we have the right mix of leadership experience, underwriting nous, business acumen and technical skills to drive the Group forward – and it is working. Individual development plans fit in with global succession plans, as we have seen with the recent appointment of Joanne Musselle as Group Chief Underwriter who replaced Richard Watson on his retirement outlined in the Chairman's statement. Similarly, in April 2019 Bob Thaker was appointed CEO of Hiscox UK, after an internal and external search. Bob joined Hiscox ten years ago in a Group strategy role and has worked in UK Claims, Hiscox Asia as Chief Operating Officer and then Chief Executive. He was replaced in Asia by Celine Chotithamaporn, an external hire who brings valuable local cultural and industry knowledge.

In 2019 we welcomed Grace Hanson as our new Chief Claims Officer, again after an internal and external search. Grace has held multiple roles in the industry in the USA and Bermuda, and she brings a unique blend of experience in both big-ticket and smaller-ticket retail claims. We are already benefiting from her broad experience as she directs the re-engineering of our US claims function.

We believe that this approach – looking ahead, taking career risks on talent, but looking externally as well, ensures smoother senior leadership transitions, to the benefit of the individuals, the business and shareholders.

Purpose and values

During the year we undertook a Group-wide conversation and workshop process to define our purpose and update our values. This involved over 500 staff from all geographies and seniorities. We last did this five years ago.

We see our purpose as 'As experts in risk, we give people and businesses the confidence to realise their ambitions'. Whether they are a small business, a large corporate, a homeowner or a collector, we believe our expertise and clear products are a safety net, giving our clients confidence. If a loss occurs their claim will be handled sympathetically, professionally and fairly. If we do this well our customers are free to do what they want to do most – pursue their ambitions with confidence.

Our values evolve as our business and the societies we serve evolve. Our refreshed values are:

- Integrity – do the right thing, no matter how hard.
- Courage – dare to take a risk.
- Human – clear, fair and inclusive.
- Connected – together, build something better.
- Ownership – passionate, commercial and accountable.

Most businesses have values. The challenge is to believe in them and then live up to them, accepting that we are all human and will err while we strive to do so. The inclusivity of the process we went through in updating our purpose and values showed the real passion our staff have for living the values, and we have all committed to use them as a reference point in our day-to-day and longer-term decision-making. We believe that by trying to do so, we make better decisions, make Hiscox a better business to work with and a better place of employment for talented ambitious people, to the ultimate benefit of customers, staff, shareholders and society.

Outlook

I am excited and optimistic about the scale of opportunity we have ahead of us.

In the short term we will take advantage of the strong pricing momentum in our London Market business, navigate our way through the pricing challenges in reinsurance and continue to build our profitable Retail businesses. Our success in this will be reflected in our 2020 earnings.

Looking further ahead, we are still a small and successful player in many of our areas with plenty of room to grow. Our strategy of balance, between big-ticket lines and our more steady retail earnings, continues to provide us with options. We have made investments in people, brand and infrastructure that will help us deliver our ambition to be the leading specialist insurer in the markets in which we operate – leading in growth rate, profitability and reputation.

Bronek Masojada
2 March 2020

*Restated – see notes 2.2 and 4 to the financial statements.

Capital

The Board monitors the Group's capital strength, ensuring Hiscox remains suitably capitalised for regulatory and rating purposes, and to fund future growth opportunities.

Monitoring of the Group's capital requirements is based on both external risk measures, set by regulators and rating agencies, and our own internal guidelines for risk appetite.

The Group measures its capital requirements against its available capital, which is defined by the Group as the total of net tangible asset value and subordinated debt. The subordinated debt issued by the Group is hybrid in nature, which means it counts towards regulatory and rating agency capital requirements. At 31 December 2019 available capital was $2,276 million (2018 restated: $2,405 million), comprising net tangible asset value of $1,912 million (2018 restated: $2,055 million) and subordinated debt of $364 million (2018: $350 million).

The Group can source additional funding from revolving credit and Letter of Credit (LOC) facilities. Standby funding from these sources comprised $800 million at 31 December 2019 (2018: $800 million), of which $50 million was utilised at 31 December 2019 (2018: $50 million).

Our key rating agencies, A.M. Best, S&P and Fitch, calculate capital adequacy by measuring available capital, after making various balance sheet adjustments, and comparing it with required capital, which incorporates charges for catastrophe, premium, reserve, investment and credit risk. Our interpretation of the results of each of these models indicates that we are comfortably able to maintain our current ratings.

Read more about our current ratings in note 3 to the financial statements
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Read more about our financial condition in our financial condition report
hiscoxgroup.com/about-hiscox/group-policies-and-disclosures

The largest driver of our capital requirement is underwriting risk. The Group manages the underwriting portfolio so that in a 1-in-200 aggregate bad year it will lose no more than 12.5% of core capital plus 100% of buffer capital ($135 million), with an allowance for expected investment income. A market loss of this magnitude would be expected to bring about increases in the pricing of risk, and the Group's capital strength and financial flexibility following this scenario means we would be well positioned to take advantage of any opportunities that might arise as a result.

Read more about underwriting risk
hiscoxgroup.com/about-hiscox/risk-management

The Group is regulated by the Bermuda Monetary Authority (BMA) under the Bermuda Group Supervisory Framework. The BMA requires Hiscox to monitor its Group solvency and provide a return in accordance with the Group Solvency Self Assessment (GSSA) framework, including an assessment of the Group's Bermuda Solvency Capital Requirement (BSCR). The BSCR model applies charges for catastrophe, premium, reserve, credit and market risks to determine the minimum capital required to remain solvent throughout the year.

The GSSA is based on the Group's own internally-assessed capital requirements and is informed by the Group-wide Hiscox integrated capital model (HICM) that, together with the BSCR, forms part of the BMA's annual solvency assessment. The HICM provides a consistent view of capital requirements for all segments of the business and at Group level.

The Group's estimate for the year-end 2019 BSCR solvency coverage ratio is 205%, which includes the first stage of changes to the BSCR standard formula being phased in by the BMA over a three-year period beginning in 2019. The changes are expected to reduce the Group's BSCR solvency coverage ratio by an estimated ten percentage points per annum over the next two years.

As the Group's premium base continues to grow and become more diversified, the Group has elected to recognise geographic diversification within its premiums and reserves in the BSCR standard formula. The resulting diversification benefit has offset the impact of the changes in the formula.

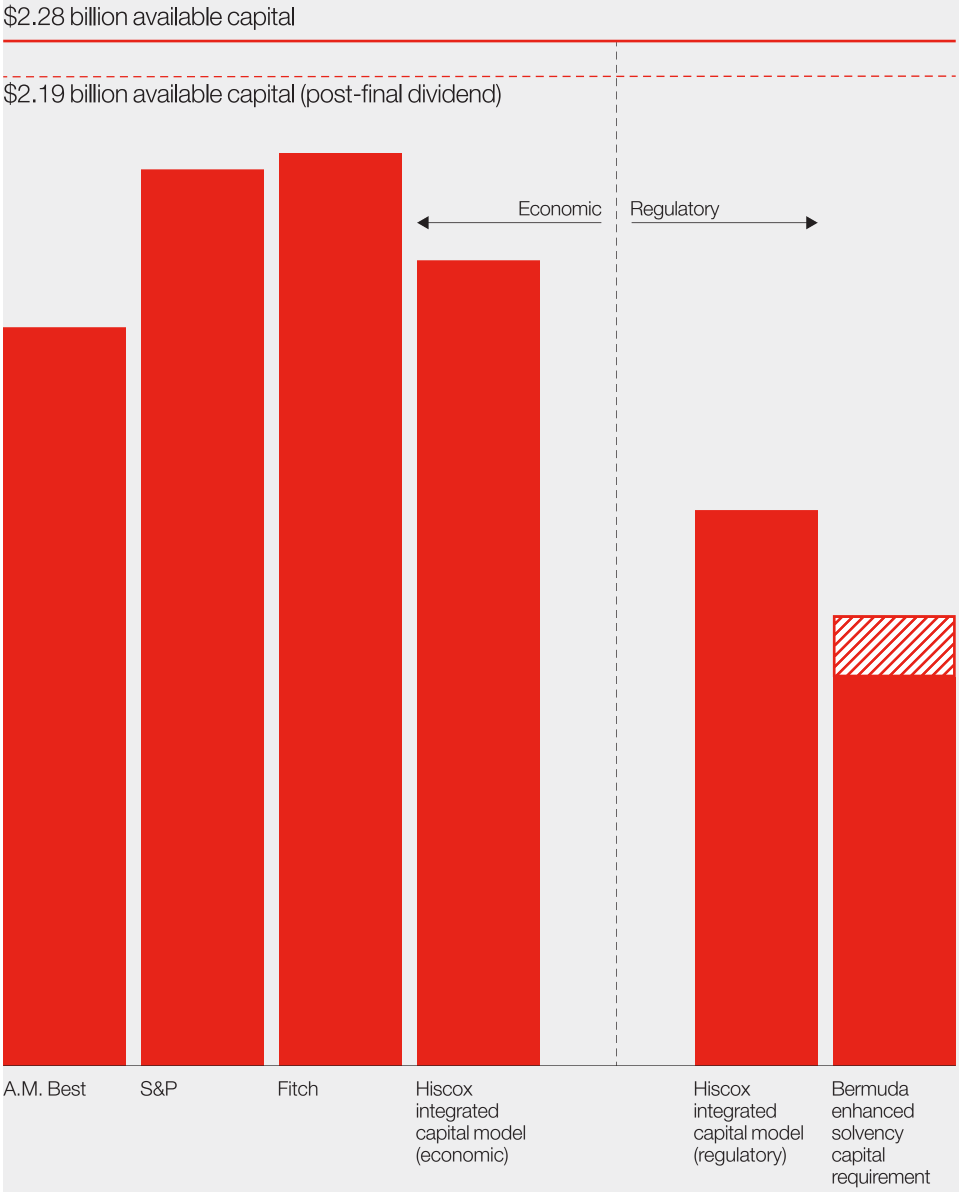
The Group expects to further mitigate the impact of the changes to the BSCR standard formula through ongoing capital generation and optimisation activities over the remaining two years of the transition period.

The Group continues to operate with a robust solvency position and expects to maintain an appropriate margin of solvency after these changes have taken effect. In addition, each of the respective insurance carriers holds appropriate capital positions on a local regulatory basis.

$2,276m

Available capital at 31 December 2019.

Projected capital requirement



Estimated BSCR post new formula

Rating agency assessments shown are internal Hiscox assessments of the agency capital requirements on the basis of year end 2019 results. Hiscox uses the internally developed Hiscox integrated capital model to assess its own capital needs on both a trading (economic) and purely regulatory basis. All capital requirements have been normalised with respect to variations in the allowable capital in each assessment for comparison to a consistent available capital figure. The available capital figure comprises net tangible assets and subordinated debt.

Risk management

We seek to maximise return on equity by taking risk where it is adequately rewarded, within a defined risk appetite.

The Group's core business is to take risk where it is adequately rewarded, guided by a strategy that aims to maximise return on equity within a defined risk appetite. The Group's success is dependent on how well we understand and manage our exposures to principal risks.

Read more about our key risks
9

More information on our risk management can be found at hiscoxgroup.com/about-hiscox/risk-management

Risk strategy

Our robust risk strategy positions us to capture the upside of the risks we pursue and effectively manage the downside of the risks to which we are exposed. It is based on three key principles:

- we maintain underwriting discipline;
- we seek balance and diversity through the underwriting cycle;
- we are transparent in our approach to risk, which allows us to continually improve awareness and hone our response.

Risk management framework

The Group takes an enterprise-wide approach to managing risk. The risk management framework provides a controlled system for identifying, measuring, managing, monitoring and reporting risk across the Group. It supports innovative and disciplined underwriting across many different classes of insurance by guiding our appetite and tolerance for risk.

Exposures are monitored and evaluated both within the business units and at Group level to assess the overall level of risk being taken and the mitigation approaches being used. We consider how different exposures and risk types interact, and whether these may result in correlations, concentrations or dependencies. The objective is to optimise risk-return decision-making while managing total exposure, and in doing so remain within the parameters set by the Board.

The risk management framework is underpinned by a system of internal control, which provides a proportionate and consistent system for designing, implementing, operating and assessing how we manage our key risks. This framework is regularly reviewed and enhanced to reflect evolving practice on risk management and governance. Over 2019, we continued to embed and strengthen our system of internal control.

Risk appetite

The risk appetite sets out the nature and degree of risk the Group is prepared to take to meet its strategic objectives and business plan. It forms the basis of our exposure management and is monitored throughout the year.

Our risk appetite is set out in risk appetite statements, which outline the level of risk we are willing to assume, both by type and overall, and define our risk tolerances: the thresholds whose approach would represent a 'red alert' for senior management and the Board.

Risk management framework

Our continuing success depends on how well we understand and manage the significant exposures we face.

Risk governance

Risk appetites, which are set for each of our insurance carriers and for the Group as a whole, are reviewed annually, enabling us to respond to internal and external factors such as the growth or shrinkage of an area of the business, or changes in the underwriting cycle that may have an impact on capacity and rates. In addition, in 2019 we began work to enhance and strengthen our risk appetite statements across the Group.

Risk management across the business

The Group coordinates risk management roles and responsibilities across three lines of defence. These are set out in the table below. Risk is also overseen and managed by formal and informal committees and working groups across the first and second lines of defence. These focus on specific risks such as catastrophe, reserving, investments and credit, as well as emerging risks. The Group Risk and Capital Committee and the Group Underwriting Review Committee make wider decisions on risk.

The Own Risk and Solvency Assessment (ORSA) process

The Group's ORSA process involves a self-assessment of the risk mitigation and capital resources needed to achieve the strategic objectives of the Group and relevant insurance carriers on a current and forward-looking basis, while remaining solvent, given their risk profiles. The annual process includes multi-disciplinary teams from across the business, such as capital, finance and business planning.

Three lines of defence model

First line of defence
Owns risk and controls

Responsible for ownership and management of risks on a day-to-day basis. Consists of everyone at every level in the organisation, as all have responsibility for risk management at an operational level.

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

Provides independent oversight, challenge and support to the first line of defence. Includes the Group risk team and the compliance team.

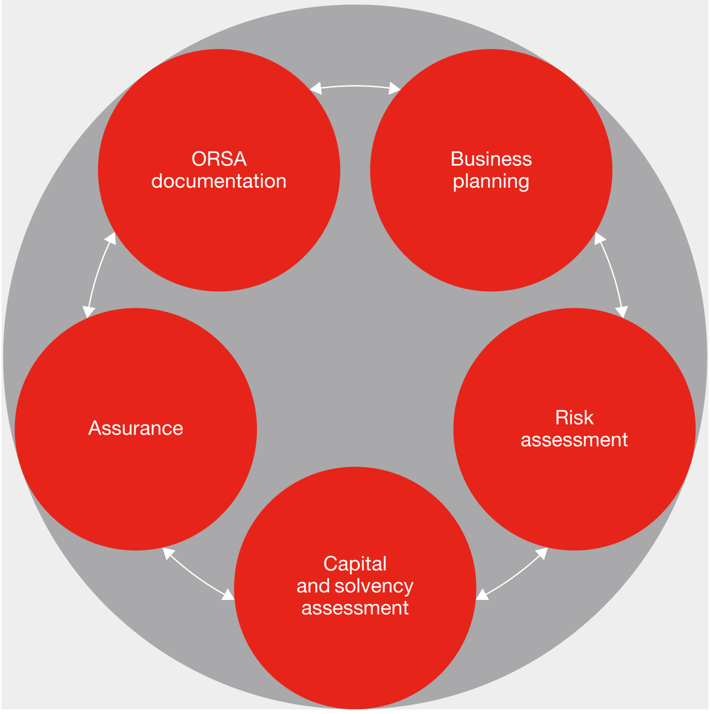
Third line of defence
Provides independent assurance of risk control

Provides independent assurance to the Board that risk control is being managed in line with approved policies, appetite, frameworks and processes, and helps verify that the system of internal control is effective. Consists of the internal audit function.

Hiscox Own Risk and Solvency Assessment (ORSA) framework

The Group's ORSA process is an evolution of its long-standing risk management and capital assessment processes.

ORSA governance



The role of the Board in risk management

The Board is at the heart of risk governance and is responsible for setting the Group's risk strategy and appetite, and for overseeing risk management (including the risk management framework). The Risk Committee of the Board advises on how best to manage the Group's risk profile by reviewing the effectiveness of risk management activities and monitoring the Group's risk exposures, to inform Board decisions.

The Risk Committee relies on frequent updates from within the business and from independent risk experts. At each of its meetings during the year, the Risk Committee reviews and discusses a risk dashboard and a critical risk tracker which monitors the most significant exposures to the business, including emerging risks and risks that have emerged but are evolving. The Risk Committee also engages in focused reviews. Stress tests and reverse stress tests (scenarios which could potentially give rise to business failure as a result of a lack of viability or capital depletion) are also performed and reported on to the Risk Committee.

In light of these arrangements, the Directors are satisfied that a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, has been carried out during the year.

The role of the Group risk team

The Group risk team is responsible for designing and overseeing the implementation and continual improvement of the risk management framework. The team is led by the Chief Risk Officer who reports to the Chief Executive, the Risk Committee of the main Board and to those of the relevant subsidiary boards.

The team works with the first-line business units to understand how they manage risks and whether they need to make changes in their approach. It is also responsible for monitoring how the business goes about meeting regulatory expectations around enterprise risk management.

2019 has seen a focus on improving the efficiency of the risk management framework, mainly through the streamlining and automation of repeatable cycles such as the risk and control self-assessment process. This drive for efficiency should allow for an increase in risk deep-dives and for more support to be available to the portfolio of Group-wide change programmes.

Casualty extreme loss scenarios

As our casualty businesses continue to grow, we develop extreme loss scenarios to better understand and manage the associated risks.

Losses in the region of $80 million-$750 million could be suffered in the following extreme scenarios:

Event		Estimated loss ($m)
Pandemic	Global Spanish flu-type event (high infection, low mortality) 45% infection rate 20% medical treatment 0.3% case fatality	175
Multi-year loss ratio deterioration	5% deterioration on three years' casualty premiums c. $4 billion.	200
Economic collapse	An economic collapse more extreme than any witnessed since World War II.*	600
Casualty reserve deterioration	40% deterioration on existing casualty reserves of c. $1.5 billion. Estimated 1-in-200 year event.*	750
Cyber	A range of cyber scenarios including mass ransomware outbreaks and cloud outages. Includes 'silent cyber' exposures.**	80-750
Property catastrophe	1-in-200 year catastrophe event from $220 billion US windstorm.	410

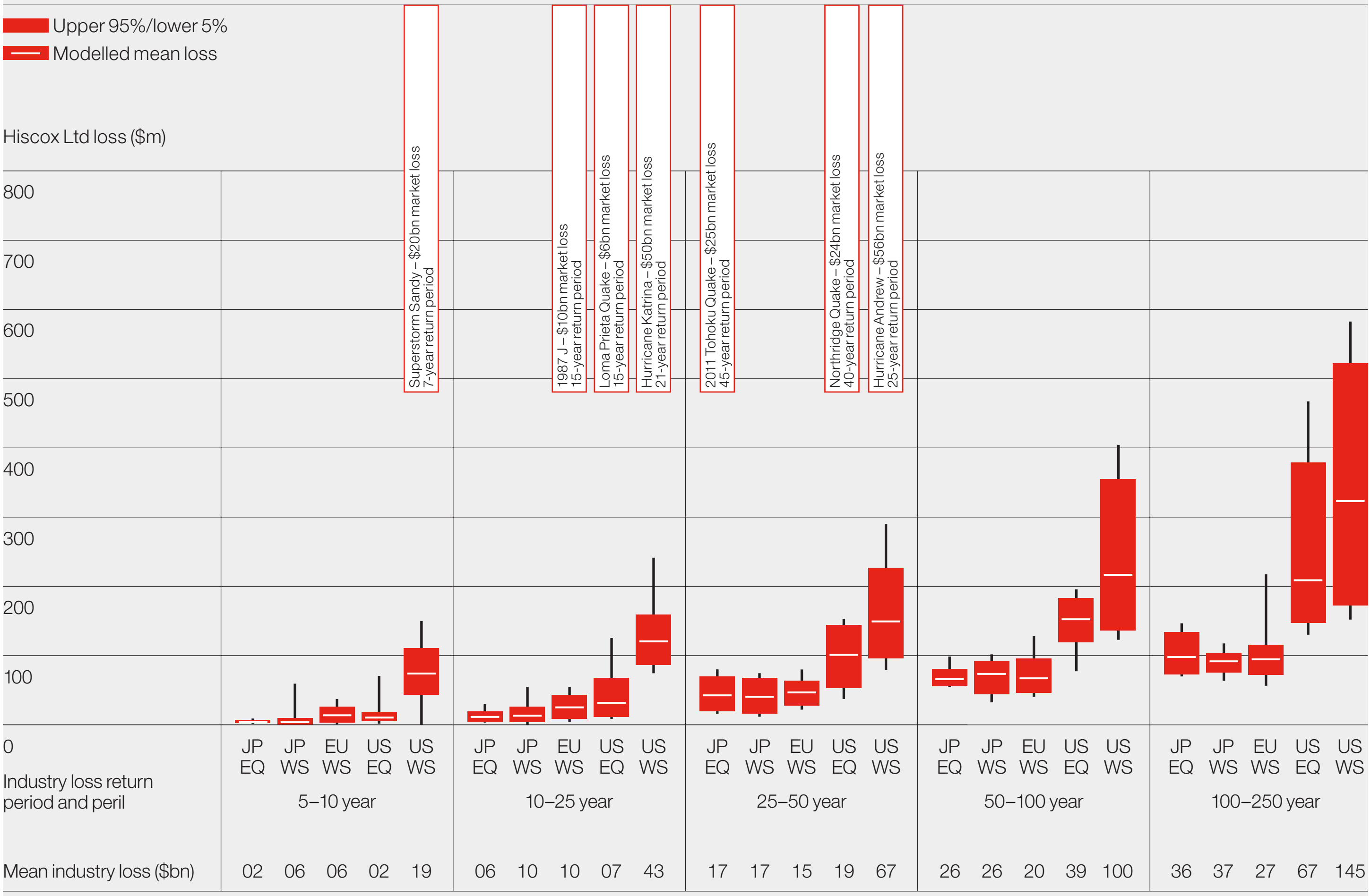
*Losses spread over multiple years.
**'Silent cyber' refers to losses incurred from traditional lines, from a cyber event.

The Board is at the heart of risk governance and is responsible for setting the Group's risk strategy and appetite, and for overseeing risk management (including the risk management framework).

The role of the Board in risk management

Property extreme loss scenarios

Boxplot and whisker diagram of Hiscox Ltd net loss ($m) for certain modelled losses
January 2020



This chart shows a modelled range of net loss the Group might expect from any one catastrophe event.
The white line between the bars depicts the modelled mean loss.

The return period is the frequency at which an industry insured loss of a certain amount or greater is likely to occur.
For example, an event with a return period of 20 years would be expected to occur on average five times in 100 years.

JP EQ – Japanese earthquake, JP WS – Japanese windstorm, EU WS – European windstorm, US EQ – United States earthquake, US WS – United States windstorm.

Stakeholder engagement

We have a diverse range of stakeholders whose engagement is critical to our continued success. We engage with, consider and respond to our stakeholders' needs at various levels of the Group, up to and including Board level.

Shareholders

Our shareholders value our consistent strategy, successful track record of delivery, strong underwriting discipline and sound capital management, and we maintain ongoing engagement with them.

Regular investor interaction

We maintain regular dialogue with our shareholders throughout the year, outside of the regular drumbeat of the financial reporting cycle. This is undertaken predominantly by the Chief Financial Officer and our investor relations lead, who meet with existing shareholders and potential investors as well as research analysts, and participate in industry conferences and roadshows. During 2019 they met with over 300 investors.

Financial reporting

We report to the market on Company performance four times per year, which provides shareholders with a quarter-by-quarter overview of business performance and trading conditions. Each financial report is made available on our website, and along with other key corporate announcements, is available as an email alert for subscribers, which can be found at **hiscoxgroup.com/investors**.

Annual Report and Accounts

Our Annual Report and Accounts provides shareholders with a wealth of information and is designed to give them a better understanding of a year in the life of Hiscox. When it comes to our corporate governance practices, we include some additional disclosures beyond our statutory requirements where we think that doing so improves our narrative reporting.

Investor roadshows

Our Chairman and Executive Directors maintain a programme of investor roadshows, generally following the publication of our preliminary and interim results. The roadshows provide investors with an opportunity to learn more about Company strategy, strategic priorities, trading conditions and other factors affecting our operations. During the 2019 roadshows, our Chairman and Executive Directors met with investors representing over 60% of our issued share capital.

Annual General Meeting (AGM)

Our AGM provides another regular investor touchpoint. At the 2019 AGM all resolutions were passed, with votes in favour ranging from 92% to 100%.

Remuneration policy consultation

We engaged with major shareholders on our remuneration policy ahead of its renewal in 2020. See pages 64 to 65 for more information.

Employees

We want to build teams that are as diverse as our customers and create a vibrant work environment where all employees can thrive.

Workforce engagement

Our annual employee engagement survey gives all our employees the opportunity to provide honest feedback on how they feel about Hiscox. We also have an Employee Engagement Network, led by our Employee Liaison and Non Executive Director, Anne MacDonald. For more, see page 54.

Training and development

All employees have access to internal and external resources to help drive their own learning and development, as well as two formal opportunities each year to discuss development needs and potential. Our approach gives people the choice to develop in their current role, take a step up or try something new.

Employee networks

Almost one in four employees belong to at least one of our nine networks. From WeMind (mental health and well-being) to Women at Hiscox and LGBT+, each network provides focused discussion, practical activities and support. Some of our Non Executive Directors have participated, for example as part of a panel discussion on career journeys. For more, visit **hiscoxgroup.com/our-employee-networks**.

Communication updates

Employees receive regular updates on business plans and performance through emails, intranet articles and team meetings. We ensure everyone is informed of matters; for example, in our customer experience centre in York, we close the phone lines for one hour each week to give those teams the same opportunity to hear from leadership.

Annual 'launch' events and box meetings

Business unit leaders hold regular all-staff meetings to align on strategy and objectives, inspire and excite. These events are also when we celebrate those marking ten or 20 years at Hiscox with long-service awards.

Partners' meetings

Hiscox Partner is an honorary title given to employees who make significant contributions to the development and profitability of the Group. Up to 5% of the total workforce are Hiscox Partners, and have the opportunity to influence the direction of our business through regular formal and informal Partners' meetings, which Board members also attend.

Living Wage

We believe a hard day's work deserves a fair day's pay, which is why in 2019 we became a Living Wage employer in the UK.

Brokers

The risks we write through brokers account for around 85% of our business so it is essential that we build strong and lasting relationships with those brokers that share our values.

Superb service ethos

Our long-held 'superb service' ethos means we take the time to develop a greater understanding of our brokers' needs and the needs of their customers. Hiscox UK and Hiscox London Market have Chartered Insurer status from the Chartered Insurance Institute, which recognises the professionalism and expertise of staff, and is a marker for attracting high-quality business partners including brokers.

Annual preferred broker summit and rising stars broker summit

For the last nine years we have held an annual preferred broker summit for our UK brokers, and more recently we have also hosted a rising stars broker summit for the leaders of tomorrow. These events are designed to inform and entertain our key brokers, with a mixture of Hiscox-led presentations, as well as external guest speakers.

Broker satisfaction survey

Each year we engage with our key brokers to measure their satisfaction with our products and services. In 2019, this involved surveying over 1,200 UK, US and London Market brokers.

Attending key broker events

We participate in key broker events in every part of our broker-facing business. Our teams and Board members attend events including: BIBA, a UK insurance and broker conference; the CIAB, a US marketplace meeting for commercial property and casualty brokers and insurers; and, in our London Market and reinsurance business, Monte Carlo, Baden Baden, and RIMS.

Educational seminars

Throughout the year we hold a range of educational events and roadshows for brokers, focused on improving knowledge around complex or unusual risks. In 2019 this included cyber and commercial schemes.

Experiential events

We look to bring to life evolving and emerging risks, and how our products respond to them, through interactive broker events. During the year, we held a 'can you crack the cube' event at Lloyd's of London to test brokers' cyber risk knowledge, as well as a virtual reality experience at WSIA in San Diego which simulated to over 120 brokers the impact on a homeowner of a Category 5 hurricane hitting the East Coast of the USA.

Customers

We have over 1.2 million retail customers worldwide and providing each of them with products they can rely on is our reason for being.

Research and insight

Finding out more from our customers about insurance products and services enables us to continually improve our offering. We talk to thousands of customers each year, through surveys, focus groups and other qualitative research. This includes measuring our customer service by collecting feedback after they have contacted our service centre, bought a product or made a claim.

Sharing news

In the UK, Cover Stories is a channel through which we share news, opinion pieces and tips for our home insurance and collections customers. Here, we share seasonal pieces such as protecting your home for winter, but also insight pieces on upcycled furniture, art world news, developments in collecting items such as wine or watches, and more. We have similar channels in the USA for our small business customers via our blog, including a 'side hustle to small business' campaign which showcased how individuals turned their side hustle into a fully-fledged small business.

Vulnerable customers

We have developed our approach to dealing with vulnerable customers in the UK this year, with new policies and procedures and by establishing a team of vulnerable customer champions within our UK direct-to-consumer business. We currently have over 20 vulnerable customer champions across our York, London, Birmingham and Colchester offices, and their work is already having a positive effect.

Piloting new technologies

Our customers play an important role in helping us to pilot new technologies that can improve our role in risk prevention. We have done this with leak prevention technologies in the home as well as internet alerts for home and small business customers that help keep connections secure, and we continue to explore other potentially valuable preventative measures.

Educational tools

We have developed tools to help our customers better understand their exposure to specific types of risk. For example, our cyber exposure calculator helps businesses of different sizes in different jurisdictions to estimate the value of their company's data.

Regulators

We are a global business with a responsibility to engage with regulators in all jurisdictions where we operate. The Group is regulated in Bermuda, and has regulated subsidiaries worldwide.

Regular meetings

Our Chief Compliance Officer and central compliance team lead our relationships with regulators worldwide and maintain regular dialogue with them through informal meetings and calls. In 2019, the team engaged with our various regulators, with involvement from senior management and the Board when required.

Regulatory change

We want to play our part in industry discussion and help shape our sector, which is why we contribute to the regulatory change process on a variety of issues, both directly and through active membership of trade associations in many of the jurisdictions where we operate, such as the Association of Bermuda Insurers and Reinsurers and the Association of British Insurers. In 2019, subjects covered have included regulatory responses to climate change, 'green finance', enhancements to data rights in parts of the USA, and potential changes to the Solvency II regime in Europe.

Supervisory co-operation

In 2019, the Bermuda Monetary Authority (BMA) hosted a supervisory college meeting, which included nearly all of the Group's regulators worldwide. This is an important annual opportunity for us to present a consistent message to our regulators on issues of common interest, so seven of our senior management team contributed to the session.

Stress and scenario testing

As in previous years, in 2019 we participated in regulator-led stress and scenario testing exercises, most notably the Prudential Regulation Authority's General Insurance Stress Test, part of which was carried out in conjunction with the BMA. Beyond the completion of these specific exercises, our engagement with the regulators helped to shape the stress tests from the outset, and also supported our own embedded annual cycle of stress testing.

Regulatory reporting

The Group and all of its subsidiaries have met all of their material regulatory reporting obligations during the course of the year.

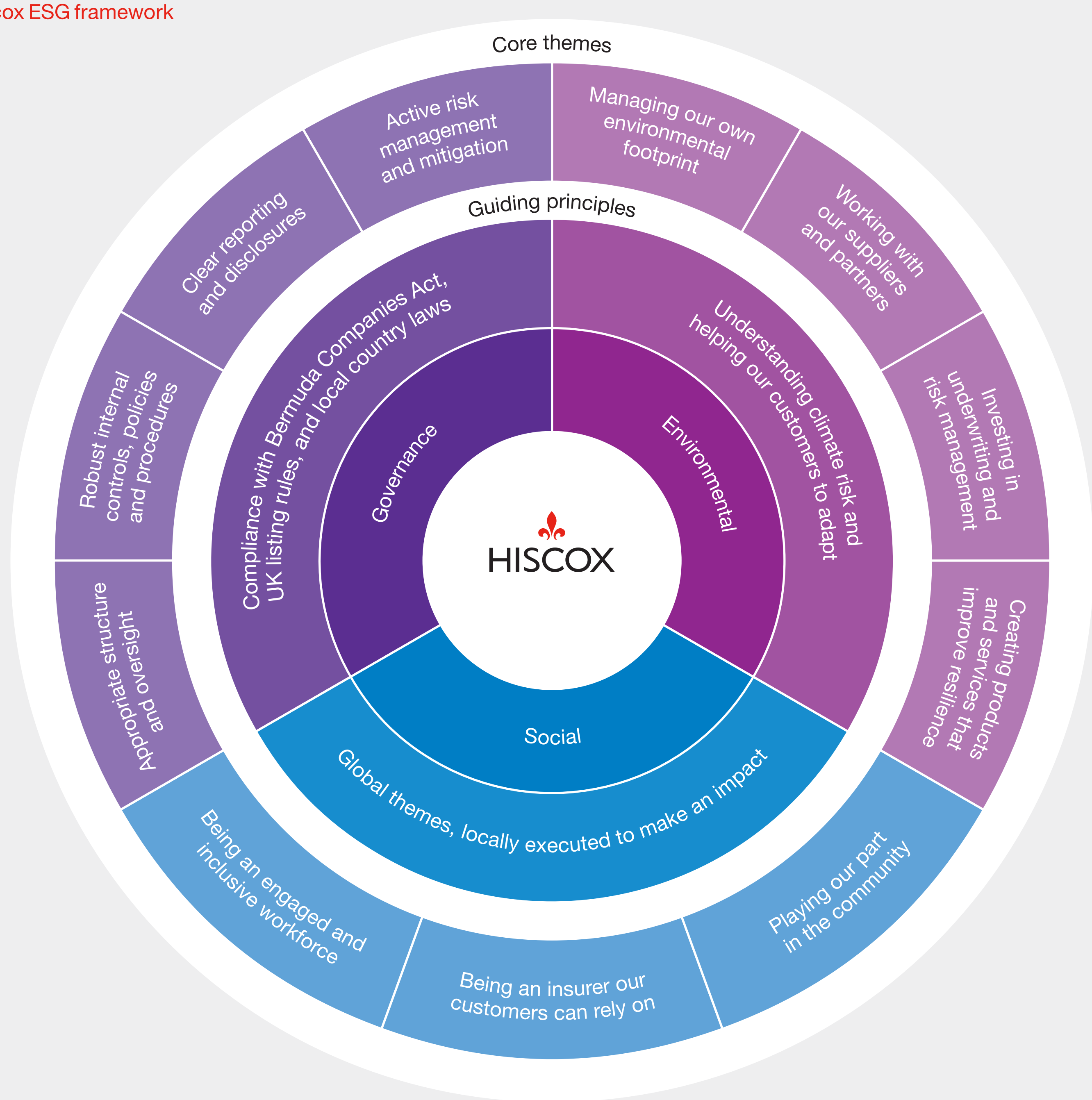
Read more about our work in the communities in which we operate in the environmental, social and governance (ESG) section

34

Environmental, social and governance (ESG)

We take our role in the world seriously and want to play a responsible part in society.

Hiscox ESG framework



CDP
DRIVING SUSTAINABLE ECONOMIES

2019: C grade
2018: C grade

ClimateWise
Insuring a sustainable future

2019: 46%*
2018: 74%

*Change of methodology in 2019.

Dow Jones Sustainability Indexes

2019: 31/100

First year of participation.

FTSE4Good

2019: 4.2/5
2018: 3.9/5

ESG approach

We take our role in the world seriously and want to play a responsible part in society. As an insurer, if we do our job well, our customers and society benefit when times are tough. Being an insurer our customers can rely on matters to us, and it's this philosophy that underpins our approach to ESG issues.

Like others, we are responding to a changing climate, and are helping our customers and business partners to adapt through our products and services. We also evolve as regulation changes and public interest in emerging issues grows.

ESG issues touch many different parts of our business – such as HR, risk, finance, underwriting and investments – and the Hiscox ESG framework we developed in 2019 helps us stay focused and make an impact. It ensures we are pragmatic and consistent, teaming Group-wide themes with local market relevance. See chart opposite.

More information on our approach to ESG can be found at hiscoxgroup.com/responsibility/what-guides-us

ESG measurement

Our ESG efforts are measured both internally and externally. Externally, we participate in a number of key ESG indices including CDP, Dow Jones Sustainability Index and FTSE4Good, and we reported against TCFD-aligned principles for the first time in our 2019 climate report and ClimateWise submission. Internally, we set key performance indicators for ESG issues including carbon emissions and gender parity in recruitment. We will look to build on these in 2020, with areas of focus to include setting new carbon emissions targets and further developing our approach to diversity and inclusion, with a particular focus on ethnic diversity.

Read more about our ESG activities in 2019
36

ESG oversight

In 2018, we appointed an ESG Executive Sponsor whose role is to provide ESG oversight within the Executive Committee as well as updates at Board level. Facilitated discussions on ESG took place at both an Executive Committee and Board level during 2019, and these sessions focused on approving the Hiscox ESG framework and agreeing the ESG plan for 2020.

Read more on the Board's areas of focus in 2019
53

ESG oversight in the business

Hiscox Ltd Board
- Discusses ESG twice-yearly.
- Provides challenge and approval of key ESG matters.

Executive Committee
- Sets strategy and reviews plans and progress quarterly.

ESG working group
- Chaired by ESG Executive Sponsor.
- Meets monthly.
- Includes representatives from underwriting, investments, risk and corporate affairs.

Our ESG framework in action

Environmental
Understanding climate risk and helping our customers to adapt.

We carefully manage our environmental impact and work with our customers, suppliers and business partners to respond to the changing climate. For Hiscox, this means looking at our operations and how we can reduce waste – water, electricity and other consumption – helped by our growing network of Green Teams. It also means investing in areas such as research, catastrophe modelling and new technologies that improve our underwriting capabilities and benefit our brokers and customers.

Highlights

- We reduced our Scope 1 and 2 carbon emissions per full-time equivalent (FTE) by 1% year-on-year. Our target remains to complete a 15% real-term reduction in our Scope 1, 2 and 3 carbon emissions per FTE by the end of 2020, relative to 2014, and we will be setting new carbon emission targets in 2020.
- We have been a carbon neutral business since 2014. In 2019, we worked with Capricorn Ridge Wind Farm in Texas to offset our location-based total of 9,198 CO_2e tonnes of carbon emissions.
- We are a founding member of ClimateWise, a global insurance industry network, which leverages members' expertise to better understand, communicate and act on climate-related risks.
- We formally pledged our support of the Taskforce for Climate-Related Financial Disclosures (TCFD) in 2019 and reported against TCFD-aligned principles for the first time in our 2019 climate report. You can read the report at **hiscoxgroup.com/climate-report**.
- We built on the successes of our Green Team in Bermuda with a UK Green Team to help us make positive environmental changes across our UK offices, and will look to establish other country green teams in 2020.

Case studies

US virtual reality event raises awareness of flood risk

Flood is a growing climate risk faced by many of our customers and we have focused on raising awareness of the risk through education at the same time as developing products that respond to it. We hosted a virtual reality event in the USA which was attended by over 120 guests including some of our key US brokers, giving them the opportunity to experience a Category 5 hurricane for themselves, and bringing to life the nature of the risk as well as the uniqueness of our FloodPlus product offering.

New UK recycling processes helps reduce waste going to landfill

We introduced new recycling processes in our York and London offices to ensure less of the waste we generate ends up in landfill. Although we encourage employees to use re-usable cups, our disposable cups are now recycled by a specialist company which turns the plastic elements into tubing or park benches, and the paper elements back into high quality paper and paper products. We also now collect our plastic milk bottle lids and drinks tops, which go to high street store Lush for recycling.

Investment in research and modelling improves wildfire risk understanding

The devastating California wildfires of 2018 highlighted the wildfire risk for (re)insurers worldwide. We invested in new research and modelling throughout 2019 to further increase our understanding of the risk. By licensing a new risk model for wildfire, and applying our own in-house research to it – what we call the 'Hiscox view of risk' – not only have we significantly increased our understanding of the risk, we are now able to price risks more accurately.

Expanding our involvement in ClimateWise

During the year we increased our involvement in ClimateWise, which connects us to others in the (re)insurance industry who are focused on adapting to a changing climate. Having already been involved in the ClimateWise working group for some time, our ESG Executive Sponsor and member of the Executive Committee now sits on the ClimateWise Insurance Advisory Council. This group comprises of C-suite executives who work together to strengthen the industry's response to climate-related risks and inform regulators, policymakers and other stakeholders on how to promote a more systematic response to climate change across the financial system, and we are pleased to play our part.

Keeping Bermuda beautiful with beach clean-ups

Our employees are involved in a number of environmentally responsible initiatives around the world. For example, in Bermuda we work with Keep Bermuda Beautiful, the island's oldest environmental charity. Through their Adopt an Area initiative, which gives individuals or teams responsibility for a specific piece of the island, Hiscox has its own designated area to take care of, so our Bermuda team work together to hold regular beach clean-ups.

Our virtual reality event in the USA was attended by over 120 guests including some of our key US brokers, giving them the opportunity to experience a Category 5 hurricane for themselves.

FloodPlus


Virtual reality event in the USA.

Reporting against ClimateWise's TCFD-aligned principles in 2019 resulted in a score of 46%.

ClimateWise
Insuring a sustainable future

We have been a carbon neutral business since 2014.

Our Bermuda team work together to hold regular beach clean-ups.

Keep Bermuda Beautiful

Beach clean-ups in Bermuda.

Our ESG framework in action

Social

Global themes, locally executed to make an impact.

We strive to be a good employer, a trusted insurer and a good corporate citizen, recognising that there is not a 'one-size-fits-all' solution to such matters; no claim, person or plight is the same as another. We take our role in the world seriously and so our claims philosophy, our strategy for charitable giving and our employment practices all contribute to our social narrative. It's why we have had a charitable foundation – The Hiscox Foundation – since 1987, and why we have Hiscox Gives, which creates meaningful volunteering opportunities for employees.

Highlights

- We paid out $1.2 billion in claims worldwide in 2019, helping businesses and individuals recover after a loss, for events including Hurricane Dorian and Typhoons Faxai and Hagibis.
- We donated just over $1 million to good causes in 2019 through the Hiscox Foundation (UK and USA), Hiscox Gives and individual employee efforts, and published our first impact report, outlining how the money was distributed and the difference it made. You can read the report at: hiscoxgroup.com/impactreport.
- Our employees spent almost 2,000 hours volunteering for good causes – including collecting surplus food for redistribution to those in need, going into schools to help children with their reading, and helping to build a house for a disadvantaged family in Sri Lanka.
- We continue to work hard to reduce our gender pay gap, which in 2019 was 22.6% on a median basis. We have seen steady reductions in our gender pay gap for two consecutive years now, but there is more still to do. You can read our latest report at hiscoxgroup.com/gender-pay-gap.
- We are becoming a more diverse and inclusive business; one in four employees are now members of at least one of our nine employee networks, over 400 employees have received unconscious bias training, and we have over 75 trained mental health first aiders.

Case studies

Building homes for disadvantaged families in Sri Lanka

Hiscox London Market supports the Dust Project, a charity which helps disadvantaged children in Sri Lanka by pairing building projects with child sponsorship. As part of our multi-year programme of support, we raised over £64,000 in 2019 and ten members of our London Market team spent a week in Sri Lanka helping to build a home for a local family.

Celebrating Pride in the UK and Bermuda with processions and exhibitions

Hiscox employees around the world celebrated Pride. In Bermuda, we took part in the island's first ever Pride event, and in London we sponsored the Queer Frontiers exhibition which focused on profiling the work of LGBTQ+ artists and raising awareness of issues important to the community. Proceeds from the exhibition raised over £28,000 for LGBTQ+ charities including Switchboard (an LGBT+ helpline) and AKT (an LGBTQ+ youth homelessness charity).

Equipping underprivileged US girls with essential life skills

In the USA, we supported Girls on the Run, a charity which provides a positive youth development programme for school-age girls from low-income, under-resourced communities. The work they do helps to increase physical activity levels and healthy behaviours using an experience-based curriculum, boosting confidence and life skills, and our fundraising enabled 63 girls to benefit from the programme.

Championing mental health and well-being via our global employee network

One of our employee networks, WeMind, has been championing mental health and well-being internally and helping to de-stigmatise mental health issues. Through training, motivational and expert speaker seminars, and story sharing, WeMind brings employees across the Group together. Its 2019 programme of events included newsletters and events to mark Men's Health Awareness Month, a sleep seminar, suicide prevention webinar, and 'it's good to talk' sessions to mark World Mental Health Day. The network has also received external recognition for its work, winning Outstanding Employee Network of the Year at the European Diversity Awards 2019.

Supporting community art initiatives around the world

Art is a long-held passion of ours, and we relish finding ways to share it with the wider community. We supported a whole range of art-related initiatives around the world during the year, including Sculpture in the City and Art Night in London, which make art accessible to all in the city; and through our work with Hamburg's renowned university of fine art, HFBK, where we support promising young artists with a €7,500 art prize.

Queer Frontiers exhibition in London.

$1 million

donated to good causes around the world in 2019.

WeMind's European Diversity Award.

1 in 4

employees are members of at least one of our nine employee networks.

€7,500

Annual Hiscox art prize for promising young artists at Hamburg's renowned university of fine art, HFBK.

Through training, motivational and expert speaker seminars, and story sharing, WeMind brings employees across the Group together.

WeMind

Our ESG framework in action

Governance

Compliance with Bermuda Companies Act, UK listing rules, and local country laws.

As a global insurer, good governance practices are essential to our day-to-day business of serving customers and paying claims. Good governance encompasses not just having the appropriate internal controls, policies and procedures, and structures and oversight; it also requires our 3,100 staff to be accountable for their actions and empowered to raise their hand if something goes wrong. Naturally it also means complying with the laws and regulations that are relevant to our operations, so as a Bermuda-incorporated company with a UK listing, we comply with the Bermuda Companies Act, UK listing rules and local country laws.

Highlights

- We developed the Hiscox Group governance model following a review of decision-making and control within the Board and the subsidiary boards. More information can be found on page 51.
- We issued six new mandatory training modules to employees across the Group, to raise awareness of risks including information security and data protection, which resulted in 2,281 hours of mandatory Group-wide information security training being completed – the equivalent of 325 days.
- We published annual financial condition reports (FCR), which are a requirement of the Bermuda Monetary Authority (BMA) and the UK's Prudential Regulation Authority (PRA). The FCRs provide stakeholders with additional information on the financial condition of the Company over and above that contained in the annual financial statements, and can be viewed at **hiscoxgroup.com/about-hiscox/group-policies-and-disclosures.**
- We continued to review and refine our policies and procedures, with an updated whistleblowing policy, an enhanced conflicts of interest policy, updated Board and Committee terms of reference, and a revised outsourcing policy which responds to regulatory interest in outsourcing and cloud services.

Case studies

Maintaining a regular programme of internal training and testing

Working in a regulated industry means we take staff training seriously. We deliver a year-round programme of monthly internal training, testing, awareness and education on issues such as information security, financial crime, Senior Managers & Certification Regime, data privacy and data protection, and how to report an incident. This includes a cyber security awareness month, where we educate employees on what to look out for when it comes to phishing, smishing and other cyber security issues; Company-wide phishing tests to monitor internal vigilance when it comes to suspicious emails; and timely news items on issues such as mobile security during the summer holidays or online shopping security in the run-up to Christmas.

Identifying and addressing emerging risks

We have an emerging risks forum which assesses risks and opportunities which could potentially affect the business. This year, topics have included climate change, data regulation and the impact of changes in governments. Monitoring emerging risks and regulations allows us to explore how our business can adapt if necessary to be able to operate in the medium term and respond to change. In addition, the Group compliance function and our exposure management groups regularly perform horizon scanning for regulatory change. This year, topics monitored included general insurance value measures, the 2021 transition from LIBOR and Solvency II enhancements.

Building resilience through stress testing and scenario analysis

Maintaining a regular cycle of stress testing and scenario analysis is important to ensure we manage risk well and evolve at the same pace as the risks we cover. We have embedded an internal programme of stress testing, which is performed annually to assess the resilience of the business plan in extreme, adverse scenarios. In 2019, a key part of this was the biennial General Insurance Stress Test (GIST) which was facilitated by the UK's PRA and which we participated in alongside many of our peers. This year's scenario required us to examine climate and cyber events as new scenarios alongside the traditional scenarios which include a deterioration in the economic environment. Our 2019 stress testing confirmed that the Group is able to withstand the considered short-term shocks and has strong controls and mitigation strategies in place across risk types.

Bringing teams together for cyber crisis simulations and large loss dry runs

We carry out a combination of events with leadership and underwriting teams to ensure our preparedness for reputational issues and large losses. In 2019 this included a three-day cyber large loss training exercise, which brought together over 50 participants across 14 locations to test our response to a market-changing cyber loss event, put us under pressure and challenge our plans. It involved senior underwriting, claims and finance teams and its outputs have helped inform our cyber strategy and refine our claims surge plans, and contributed to the development of our cyber exposure management models. We also conducted a series of desktop simulations with country leadership teams to work through operational challenges arising from a reputational event.

Our emerging risks forum looked at topics including climate change, data regulation and the impact of changes in governments in 2019.

An internal training event in our New York office.

2,281

hours of mandatory Group-wide information security training completed.

Our three-day cyber large loss training exercise brought together over 50 participants across 14 locations to test our response to a market-changing cyber loss event.

Hiscox Iberia staff believe the secret of their success is the close connection between the Madrid and Lisbon teams. Every new recruit spends time in the other office, so a new underwriter in Madrid will spend several weeks learning the ropes in Lisbon, while a fresh hire in our operations team will travel in the opposite direction to do the same.

This exchange scheme helps everyone gain a shop-floor knowledge of the mechanics of the insurance process from start to finish, as well as give them a better appreciation of what their workmates do and the challenges they deal with. This means they work better together to provide client service that is second to none.

Monthly video-linked 'box meetings', regular social events and a popular social media group all reinforce this sense of togetherness. This connectedness has definitely produced results – our Iberia unit has been a standout success in recent years.

Chapter 3:
Governance

Board of Directors

Non Executive Chairman

Robert Simon Childs
Non Executive Chairman (Aged 68)
Appointed Chairman: February 2013
Appointed to the Board: September 2006

Relevant skills and experience
- Extensive knowledge of Hiscox, having worked for the Group for over 30 years.
- Significant expertise in insurance cycle management, having worked through unprecedented large loss events such as 9/11 and Hurricanes Katrina, Rita and Wilma.

Robert joined Hiscox in 1986 and has held a number of senior roles across the Group, including Active Underwriter for Syndicate 33 and Group Chief Underwriting Officer, before becoming Non Executive Chairman in February 2013. He joined the Council of Lloyd's in 2012 and has served as Deputy Chairman of Lloyd's since 2017.

External board appointments
Council of Lloyd's; Deputy Chairman of Lloyd's.

Executive Director

Bronislaw Edmund Masojada
Group Chief Executive (Aged 58)
Appointed to the Board: October 2006

Relevant skills and experience
- Strong track record of building long-term value, helping guide the Group from initial listing to a $4 billion revenue business.
- Wide-ranging capability in business planning and executing strategy.

Bronek joined Hiscox in 1993 as Group Managing Director and became Chief Executive in 2000. Prior to that he worked with McKinsey & Company, where he advised Lloyd's on its renowned Reconstruction and Renewal plan. Bronek also previously served as Deputy Chairman of Lloyd's and Chairman of the Lloyd's Tercentenary Research Foundation.

External board appointments
Association of British Insurers; Pool Reinsurance Company Limited; Policy Placement Limited; Bajka Investments (Pty) Ltd; Heptagon Assets Ltd; Heptagon Bir Ltd.

Executive Directors

Hamayou Akbar Hussain
Group Chief Financial Officer (Aged 47)
Appointed to the Board: September 2016

Relevant skills and experience
- Considerable experience of providing strategic, financial and commercial management and in-depth knowledge of the regulatory and compliance environment.
- Significant expertise in leading major change programmes.

Aki joined Hiscox in 2016 from Prudential, where he was Chief Financial Officer of its UK and Europe business. Before that, he held a number of senior roles across a range of sectors, including Finance Director for Lloyds Banking Group's consumer bank division until 2009. Aki is a Chartered Accountant, having trained with KPMG.

External board appointments
Visa Europe Limited.

Joanne Musselle
Group Chief Underwriting Officer (Aged 49)
Appointed to the Board: March 2020

Relevant skills and experience
- Considerable underwriting expertise, including experience of managing underwriting portfolios in our key markets.
- Significant knowledge of Hiscox, particularly Hiscox Retail, having worked for the Group for 18 years.

Joanne joined Hiscox in 2002 and has held a number of roles across the Group, including Head of UK Claims, Chief Underwriting Officer for Hiscox UK & Ireland, and Chief Underwriting Officer for Hiscox Retail. Prior to Hiscox, Joanne spent almost ten years working in a variety of actuarial, pricing and reserving roles at AXA and Aviva in both the UK and Asian markets.

External board appointments
Realty Insurances Ltd.

Senior Independent Director

Colin Keogh
Independent Non Executive Director (Aged 66)
Appointed to the Board: November 2015

Relevant skills and experience
- Valuable financial services experience.
- Significant knowledge of how to run an international financial business.

Colin has spent his career in financial services, principally at Close Brothers Group plc where he worked for 24 years and served as CEO for seven years until 2009.

External board appointments
Investec Asset Management; Premium Credit Limited.

Independent Non Executive Directors

Caroline Foulger
Independent Non Executive Director (Aged 59)
Appointed to the Board: January 2013

Relevant skills and experience
- Extensive accounting and financial reporting expertise.
- Deep understanding of Bermuda as a reinsurance centre.

Caroline is a resident of Bermuda and led PwC's insurance and reinsurance practice in Bermuda until her retirement in 2012. With a strong background in accounting, she is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Institute of Chartered Accountants of Bermuda and a member of the Institute of Directors.

External board appointments
Oakley Capital Investments Limited; Catalina Holdings (Bermuda) Ltd; Generation Life Ltd; General Two Ltd; Bank of Butterfield.

Michael Goodwin
Independent Non Executive Director (Aged 61)
Appointed to the Board: November 2017

Relevant skills and experience
- Significant knowledge of the Asian insurance market.
- Deep understanding of risk management as a trained actuary.

Michael has over 25 years' experience in the insurance industry, having worked in Australia and the Asia Pacific region for QBE Insurance Group for over 20 years. Michael started his career as an actuary, is a Fellow of the Institute of Actuaries of Australia and served as Vice President of the General Insurance Association of Singapore between 2006 and 2012.

External board appointments
Partner Reinsurance Asia Pte Ltd; Steadfast Distribution Services Pte Ltd; NCI Brokers (Asia) Pte Ltd; Galaxy Insurance Consultants Pte Ltd.

Thomas Hürlimann
Independent Non Executive Director (Aged 56)
Appointed to the Board: November 2017

Relevant skills and experience
- Considerable experience of leading a global business.
- Extensive knowledge of the European insurance market.

Thomas has 30 years' experience in banking, reinsurance and insurance. He was CEO Global Corporate at Zurich Insurance Group, a $9 billion business working in over 200 countries. Prior to that, he held senior positions at Swiss Re Group and National Westminster Bank.

External board appointments
None.

Independent Non Executive Directors

Anne MacDonald
Independent Non Executive Director (Aged 64)
Appointed to the Board: May 2015

Relevant skills and experience
- Extensive marketing expertise, particularly in the USA.
- Sizable experience in developing well-known global brands.

Anne has served as Chief Marketing Officer at four Fortune 100 companies, and been in charge of some of the most recognised brands in the world, including Citigroup, Traveler's, Macy's and Pepsi.

External board appointments
Boot Barn Holdings, Inc.; Zeotap; Ignite National; Tuckerman & Co.; Chops Snacks.

Constantinos Miranthis
Independent Non Executive Director (Aged 56)
Appointed to the Board: November 2017

Relevant skills and experience
- Deep understanding of Bermuda's (re)insurance industry.
- Senior leadership experience in the reinsurance sector.

Costas served as President and CEO of PartnerRe Ltd, one of the world's leading reinsurers, until 2015 and prior to that was a Principal of Tillinghast-Towers Perrin in London, where he led its European non-life practice. A trained actuary, he is a member of the UK Institute and Faculty of Actuaries and a resident of Bermuda.

External board appointments
None.

Lynn Pike
Independent Non Executive Director (Aged 63)
Appointed to the Board: May 2015

Relevant skills and experience
- Strong background in the US financial services sector.
- Significant knowledge of providing commercial solutions for small businesses, particularly in the USA.

Lynn worked in the US banking industry for nearly four decades, most recently as President of Capital One Bank. Before that, she was President of Bank of America's small business banking division, a multi-billion-Dollar business with 110,000 clients and over 2,000 employees.

External board appointments
American Express Company (NYSE: AXP); American Express National Bank.

Departures and appointments

Executive retirements
Richard Watson
(effective 31 December 2019)

Executive appointments
Joanne Musselle
(effective March 2020)

Non Executive retirements
Robert McMillan
(effective 16 May 2019)

Non Executive appointments
None

Retired Directors

Robert McMillan
Independent Non Executive Director (Aged 67)
Appointed to the Board: November 2010

Bob spent over two decades with The Progressive Corporation, where he held senior roles in product development, claims and marketing, leading initiatives including multi-channel distribution and immediate-response claims. He stepped down from the Ltd Board in 2019.

Richard Colin Watson
Group Chief Underwriting Officer (Aged 56)
Appointed to the Board: May 2013

Richard worked for Hiscox for over 30 years and held a number of senior roles across the Group including Managing Director of Hiscox Global Markets, Active Underwriter of Syndicate 33, and CEO of Hiscox USA, before succeeding Robert Childs as Group Chief Underwriting Officer in 2012. He retired as Group Chief Underwriting Officer in 2019. Richard will continue as an employee of Hiscox Ltd, providing strategic advice as a Director for key subsidiaries.

Group General Counsel and Company Secretary

Marc Wetherhill
Group General Counsel and Company Secretary (Aged 47)

Marc has significant legal and governance experience, and is the Principal Representative to the Bermuda Monetary Authority for the Hiscox Group. He previously served as Chief Legal Counsel and Chief Compliance Officer at PartnerRe Ltd, having trained as a solicitor in London, and is a member of the Bermuda Bar.

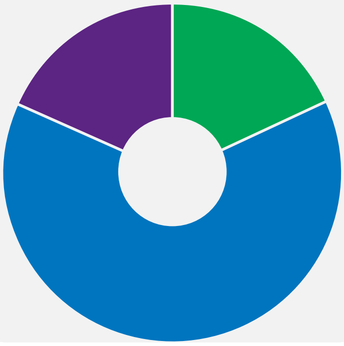
Director duties
As a company incorporated under the laws of Bermuda, Hiscox complies with the Bermuda Company Law and as such the UK Companies Act 2006 and associated reporting regulations do not apply. Although there is no prescription of statutory duties in Bermuda, Directors are bound by fiduciary duties to the Company and statutory duties of skill and care. This includes exercising care, diligence, and skill that a reasonably prudent person would be expected to exercise in comparable circumstance. The Directors act in a way that they consider in good faith would be most likely to promote the success of the company for the benefit of its members as a whole.

Board statistics

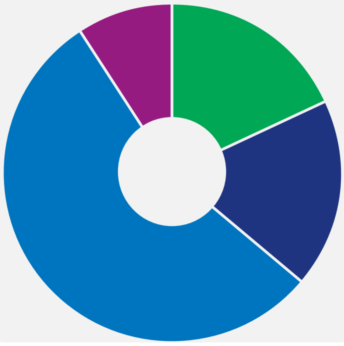
Board diversity at 2 March 2020

Gender	
Female	36%
Male	64%

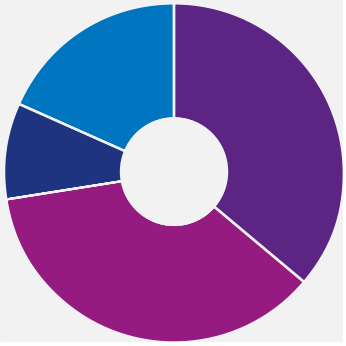
Age	
46-55	2
56-65	7
66-75	2



Location	
USA	2
Bermuda	2
Europe	6
Asia	1



Tenure	
0-3 years	4
3-6 years	4
6-8 years	1
8+ years	2



Board Committee composition and attendance 2019

Board member	Role	Board meetings attended	Audit Committee attended	Nominations and Governance Committee attended	Remuneration Committee attended	Risk Committee attended	Investment Committee attended
Robert Childs	Non Executive Chairman	4/4	–	Ⓒ 4/4	–	3/4	Ⓒ 3/4
Bronek Masojada	Chief Executive	4/4	–	–	–	–	4/4
Aki Hussain	Chief Financial Officer	4/4	–	–	–	–	4/4
Richard Watson	Chief Underwriting Officer	4/4	–	–	–	–	–
Caroline Foulger	Independent Non Executive Director	4/4	Ⓒ 4/4	4/4	4/4	4/4	4/4
Michael Goodwin	Independent Non Executive Director	4/4	4/4	4/4	4/4	4/4	4/4
Thomas Hürlimann	Independent Non Executive Director	4/4	4/4	4/4	4/4	4/4	4/4
Colin Keogh	Independent Non Executive Director	4/4	4/4	4/4	Ⓒ 4/4	4/4	4/4
Anne MacDonald	Independent Non Executive Director	4/4	4/4	4/4	4/4	4/4	4/4
Bob McMillan	Independent Non Executive Director	2/2	2/2	2/2	2/2	2/2	2/2
Costas Miranthis	Independent Non Executive Director	4/4	4/4	4/4	4/4	4/4	4/4
Lynn Pike	Independent Non Executive Director	4/4	4/4	4/4	4/4	Ⓒ 4/4	4/4

Ⓒ Committee Chairman.
See page 50 to read more about each Committee's roles and responsibilities.

All Directors attended all Board meetings during 2019. Robert Childs missed November's Risk Committee and Investment Committee due to personal commitments. Bob McMillan was only eligible to attend the February and May meetings due to his retirement from the Ltd Board in May.

Chairman's letter to shareholders

Dear Shareholder

Last year I talked about the need for our governance framework to continue to evolve as our business grows, and this work continued in 2019. It was a busy year as we refreshed our values, established a new mechanism for Board engagement with the workforce, and strengthened our governance structures with a new Group governance model, alongside the business-as-usual activities.

We also reviewed the revised UK Corporate Governance Code (the Code), published by the Financial Reporting Council and applicable from 1 January 2019 onwards, and have taken steps to ensure our governance practices not only reflect the latest requirements but also the spirit of the Code. We set out in detail how we have complied with the Code on pages 54 to 57, which should be read in conjunction with the corporate governance section on pages 49 to 53.

Purpose, values and strategy

This year we undertook a comprehensive review of our values and developed a Group purpose. The Code emphasises the importance of the Board's role in establishing a company's purpose, values and strategy and ensuring these are aligned with its culture but this has always been important at Hiscox, and reviewing our values is something we endeavour to do every five years or so. As new people join and the business evolves, we think it is important to take a fresh look at our values to ensure that they continue to relate to our business and our people. You can read more on our purpose, values, culture, vision and strategy on pages 4 to 7 and in my Chairman's statement on pages 14 to 16.

Workforce and the Board

In light of the Code's focus on ensuring the views of the workforce have been considered in Board discussions and decision-making, we reviewed our current approach to workforce engagement and the formal and informal mechanisms already in place. I am proud that employee engagement is already wide and varied at Hiscox, so we are building on what we already have in place by establishing a new Employee Liaison role as well as an Employee Engagement Network to strengthen the link between the workforce and the decisions taken in the boardroom. Their work is outlined on page 54.

Engagement

The Chairman of the Remuneration Committee engaged with major shareholders on the remuneration policy renewal. We are satisfied that the remuneration policy reflects the feedback that we received and is in the best interests of the Company and all shareholders. The proposed policy includes new provisions required by the Code and will be put to shareholders at the AGM in May 2020 for approval. More information on this can be found in the remuneration section on pages 64 to 93, and you can read more on how we engage with shareholders and other stakeholders on pages 32 to 33.

Reporting

The Companies (Miscellaneous Reporting) Regulations 2018, which came into force last year, applied from 1 January 2019 onwards and introduced a number of new reporting requirements for quoted companies incorporated in the UK. Although these new regulations do not apply to Hiscox as a company incorporated under the laws of Bermuda, we have included some additional disclosures where we feel that doing so would give shareholders a better understanding of our governance arrangements. For example, last year we voluntarily reported our Chief Executive's pay ratio, which is a practice we have continued this year. For 2019, we have also included additional disclosures regarding the way we engage with employees, and the delivery of Director duties, which can be found on pages 32 and 46 respectively.

Governance

During the year we strengthened our underlying governance structures with a Group governance model which defines the Group-wide governance standards required of all legal entities. There is a balance to be found in how information flows from Group Board level through to our subsidiary Boards, and vice versa, and this model helps us to articulate that.

I trust that the updates we have made to corporate governance together with the additional detail we have provided in this report will give you a strong understanding of our corporate governance arrangements and assurance that Hiscox continues to be focused on the importance of maintaining a robust corporate governance framework.

Robert Childs
Chairman

Corporate governance

Our robust governance framework continues to evolve and underpins our business model.

Board composition

The Board has responsibility for the overall leadership of the Group and its culture.

As at the date of this report, the Board comprised the Non Executive Chairman, three Executive Directors, and seven independent Non Executive Directors including a Senior Independent Director. The operations of the Board are underpinned by the collective experience of the Directors and the diverse skills which they bring. Biographical details for each member of the Board are provided on pages 44 to 45. Notable changes during 2019 include Bob McMillan (Independent Non Executive Director) and Richard Watson (Executive Director) retiring from the Ltd Board in May and December respectively; and Joanne Musselle being appointed to the Board in March 2020 as Group Chief Underwriting Officer – succeeding Richard Watson. In accordance with the Company's Bye-laws and the Code, all Directors will seek re-appointment at the 2020 Annual General Meeting and no issues have arisen that would prevent the Chairman from recommending the re-appointment of any individual Director. More information on the role of the Board can be found on pages 50 to 53.

Leadership of the Company

The Board as a whole is collectively responsible for the success of Hiscox Ltd and the Group.

The Hiscox Ltd Board of Directors:
- set the Group's strategic direction, purpose and values and align these with its culture;
- oversee competent and prudent management of internal control, corporate governance and risk management;
- determine the sufficiency of capital in light of the Group's risk profile and business plans;
- approve the business plans and budgets.

To ensure that the Board operates efficiently, each Director has role responsibilities. The role of the Chairman, Senior Independent Director and Chief Executive are distinct to demonstrate the segregation of responsibilities.

Chairman

- Leadership of the Board.
- Ensuring effective relationships exist between the Non Executive and Executive Directors.
- Ensuring that the views of all stakeholders are understood and considered appropriately in Board discussions.
- Overseeing the annual performance evaluation and identifying any action required.
- Leading initiatives to assess the culture of the Company and ensure that the Board leads by example.

Senior Independent Director (SID)

- Advisor to the Chairman.
- Leading the Chairman's performance evaluation.
- Serving as an intermediary to other Directors when necessary.
- Being available to shareholders and other stakeholders if they have any concerns which are unable to be resolved through normal channels, or if contact through these channels is deemed inappropriate.

Chief Executive

- Proposing and delivering the strategy as set by the Board.
- Facilitating an effective link between the business and the Board in support of effective communication.
- Leading the Executive Committee, which delivers operational and financial performance.
- Representing Hiscox internally and externally to stakeholders, including shareholders, employees, government and regulators, suppliers and contractors.

The Board has delegated a number of its responsibilities to its Audit, Nominations and Governance, Remuneration and Risk Committees.

Audit Committee	Nominations and Governance Committee	Remuneration Committee	Risk Committee
— Advises the Board on financial reporting. — Oversees the relationship with internal and external audit. — Oversees internal controls including reserving and claims.	— Recommends Board appointments. — Succession planning. — Ensures an appropriate mix of skills and experience on the Board. — Promotes diversity. — Manages any potential conflicts.	— Establishes remuneration policy. — Sets Chairman, Executive Director and senior management remuneration. — Oversees workforce remuneration-related policies and practices across the Group. — Oversees alignment of rewards, incentives and culture.	— Advises the Board on the Group's overall risk appetite, tolerance and strategy. — Provides advice, oversight and challenge to embed and maintain a supportive risk culture throughout the Group.
The Audit Committee report can be found on pages 60 to 61.	The Nominations and Governance Committee report can be found on pages 58 to 59.	The remuneration report can be found on pages 68 to 81.	More information on risk management can be found on pages 9 and 28 to 31.

This structure is supported by the Executive Committee, Investment Committee and a number of other management committees. Certain administrative matters have been delegated to a committee comprising of two Directors and the Company Secretary.

Corporate governance oversight

The Board operates within an established governance structure to ensure that through the delegations, strategy can be implemented effectively and is supported by transparent, well informed and balanced decision-making. The Board's terms of reference include a schedule of matters reserved for Board decision, a copy of which can be found at **hiscoxgroup.com/investors/corporate-governance**, which was updated in 2018 to ensure ongoing compliance with the updated Code. Each Board committee operates within established written terms of reference, which were also updated in line with the Code, and each committee Chairman reports directly to the Board. The matters reserved for Board decision and the committee terms of reference were further reviewed in late 2019 as part of the annual review of terms of reference.

The Board is responsible for the success of the Company and the underlying Hiscox Group of companies and as part of this the Board sets the governance framework and the overarching principles which should be applied across the Group. The framework is supported by a formal governance manual which explicitly sets out our corporate governance standards. The Group governance manual sets out the overall Group structures, the division of responsibilities between Group and principal subsidiary boards, operational requirements for the Board and the principles applied to subsidiary management.

During the year, a review was completed on subsidiary management including the breakdown of decisions taken by the Board and the level of control maintained by the Board and the principal subsidiary boards. This led to the development of the Hiscox Group governance model.

Hiscox Group governance model

The Hiscox Group governance model shows the relationship between the Board exercising strategic direction and oversight of the Hiscox Group, and the subsidiary boards' delivery of their respective entities.

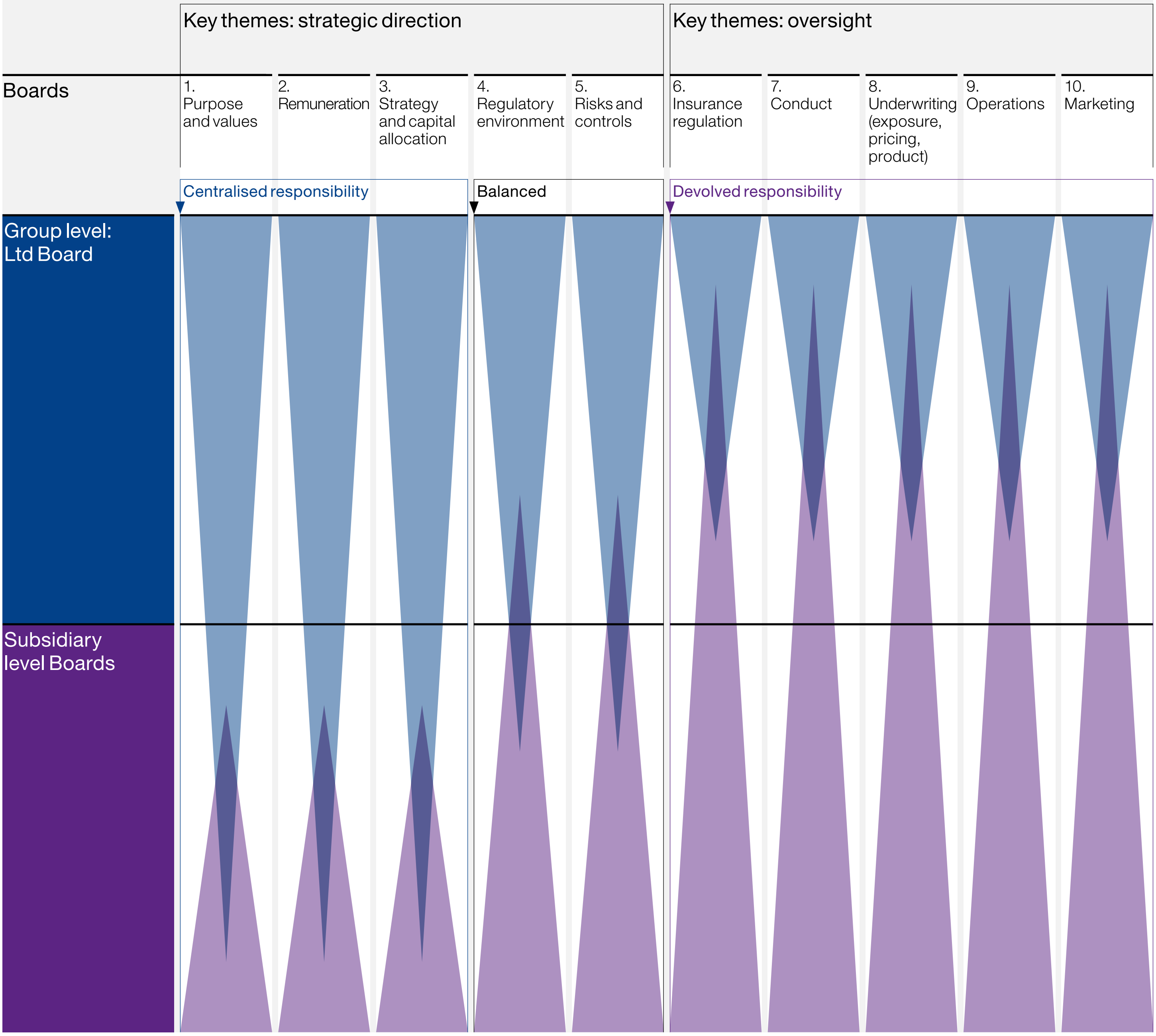
The model is divided into key themes, aligned to the division of responsibilities, and translated into explicit terms of reference for the principal subsidiaries – ensuring alignment to the overall Group approach to values, purpose, culture of risk awareness, ethical behaviour and Group controls.

The governance manual defines the Group-wide governance standards required of all legal entities, and supports the delivery of strategy and business objectives within a framework of good corporate governance practice.

Further governance changes completed in the year include new Board, Committee and Director evaluation processes which focus more clearly on outcomes, outlined on pages 58 to 59, greater oversight of responsibilities, continued formalisation of the control environment and enhanced reporting.

Hiscox Group governance framework

How key themes flow through Group and subsidiary level Boards, and where responsibility is centralised versus devolved.



In line with the agreed meeting schedule, the Board held four formal meetings in 2019 along with scheduled informational calls in between these meetings.

Board meetings and activity

Board meetings and activity

The Group has an effective Board which supports a culture of accountability, transparency and openness. Executive management and the Non Executive Directors continue to work well together as a unitary Board and debate issues freely. The Board culture is congenial; however both Non Executive Directors and Executive Directors continually challenge each other in order to deliver our shared aim. In the context of unitary Boards, Non Executive Directors provide Executive Directors with support and guidance, not just challenge, and our Non Executive Directors are close enough to the business to do this.

In line with the agreed meeting schedule, the Board held four formal meetings in 2019 along with scheduled informational calls in between these meetings. In the months where no full Board meeting was due to be held, an update call was held; these calls provided the opportunity to advise of any business developments, emerging issues and opportunities.

Each Board meeting has at least a two-day series of events which involve the formal Board and Committee meetings alongside a wide spectrum of other sessions which give access to all levels of the business. These include training sessions; Non Executive Director-only meetings; and briefings with Executive Committee members and senior management where the Non Executive Directors have the opportunity to hear key issues and conduct 'deep dives' on specialist subjects. In 2019, this included an update on business opportunities, Group governance, strategy, marketing and technology in insurance, as well as deep dives on business unit performance. Specific sessions are held for succession planning and strategy. Outside of these meetings, Non Executive Directors have unfettered access to employees and regularly liaise with management on activities aligned to their key skills as well as the opportunity to attend appropriate management strategy and training days.

Board evaluation 2019

Internal Board evaluations are completed in each of the interim years between our external reviews, which in compliance with the Code are undertaken every three years. More information on our internal Board evaluation in 2019, and preparations for an externally facilitated Board evaluation in 2020, can be found in the Nominations and Governance Committee report on pages 58 to 59.

Board agenda planning in action

The Board agenda is set by the Chairman following discussion with the Chief Executive and Company Secretary, taking into consideration feedback from the individual Directors. Board agendas focus on strategically important issues and regular reports from key business areas.

Board papers are circulated at least five days before each meeting to ensure Directors have appropriate time to review them, and to seek clarification where necessary. The quality of Board papers is kept under regular review.

The scheduled meetings follow an agreed format; agendas are developed from the Board's annual plan of business, with flexibility built in to ensure the agendas can accommodate relevant upcoming issues.

The Chairman and Non Executive Directors usually meet at the start or end of each Board meeting without the Executive Directors, creating an opportunity for Non Executive Directors to raise any issues privately.

Each agenda is typically divided between special strategy items ('deep dives'), and management reports. Deep dive sessions are selected for a variety of reasons, including identified actions from previous meetings, issues escalated from management, and items requested either formally or informally by Non Executive Directors. Any issues highlighted will be addressed either at the Board, during Committee discussions, or during informal informational sessions, depending on the nature of the matter. The management reports follow a short standard format which aids discussion and understanding. At each meeting the Board receives an update from the Committee Chairs to keep them abreast of the items discussed, the outcomes agreed, and to summarise recommendations for Board approval from the Committees. Board agendas are also set out in line with the Committee agenda setting to ensure that the most appropriate method of progressing an item is utilised.

The agenda planner was refreshed during the year to ensure it covered the appropriate strategy, performance and governance items. The agenda planning also includes the review of external influences on the Board including ongoing regulatory review throughout the Group.

An alert service is available on **hiscoxgroup.com** to notify any stakeholder of new stock exchange announcements.

Shareholder engagement

Key themes

The Board receives appropriate and timely information to enable Directors to review business strategy, trading performance, business risks and opportunities. Executive Directors and senior management from the business are invited to present on key items, allowing the Board the opportunity to debate and challenge initiatives directly with Executive Directors and senior managers.

Key themes in 2019	Key activities and actions
Business performance	— Approval of the 2020 business plan. — Agreement on business priorities.
Engagement	— Board members met throughout the year with the Group regulator, the Bermuda Monetary Authority, in addition to key regulators in the principle subsidiaries. — The Board regularly considered the Group's relationship with various stakeholder groups. It discussed shareholder matters, employee engagement, customers, and the Group's impact on, and relationship with, wider society as detailed on pages 32 to 33. — The Board formalised the Company's approach to workforce engagement, establishing a new Employee Liaison role which Non Executive Director Anne MacDonald will fulfil as detailed on page 54.
Governance	— Approval of the Group governance manual. — Approval of an updated conflicts of interest policy. — Appointment of the external facilitator for the 2020 Board evaluation and discussion of the outcomes of the 2019 Board evaluation review at the February 2020 meeting. — Approval of the Hiscox ESG framework. — Discussion of governance culture and approval of the Group governance framework.
Risk, compliance and internal controls	— Oversight of all key risk, compliance, internal control and governance matters as detailed in the Audit Committee report on pages 60 to 61. — Update on key underwriting exposures (Hiscox view of risk).
Strategy and culture	— Approval of the 2030 ambition. — Reviewing the Company's values and developing a purpose for the Group. For more, see pages 4 to 5. — Oversight of work on the development of a robust and open culture.

Compliance with the UK Corporate Governance Code 2018

The UK Corporate Governance Code (the Code) was published by the Financial Reporting Council in July 2018 and is applicable to accounting periods from 1 January 2019. As a company listed on the London Stock Exchange, the Code is applicable to Hiscox.

The Code sets out a revised set of principles and, as with previous versions of the Code, a set of 'comply or explain' provisions. This section, along with the corporate governance section on pages 49 to 53, provides meaningful disclosure on our application of the principles of each section of the revised Code in turn, and explanations where we deviate from its provisions along with reasons why the Board believes such deviation to be appropriate.

Board leadership and Company purpose

The Board is collectively responsible for the stewardship and long-term success of the Company and for setting the strategic direction for the Group. In the corporate governance section on pages 49 to 53, we have set out the governance structure which supports the Board in setting and overseeing the delivery of the Company's strategy. We have also described some of the key decisions taken by the Board during the year and how the Board's view of emerging risks influenced those decisions to ensure the focus remains on delivering long-term, sustainable good performance.

Purpose and values have always been important at Hiscox, and the Board reviews and refines them every five or so years to ensure they remain relevant as new people join and the business evolves. The Board believes that the Company's purpose and values act as a barometer by which the Board and the wider workforce can hold each other to account. During the year, a comprehensive process was undertaken to consult employees across the Group, at all levels of the Company, on the purpose and values and these were approved by the Board and subsequently updated and published in September 2019. For more information see pages 4 to 5.

The Board operates within a Group-wide governance framework which was also explicitly set out in a Board-approved governance manual during 2019. For further details see pages 50 to 51. The governance framework complements the Company's internal controls which are designed to enable risk to be properly assessed and managed. To support this, the Board has a formal schedule of matters reserved for the Board's determination that covers areas including: setting the Group's purpose and strategic vision; monitoring performance of the delivery of the strategy; approving major investments, acquisitions and divestments; the oversight of risk and the setting of the Group's risk appetite; and reviewing the Group's governance.

The terms of reference explicitly state that the Board and Committees shall have unfettered access to the resources they determine as being necessary to fulfil their obligations.

The Board is ultimately responsible for our risk management and internal controls, and for ensuring that the systems in place are robust and take into account the principal and emerging risks faced by the Company. The Board delegates certain matters to the Risk Committee, whose work is outlined on page 30, and the Audit Committee, whose work is outlined on pages 60 to 61. The Audit Committee provides updates to the Board on matters discussed at each meeting.

The Board is kept aware of major shareholder issues and concerns through reports from a variety of sources, including the Chairman, the Chief Executive, the Chief Financial Officer, senior management and external consultants. Other ways in which the Board maintains dialogue with shareholders include general meetings, investor roadshows and interim and full-year results presentations. Shareholder engagement is not limited to the period following the publication of financial results or other significant announcements.

In 2019, the Company formalised its existing approach to workforce engagement by establishing an Employee engagement Network, which is led by Non Executive Director Anne MacDonald, who will also now hold the role of Employee Liaison. While the Board has historically engaged with the workforce and will continue to leverage the pre-existing infrastructure to ensure that Hiscox is motivating and engaging employees in an effective way, the new Employee Engagement Network will ensure workforce views are considered in its decision-making process. It sits separate to the existing HR mechanisms. The Employee Liaison is responsible for providing a verbal summary of findings at Board meetings. The Employee Liaison facilitated several meetings in 2019 with individuals and representatives from the Company's employee networks, the Head of Diversity and Inclusion and the Group Company Secretary.

The whistleblowing policy ensures that employees feel empowered to raise concerns in confidence and without fear of unfair treatment. It allows serious concerns to be raised confidentially with senior management or, if they choose, with the Chair of the Audit Committee. Having a supportive and inclusive culture is important to us, and we track how employees feel about working at Hiscox through our annual employee engagement survey.

Each year, the Directors are required to provide a complete list of all third-party relationships that they maintain. This is analysed to determine if there is any actual or potential conflict of interest. The Nominations and Governance Committee review the findings and determine if there is any conflict of interest.

Hiscox's response to section 1 of the Code

The Board has complied with all of the applicable provisions of section 1. Provision 5 states that, in the context of how the Board understands the view of key stakeholders, the Board should describe in the Annual Report how the matters set out in section 172 of the Companies Act 2006 have been considered in Board discussions and decision-making. Section 172 applies only to companies incorporated in the UK, therefore as a Bermuda-incorporated company the Board is not subject to section 172 statutory duties. Nevertheless, where appropriate the Board as a matter of good governance has set out how we deliver comparable Director duties against the Bermuda Companies Act 1981. More information on Director duties can be found on page 46.

Division of responsibilities

The Chairman is responsible for the leadership and overall effectiveness of the Board. He recognises the importance of creating a boardroom culture which encourages openness and debate and ensures constructive relations between Executive and Non Executive Directors. There is a clear division of responsibilities between the Chairman, Chief Executive and Senior Independent Director to ensure that no individual has unfettered powers of decision, which is outlined on page 49.

The Non Executive Directors provide constructive challenge and help develop proposals on strategy. They are also responsible for scrutinising management performance and ensuring that financial information, risks and controls, and systems of risk management are robust. The Board ensures, through the Nominations and Governance Committee, that Board composition is kept under review, that appropriate succession plans are in place, that the independence of Non Executive Directors is not compromised and that they have the time and resources necessary to devote to the role.

The Remuneration Committee ensures that appropriate remuneration structures are in place.

Colin Keogh, the Senior Independent Director, provides a sounding board for the Chairman and serves as intermediary for other Directors when necessary. His other role responsibilities are outlined on page 49.

The General Counsel and Company Secretary acts as a trusted adviser to the Board and its Committees, and ensures that there are appropriate interactions between senior management and the Non Executive Directors. He is responsible for advising the Board on all governance matters and all Directors have access to him for advice.

Hiscox's response to section 2 of the Code

The Company complied with all of the provisions of section 2 with the exception of Provision 9, where as previously disclosed, the Chairman, Robert Childs, was not deemed to be independent upon his appointment as Chairman in 2013. At that time, major shareholders were consulted ahead of Robert's appointment and the Board set out its reasons for his appointment.

In the Annual Report and Accounts last year, we stated that the Board believed the Chairman's experience and expertise in underwriting and risk management continued to be a valuable asset in the performance of its functions. In light of the new provision of the Code, the question of the Chairman's tenure on the Board was discussed by the Non Executive Directors (without the Chairman being present) and the meeting concluded, having taken soundings from all of the other Directors on the Board, that the Board continues to highly value the Chairman's skills and experience, and that he demonstrates independence, constructive challenge and engagement in the Board as well as valuable guidance to Executive management. The Board is therefore satisfied that he continues to show the independence of character and judgement necessary to chair the Board effectively.

There are a number of further measures to ensure the robustness of these arrangements. There is a strong Senior Independent Director in place; an annual review of independence of mind as part of the effectiveness review, and oversight of this at the Nominations and Governance Committee; the Chairman is not a member of the Remuneration Committee or the Audit Committee; and a majority of Board Directors are independent Directors. A key focus of the 2020 *externally facilitated succession plan will be an assessment of the independence of the Board, the role of the Chairman and the robustness of the Non Executive Director succession plan.*

The Board therefore retains complete confidence in the Chairman's ability to act independently and unanimously supports his re-election at the Annual General Meeting (AGM).

Composition, succession and evaluation

The current composition of the Board is set out on pages 44 and 45 and is considered to be an appropriate size for the business, with the right balance of Executive and Non Executive Directors. The Board is satisfied that it has the appropriate balance of skills, experience, independence, and knowledge of the Company to enable it to discharge its duties and responsibilities effectively, and that no individual or group dominates the Board's decision-making. Any changes to the Board during the period are outlined on page 46.

Diversity of thought, which is vital at every level of the business including at Board level, remains vital and we are guided by both our diversity and inclusion policy and our Board diversity statement, which are available to view at **hiscoxgroup.com/about-hiscox/group-policies-and-disclosures.** Details of our diversity activities are detailed on pages 38 to 39 and 59.

The Nominations and Governance Committee also assesses the independence of each Non Executive Director, taking into account, among other things, the circumstances set out in the Code that are likely to impair, or could appear to impair their independence. The Committee remains of the view that the most important factor is the extent to which they are independent. All Non Executive Directors, other than the Chairman, were considered to be independent when appointed to the Board, and the Nominations and Governance Committee has determined that they all continued to be independent in 2019. In line with good governance practice, a particularly rigorous independence review was conducted for Caroline Foulger as she has served on the Board for more than six years, and concluded that she continues to demonstrate independence.

The Nominations and Governance Committee also ensures a formal, rigorous and transparent procedure for the appointment of new Directors and is responsible for Board succession planning, regularly assessing the balance of skills, experience, diversity and capacity required to oversee the delivery of the Company's strategy. More information can be found in the Nominations and Governance Committee report on pages 58 to 59.

Each Non Executive Director's letter of appointment outlines the commitments expected of them throughout the year. Each Director has undertaken to allocate sufficient time to the Group in order to discharge their responsibilities effectively, and this is kept under review by the Nominations and Governance Committee. Executive Directors are prohibited from taking more than one Non Executive Directorship in a FTSE 100 company, or the Chairmanship of such a company. Information on Board members' other appointments are listed on pages 44 to 45.

On joining the Board, all Non Executive Directors take part in a full, formal induction programme which is tailored to their specific requirements. Board members can also participate in training and development opportunities throughout the year, including visits to Hiscox overseas offices and inclusion at the annual Hiscox Partners event, attended by those employees who make significant contributions to the development and profitability of the Group. These visits provide an opportunity to meet employees and other key stakeholders, and to develop a deeper understanding of the challenges and opportunities at operational sites and in the business areas more generally. The Chairman holds annual appraisal meetings with all Directors to review their performance, and to discuss their training and development needs. The Board also enjoys a full programme of informal meetings that support the Board meetings; this helps to ensure that the Non Executive Directors in particular have wide access to all levels of the business.

The Board's policy is that all Directors stand for re-election by shareholders each year at the AGM. The Board considers that all Directors continue to perform effectively and demonstrate appropriate levels of commitment. The biographical details of the Board on pages 44 to 45 summarise each Director's relevant skills and experience as well as the specific reasons why each Director's contribution is important to the Company's long-term sustainable success. As recommended by the Code, this information will also be included in the Notice of Annual General Meeting.

A Director, Board and Committee effectiveness evaluation is carried out each year and results in effectiveness reviews, which are discussed by the Board and each of the Committees.

Every third year, the Board evaluation is externally facilitated and this is next scheduled to take place later this year. More information can be found in the Nominations and Governance Committee report on pages 58 to 59.

Hiscox's response to section 3 of the Code

The Company complied with all of the provisions of section 3 with the exception of Provision 19. The Chairman has been in post since 2013, and therefore served less than nine years.

For the reasons outlined in section 2, the Chairman has remained in post to facilitate effective succession planning and the development of a diverse Board. For more information see Hiscox's response to section 2 of the Code.

Audit, risk and internal control

A key part of the Audit Committee's and Risk Committee's responsibilities is to provide oversight, on behalf of the Board, of the Company's internal financial controls, and internal control and risk management systems as well as monitoring the integrity of the financial statements of the Company. A report from Caroline Foulger, Chair of the Audit Committee, on the work of the Committee during the year can be found on pages 60 to 61.

The Board is responsible for the preparation of the Annual Report and Accounts and for stating whether it considers the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. The Directors' responsibilities statement, going concern and viability statements are set out on pages 96 to 98.

Hiscox's response to section 4 of the Code

The Company complied with all of the provisions of section 4.

Remuneration

The remuneration policy is developed by the Remuneration Committee in consultation with shareholders and is designed to support the Company's strategic aims and promote the long-term sustainable success of the Company while also being aligned with the Company's purpose, values and culture.

The remuneration policy was reviewed during the year ahead of its renewal in 2020. Details of the proposed changes and shareholder consultation process are set out in the letter from the Chairman of the Remuneration Committee, on pages 64 to 65 and in the annual report on remuneration on pages 68 to 81. The Code stipulates the importance of clarity, simplicity, risk, predictability, proportionality and alignment to culture in remuneration, and how we address this for Hiscox is outlined in the table on page 72.

The remuneration report also contains details of the procedure that has been established for developing the Company's policy on Executive pay and determining Director and senior management remuneration outcomes. No Director is involved in deciding their own remuneration.

Hiscox's response to section 5 of the Code

The Company complied with all of the provisions of section 5.

Nominations and Governance Committee report

The work of the Nominations and Governance Committee is wide-ranging, with a specific focus on the appointment and succession of Directors and Executive management; the Board evaluation; and Company strategy relating to diversity and inclusion and the gender balance of both the Board and senior management. The Nominations and Governance Committee also carries out several other Group activities, including a review of compliance with governance requirements, a review of conflicts and the approval of Group policies.

Board structure – appointment and succession

The Nominations and Governance Committee leads in the delivery of formal, rigorous and transparent procedures on appointments and succession, ensuring the development of a diverse pipeline. The key activities to ensure delivery of this included the annual review of succession plans for Executives and Non Executives. This was supplemented by the explicit documentation of appointment and succession principles in the Group governance manual.

2019 marked the retirement of Bob McMillan, one of our Independent Non Executive Directors, who retired from the Ltd Board at the 2019 Annual General Meeting, and Richard Watson, Executive Director, who retired as Group Chief Underwriting Officer on 31 December 2019. The Committee and the Board decided to not fill the position vacated by Bob as it was determined that the Board already had sufficient skills and independence; however, a robust and transparent appointment process was carried out for the position vacated by Richard. An executive search firm provided us with some very strong external candidates, but it was Joanne Musselle, an internal candidate, who impressed our Executive and Non Executive Directors during the three-stage selection process which included one-to-one and panel interviews with some of our Executives and Non Executives. Joanne was appointed Group Chief Underwriting Officer from 1 January 2020 and Executive Director in March 2020, and we are benefitting from her underwriting expertise and knowledge of the Group.

Board evaluation

Board and Committee effectiveness evaluations are carried out each year and the results are discussed at the Board and each of the Committees. Every third year, the Board evaluation is externally facilitated and this is next scheduled to take place in 2020. Preliminary work on the 2020 evaluation has already commenced and we are reviewing third-party service providers. The interviews and data collection will be undertaken in the fourth quarter of 2020 and a formal report will be prepared and shared with the Board in early 2021, with key focus areas being an assessment of the independence of the Board, the role of the Chair and the robustness of Non Executive Director succession plans.

In 2019, the process for our interim Board and Committee reviews – undertaken in the years between external evaluations – was updated to deliver an even more robust evaluation.

The key themes of the 2019 internal review were: composition and diversity; updated skills review; succession planning; independence of mind of the Board; effectiveness of working relationships; key themes for the future; progress with employee liaison development; and regulatory and legal compliance.

The findings of the evaluation were discussed by the Nominations and Governance Committee, and by the Board as a whole, and resulted in confirmed actions which will be tracked to completion during the year.

Individual Director reviews were an opportunity to discuss individual skills, succession and any issues. No significant issues were addressed although the Nominations and Governance Committee will continue to review the overall skills, succession and rotation of Directors. Overall Board and Committee effectiveness was rated as good or extremely good with no fundamental issues highlighted.

The Board and its Committees are focused on continuous improvement and this was reiterated in the questionnaire, with incremental changes highlighted for improvement. Themes of improvement were linked to the continued development of the Board and Committees and related to: further strategy development with strengthened competitor analysis; revised plans for focusing deeper in the organisation; the enhancement of certain management information; further review of remuneration philosophy; and Board succession planning.

The 2019 Board evaluation process

Stage 1
Director review
- One-to-one interviews between the Chairman and the Directors to assess Director effectiveness.
- Senior Independent Director meets with the Non Executive Directors to assess the effectiveness of the Chairman.

Stage 2
Committee review
- Detailed questionnaire completed to assess the effectiveness of the Committees.

Stage 3
Board review
- Detailed questionnaire completed to assess the effectiveness of the Board.

Stage 4
Outputs shared
- Results presented and discussed at Board and Committee meetings.

Stage 5
Action plan agreed
- Action plan overseen to completion.

Diversity and inclusion

Diversity and inclusion (D&I) has been a strategic priority for a number of years and remains important to us. We have a Head of Diversity and Inclusion who drives our progress, a diversity and inclusion policy that applies to all employees, and a Board diversity statement that applies to our Executive and Non Executive Directors.

In 2019, we refined and re-published our Board diversity statement, which is available on our corporate website. It outlines our requirement for the candidate pool for each Board position to include at least one female and one ethnic minority candidate of appropriate merit.

We complied with the provisions of the Hampton-Alexander Review, which examines female representation within FTSE 350 companies at both Board and senior manager level. This included a target of 33% representation of women on FTSE 350 boards and leadership teams (which they consider as comprising the Executive Committee and the direct reports to the Executive Committee, and which we call 'senior management') by the end of 2020, which as the table opposite shows we have met.

Diversity at 2 March 2020

	Male	Female
Board	64%	36%
Executive Committee	67%	33%
Direct reports to the Executive Committee	51%	49%
Hiscox Partners*	77%	23%
All employees**	50%	49%

*Hiscox Partner is an honorary title given to employees who make significant contributions to the development and profitability of the Group. The Partnership encourages a proprietorial attitude, and comprises of up to 5% of the workforce.
**1% of employees did not declare their gender.

We also complied with the UK obligations to report our gender pay gap ratios with respect to our UK subsidiaries, and published our third annual gender pay report during the year. As the Chairman of the Remuneration Committee indicated in his letter, we are pleased with the year-on-year improvement but will continue to focus on this area with further D&I programmes and initiatives in 2020.

Robert Childs
Chairman of the Nominations and Governance Committee

Audit Committee report

In relation to financial reporting, the primary role of the Audit Committee (the Committee) is to monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance, and review significant financial reporting judgements contained within them. Working with both management and the external auditor, the Committee reviewed the appropriateness of the half-year and annual financial statements, concentrating on, among other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements and estimates have been applied or where there has been discussion with the external auditor;
- any correspondence from third parties in relation to our financial reporting.

To aid the review, the Committee considered the key judgements and estimates found in the financial statements by the Chief Financial Officer, as well as reports from the external auditor on the outcomes of its annual audit and half-year review. The Committee supported the external auditor, PwC, in displaying the necessary professional scepticism its role requires. The primary areas considered by the Committee in relation to the 2019 Annual Report and Accounts were:

i) Reserving for insurance losses

As set out in our significant accounting policies on pages 119 to 120, the reserving for insurance losses, in particular losses incurred but not reported, is the most critical estimate in the Company's consolidated balance sheet.

The Chief Actuary presents a quarterly report to the Committee covering Group loss reserves which reviews both the approach taken by management in arriving at the estimates and also the key judgments within those estimates.

During the year, a number of large natural catastrophes occurred which impacted the Group, including Hurricane Dorian and Typhoons Faxai and Hagibis. It is important that the Company can quickly and with a reasonable degree of reliability, estimate the gross and net losses arriving for these events. The Committee received presentations from the Chief Actuary and management on the process undertaken and the judgments arrived at to establish these key estimates. In addition to the catastrophe events in 2019, the Company strengthened reserves for prior-year claims, specifically claims arising from Typhoon Jebi, Hurricane Michael and within the risk excess reinsurance business, based on materially increased industry loss estimates. Similarly, the Committee received detailed presentations from the Chief Actuary and management relating to this new information and the recommendations arising therefrom. The Committee is satisfied with both the process that was conducted and the reporting and disclosure of the resulting estimates.

ii) Accounting for taxation

During the year, the Company made an additional tax provision of up to $60 million, following a reappraisal of how the Company invested in and classified marketing activity historically. This additional tax provision has been presented as a prior year adjustment and, as a result, the previously disclosed profit for 2018 has been restated. The Committee received detailed information from management on the reclassification, the enquiries conducted and the enhanced controls and procedures introduced. The Committee also heard from the external and internal auditors relating to the matter. The Committee is satisfied with the actions taken and the reporting and disclosures of the matter.

Additionally, as explained in note 2.22, a deferred tax asset has been established relating to operating losses arising in foreign subsidiaries. The recoverability of these assets is dependent upon the future profitability of these subsidiaries. The Committee reviewed the methodology used by management to assess the projected profitability and the carrying amount of the deferred tax assets and is satisfied with the methodology.

iii) The valuation of the investment portfolio

The Group values and reports its investment assets at fair value. Due to the nature of the investments, as disclosed in note 17, the fair value is generally straightforward to determine for most of the portfolio which is highly liquid. For the element of the portfolio held in risk assets, a small proportion relies on a higher degree of estimation. The Committee, through the Investment Committee, receives quarterly reports on the portfolio valuation and is content with the process and the estimates reported.

iv) Accounting for the defined benefit scheme

As explained in note 2.16, the Group recognises the present value of the defined benefit obligation, less the fair value of plan assets at the balance sheet date. The Audit Committee reviewed the report of the key judgements and estimates in the financial statements from the Chief Financial Officer, and the results of the independent pension valuation, and is satisfied that the assumptions used to measure the net liabilities are reasonable.

v) The recoverability of reinsurance assets
As a result of the large loss activity in the year, the level of exposure to reinsurers has increased. The Committee received an update on the process to monitor the levels of recoverability, including the level of collateral held, and the regular contact with counterparties, the ratings of reinsurers and the concentration of risk. The Committee is satisfied with the approach taken and the recoverability of those assets.

vi) Estimated premium income
The Hiscox Syndicates write a large proportion of their business through binding authorities. Due to a time lag between the binding of business and reporting to the insurance carrier, significant judgements are made in estimating the gross written premiums. The estimated gross written premium is regularly compared to the actuals and no significant differences have been noted. The Committee is satisfied with the approach taken.

vii) The level of rounding
A change to the level of rounding was applied in the consolidated financial statements from nearest thousand to nearest hundred thousand. This reflects the growth of the business and further aligns the Group's external reporting with its peers, a change which was approved by the Committee.

Systems and process change projects
The various systems and process change projects under way across the Group continued this year and include systems changes in our retail businesses as well as a Group-wide finance change programme (FTP), which involves a wide-ranging transformation of the finance IT systems and controls. The Committee receives a quarterly update on the status of the FTP which enables it to monitor progress, obtain updates on delivery and provide challenge where necessary. Delivering the major projects already under way remains a business priority for 2020, and is outlined on page 8.

External auditor
PwC has been the Company's external auditor since 2016. PwC is invited to attend all meetings of the Committee and it is the responsibility of the Committee to monitor their performance, objectivity and independence. The Committee discusses and agrees with PwC the scope of its audit plan for the full-year and the review plan for the interim statement.

The Audit Committee receives reports from PwC at each meeting which include the progress of the audit, key matters identified and the views of PwC on the judgements outlined above. PwC also reports on matters such as their observations on the Company's financial control environment, developments in the audit profession, key upcoming accounting and regulatory changes and certain other mandatory communications. To provide a forum in which any matters of concern could be raised in confidence, the Non Executive Directors met with the external and internal auditors throughout the year without management present.

In 2019, management, in consultation with the Committee, updated its policy to ensure that no non-audit services will be contracted with PwC unless it is clear that there is no practical alternative and there are no conflicts of interest or independence considerations. During the year, the value of non-audit services provided by PwC amounted to nil (2018: $168,000).

Throughout the year, the Audit Committee assesses the independence, effectiveness and quality of the external audit process. This process forms the basis for its recommendation to shareholders to reappoint the external auditor.

Other committee meeting attendees
In addition to the standing invitees discussed above and financial management, the Group's Chief Risk Officer is also invited to attend all meetings of the Committee. The Company has in place a Risk Committee and the items discussed by the two Committees can overlap, therefore the attendance of the Group's Chief Risk Officer aids in facilitating discussions relating to risk.

In addition, and depending on the specific agenda, additional invitees are invited to attend from time to time to present to the Committee on findings from any of the above areas or other matters of topical interest.

Complying with the UK Corporate Governance Code
In accordance with the 2018 UK Corporate Governance Code, the Committee has advised the Board that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Caroline Foulger
Chairman of the Audit Committee

We attend a host of industry events so we can connect with our brokers and coverholders but, when we're there, we do our best to stand out from the crowd by creating memorable experiences. At an event in San Diego, we used virtual reality (VR) technology to allow our business partners to experience what it's really like to be caught in a Category 5 hurricane and to bring to life our cutting-edge FloodPlus research.

Guests were blown away – virtually – by the unique experience, which brought the threat of flood to life and underlined the importance of catch-all flood insurance. Using a VR headset, they followed Joe, an avatar of a New Jersey homeowner, as he hurried to protect his home. They then witnessed the devastation caused by the storm, before being transported to the future, where the FloodPlus intelligent algorithms and modelling software, aided by computer graphics, demonstrated how rising sea levels could affect real US towns.

Chapter 4:
Remuneration

Letter from the Chairman of the Remuneration Committee

Dear fellow Shareholder
As set out later in this letter, under the normal three-year renewal cycle we are proposing to make some changes to the Executive Directors' remuneration policy for 2020, subject to shareholder support. But first, I think it worthwhile to set out again the Group's remuneration strategy and what it seeks to achieve. It is designed to attract and keep talented, ambitious people and create a culture that encourages sustainable high performance in which pay reflects results, not just effort. The Committee believes that for all employees, basic pay should be competitive but not excessive, with bonuses relative to personal performance and profitability of business area. We expect all employees to meet or exceed a series of objectives based on our strategy and values, which are essential to Hiscox's business operations and reputation, including delivering great customer service, complying with regulation and managing risk.

For Executives across the Group to earn incentives, such as an annual bonus or long-term share awards, they must have helped to earn profits and deliver shareholder value above and beyond demanding performance targets.

We believe this approach works well for both our employees and shareholders. It has helped the business to be profitable across the insurance cycle and to deliver good returns to shareholders. The total return on Hiscox shares over the last five years is 112%, more than double that of the FTSE All-Share Index. Hiscox employee retention is also generally high at 76%.

Performance and remuneration outcomes for Executive Directors

In 2019, the Executive Directors led the business in delivering an increase in gross premiums written of 8.1% in constant currency, and a profit before tax of $53 million. In a third year of natural catastrophe events, this result has been driven by a strong investment return of $223 million. Hiscox Retail continues to deliver strong profits and the Executive team made progress on major IT projects in the UK and USA as well as a transformation of the finance function. As mentioned previously in this report, a project to refresh the values and purpose of the Group has been completed and is being rolled out.

The Committee feels that the Executive Directors continue to drive value for shareholders in the long term and have achieved a number of key objectives during the year as outlined on page 71. However, in line with our approach of rewarding financial outcomes and not just effort, as the pre-tax ROE hurdle rate of 6.5% was not achieved no bonuses were paid. Similarly, post-tax ROE over three years of 3% was below the 7% hurdle for the Performance Share Plan awards granted in 2017, therefore none of these awards will vest.

Notwithstanding good personal performance for the Executive Directors, the Committee stuck to the philosophy of rewarding financial outcomes, not just effort, and did not feel the need to exercise any discretion or override the outcome of the performance conditions.

The net result of the above is that the remuneration package and single figure result reported for the Chief Executive is lower than previous years at £698,196, a decrease of 60%.

Changes to the remuneration policy in 2020

Over the life of the current policy we have made a number of changes in direct response to shareholder feedback and changing market practice, and we intend to formalise these changes under the new policy. These are:

- to use growth in net asset value (NAV) plus dividends measured on a per-share basis as the basis for our long-term incentive (the Performance Share Plan or PSP) awards, which from 2018 replaced return on equity (ROE) as the benchmark for awards;
- to reduce the level of vesting of PSP awards for threshold performance from 25% of maximum to 20% for awards from 2018; and
- to increase the shareholding requirements for Executive Directors from 150% to 200% of salary.

Ahead of the remuneration policy's renewal in 2020, the Committee conducted a thorough review of Executive Directors' arrangements taking into account evolving market practice. This involved ensuring the policy is aligned to our strategy and values and the UK Corporate Governance Code, and has an appropriate balance between short-term and long-term incentive opportunities. I am pleased to report that we do not believe the policy requires wholesale changes, but we do want it to be even more weighted towards long-term returns as we believe this will enhance our strong ownership culture and focus Executives' minds on building for the future.

We are therefore proposing to rebalance the weighting of incentives further towards the long term by:

- reducing the maximum opportunity under the annual bonus scheme by 100% of salary;

— increasing the maximum opportunity under the PSP by 50% of salary.

The increase in maximum opportunity under the PSP will be accompanied by an increase stretch of the performance targets required to deliver maximum vesting. This increase in PSP opportunity requires an amendment to our plan rules for which shareholder approval is being sought at this AGM.

We are also introducing new post-employment shareholding guidance for our Executive Directors. They would have to hold at least as many shares as they were required to when they were employed by the Group (or, if the shareholding guideline has not been met, then the actual number of shares they held on stepping down from the Board) for at least one year after they have left, and half of this amount for the following year. Also, we are expanding the scope of the malus and clawback provisions that apply to variable pay awards and providing a more robust framework in applying discretion to formulaic incentive outcomes. Further details can be found on page 90.

After extensive consultation, the response to these proposed changes from shareholders to date has been positive.

Meeting the requirements of the UK Corporate Governance Code

We comply with the remuneration provisions of the new UK Corporate Governance Code, which came into effect in 2019.

Our Executive Directors' pension benefits have always been consistent with the wider UK workforce, and all three Executive Directors in 2019 received a 10% cash allowance in lieu of the standard employer pension contribution.

We voluntarily disclosed our Chief Executive pay ratios in our 2018 Annual Report and have done so again this year. We expect these ratios to be volatile from year-to-year due to the variable and performance-based nature of the Chief Executive's remuneration package, and so it is important they are understood within the context of our business, which is discussed in the Chief Executive's report on pages 17 to 25. We have outlined how we have addressed other parts of the Code on pages 54 to 57.

Gender pay reporting

In 2019, Hiscox published its third annual gender pay report for the UK, which showed further year-on-year improvement in our median pay gap. While this remains higher than we would like, at 22.6% (2018: 24.5%), we continue to make good progress in getting more women into more senior, higher-paid roles. The proportion of women in the upper pay quartile, which is the key reason for the discrepancy, improved to 30% in 2019 (2018: 26%). For examples of our work around diversity and inclusion go to page 38, and details of our gender composition are outlined on page 59.

With similar legislation now in place in other countries in which the Group operates, we will respond in line with local labour requirements and so may see our reporting requirements in this area expand over time.

Executive Director changes during 2019

Upon his retirement from the board, Richard Watson stepped down as an Executive Director on 31 December 2019. Richard will continue to be employed as an advisor to the business as well as holding positions on a number of subsidiary boards. His successor, Joanne Musselle, joined the Board in March 2020. Further details on Joanne and Richard's remuneration are set out in the annual remuneration report on pages 78 to 79.

In summary

The Remuneration Committee is satisfied that our 2019 outcomes are aligned with the interests of shareholders and incentivise Executive Directors appropriately over both the short and long term. We look forward to receiving further feedback at our 2020 AGM where we will be seeking approval of our renewed remuneration policy, annual remuneration report and revised PSP rules.

Colin Keogh
Chairman of the Remuneration Committee

Remuneration summary

Key principles underpinning remuneration at Hiscox

The Hiscox remuneration policy is designed to drive a culture of high performance and create sustainable long-term value for shareholders. The policy follows three clear principles:

- simple and strictly results-driven, with variable rewards only if Hiscox delivers profits in excess of a specified return threshold;
- incentivise Executive Directors appropriately, over the short and long term;
- align Executive Directors' interests with those of our shareholders, focusing on effective risk management, return on equity (ROE) and net asset value growth, which drives total shareholder return over time.

Remuneration outcomes for 2019

No bonus for Executive Directors as ROE was below the threshold performance level.

Long-term performance impacted by catastrophes; PSP awards granted in 2017 will not vest.

Single figure of £698,196 for CEO is 60% lower than last year.

Summary of remuneration arrangements for 2020

A summary of the remuneration arrangements for Executive Directors is provided opposite.

Over the life of our current remuneration policy (approved by shareholders in 2017) we have made certain implementation changes in direct response to shareholder feedback received as well as evolving market practice. It is our intention to formalise these under the new policy, as well as incorporating the changes set out in the Chairman's letter, subject to shareholder approval at the 2020 AGM.

Read our updated remuneration policy 83

Base salary

Competitive but not excessive.

Benefits

Same as majority of employees.

Annual bonus

Aligned to shareholder interests.

Performance Share Plan (PSP)

Aligned to long-term shareholder interests and performance.

Shareholding guidelines

Aligned to shareholder interests.

Implementation of policy for 2019	Implementation for 2020
Salaries for 2019: —— Bronek Masojada: £636,500 —— Aki Hussain: £490,000 —— Richard Watson: £490,000 Salary increase of 2.7%, in line with average UK employee increase.	**Salaries for 2020:** —— Bronek Masojada: £654,000 —— Aki Hussain: £503,500 —— Joanne Musselle: £503,500 Salary increase of 2.7%, in line with the average UK employee increase.

Executive Directors' benefits can include health insurance, life insurance, long-term disability schemes and participation in all-employee share schemes. Retirement benefits are delivered via a cash allowance of 10% of salary, paid in lieu of the standard pension contribution, or a combination of pension contribution and cash allowance, totalling 10% of salary. These benefits mirror those available to most other employees in the organisation.

Implementation of policy for 2019	Implementation for 2020
Maximum opportunity: —— up to 400% of salary for CEO and CFO; —— up to 500% of salary for CUO. Over the past ten years, the average bonus to the CEO has been equivalent to 28% of the current maximum opportunity. **Performance metrics:** combination of ROE and individual performance delivered against set objectives approved by the Board. Disclosure of the ROE target ranges and detail around the individual performance factors including specific risk-based objectives used to determine outcomes for 2019 is provided on pages 69 to 71. **Deferral:** part deferral of amounts in excess of £50,000. **2019 actual as percentage of salary:** —— Bronek Masojada: 0% —— Aki Hussain: 0% —— Richard Watson: 0% ROE performance has been below the predetermined hurdle so irrespective of personal performance, no bonus is payable.	**Maximum opportunity:** Reduction of 100% of salary: —— up to 300% of salary for CEO and CFO; —— up to 400% of salary for CUO. **Performance metrics and deferral unchanged.**
Award subject to three-year performance period and two-year holding period. **Maximum opportunity:** 200% of salary for all Executive Directors. **Vesting subject to:** net asset value per share growth plus dividends. 20% of maximum vests for achievement of threshold performance. **2019 award as percentage of salary:** —— Bronek Masojada: 200% —— Aki Hussain: 200% —— Richard Watson: 200%	Increase the maximum opportunity **by 50% of salary** from up to 200% to **up to 250% of salary** as part of the wider rebalancing of incentives towards the long term. This increase in opportunity will be accompanied by an increase in stretch of the performance targets at the top end (see page 80). Threshold vesting remains unchanged as a percentage of salary (up to 40% salary). As currently, awards will be subject to a further two-year holding period following vesting.
Share ownership guidelines of 200% of salary for all Executive Directors, after five years in role. **2019 actual:** —— Bronek Masojada: 6,800% —— Aki Hussain*: 200% —— Richard Watson: 1,400% *Aki Hussain was appointed in September 2016.	Share ownership guideline unchanged. Post-employment shareholding requirement introduced under the new policy.

Annual report on remuneration 2019

This report explains how the remuneration policy was implemented for the financial year ending 31 December 2019 and how it will be applied for the 2020 financial year.

PwC has been engaged to audit the sections in the annual report on remuneration 2019 below entitled 'Executive Director remuneration' and additional notes, 'annual bonus', 'long-term incentives', 'details of pension entitlements', 'Non Executive Director fees', 'Directors' shareholding and share interest', 'Performance Share Plan' and 'Sharesave Schemes', 'Payments to past Directors', 'Richard Watson's retirement from the Board', to the extent that would be required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013.

Executive Director remuneration

2019

	Salary £	Benefits £	Bonus £	Long-term incentives plan[1] £	Retirement £	Total £
Bronek Masojada	632,375	10,252	0	0	55,569	698,196
Richard Watson	486,750	10,780	0	0	44,248	541,778
Aki Hussain[3]	486,750	8,089	0	0	44,248	539,087

2018

	Salary £	Benefits £	Bonus[2] £	Long-term incentives plan[3] £	Retirement benefits £	Total £
Bronek Masojada	614,906	9,971	223,000	916,175	54,034	1,818,086
Richard Watson	473,063	10,211	215,000	632,159	43,004	1,373,437
Aki Hussain	473,063	7,338	172,000	569,716	43,004	1,265,121

[1] 2019 long-term incentives relate to performance share awards granted in 2017 where the performance period ends on 31 December 2019. The award is due to vest on 7 April 2020. Based on performance achieved, this award is due to lapse in full.
[2] A proportion of the bonus amount was deferred as set out on page 86 of the policy report.
[3] The 2018 long-term incentive award relates to performance share awards granted in 2016 where the performance period ended on 31 December 2018. The amount also includes dividend equivalents accrued on this award. The value of the awards have been updated to reflect the actual share price at vesting on 8 April 2019 of £15.46. Of the vested amount, 41% relates to share price appreciation over the performance period (35% for Aki Hussain based on his later date of grant).

Additional notes to the Executive Director remuneration table

Salary

Salary reviews take place in the first quarter of the year, effective from 1 April. As noted in last year's remuneration report, Executive Directors' salaries were increased by 2.7% from April 2019, the same as the average UK-based employee salary increase. Base salaries for Executive Directors from 1 April 2019 were as follows:

	April 2019
Bronek Masojada	£636,500
Richard Watson	£490,000
Aki Hussain	£490,000

Benefits

For 2019, benefits provided for Executive Directors included the Company healthcare scheme, Sharesave scheme, life insurance, income protection insurance and critical illness policies as well as a Christmas gift hamper.

Variable pay

To ensure that remuneration is aligned with Company performance and the shareholder experience, a significant proportion of pay is delivered through incentive awards, consisting of an annual bonus and share awards under the Performance Share Plan, which can vary significantly based on the level of performance achieved. Bonuses are only paid if results exceed a specified threshold and are not used as a reward for effort alone – an approach that has helped reinforce a strong performance culture across the business.

Although the remuneration structure has naturally evolved over time to reflect market and best practice, the simple framework has been in place for more than 15 years.

Annual bonus

The bonus is structured in a way that ensures significant variability in outcomes, including the possibility of no bonus being paid. The Remuneration Committee believes that the most appropriate measure for the calculation of the bonus pool is pre-tax return on equity (ROE), as this aligns management's interests with those of shareholders, minimises the possibility of anomalous results, and ensures that incentives for Executive Directors and other employees are tied to the Company's profit performance.

The Executive Directors, along with other employees across the Group, participate in profit-related bonus pools, which are calculated at a business unit level and for the Group as a whole. In determining the bonuses to be paid to Executive Directors, the Remuneration Committee bases its judgement on both the performance of the Group and a robust assessment of individual performance, including adherence to specific risk management objectives. The Remuneration Committee also seeks input from the Chief Risk Officer and Chief Actuary to aid its assessment of whether bonus outcomes are appropriate.

Bonuses are not paid unless the Group's performance exceeds a given threshold, irrespective of individual performance. Over the past ten years there have been three occasions when the Group delivered a pre-tax ROE below the required threshold and no bonuses were paid to Executive Directors.

When setting targets, the Committee seeks to motivate strong performance while also encouraging sustainable behaviours, in line with the defined risk appetite of the business. In determining the size of the Executive Director bonuses for 2019, the Committee used the following framework.

Pre-tax return on equity	Indicative bonus range (% of max)
Less than RFR* +<5%	Nil
RFR +5% to RFR +12.5%	0-15%
RFR +10% to RFR +17.5%	15-40%
RFR +15% to RFR +22.5%	30-60%
RFR +20% to RFR +25%	50-70%
Greater than RFR +22.5%	60-100%

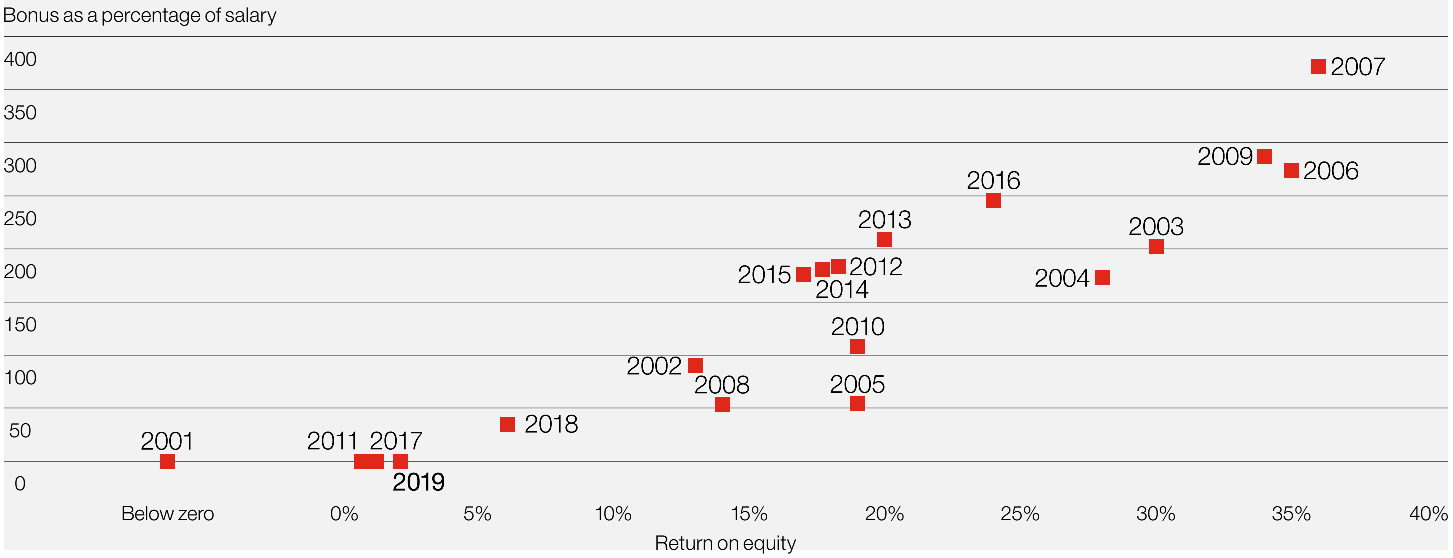
*The risk-free rate (RFR) is reviewed annually using government bonds as a reference point, reflecting the rate available to investors without commercial risk. For 2019, the RFR was set at 1.5%.

Junior and mid-level employees also participate in a personal performance bonus scheme. Awards under this scheme are based entirely on individual performance ratings. It is designed to ensure that junior and mid-level employees continue to be motivated to perform well, irrespective of overall Group performance. The benefit is typically up to 10% of salary.

Pay for performance – track record

The chart below shows the relationship between the Group ROE performance and bonus awards for Executive Directors over an extended period. It demonstrates the strong link between Company performance and bonus outcomes.

Executive Directors' cash incentives and return on equity



Performance outcomes for 2019

The pre-tax ROE for 2019 was 2.2%. Despite delivery of good progress against their key individual objectives during the year, in accordance with the bonus framework on page 69, no bonuses were paid to the Executive Directors as the threshold performance hurdle had not been met. For completeness, the table opposite sets out the key objectives and individual achievements of each Executive Director.

Key objectives and individual achievements by the Executive Directors

	Key objectives	Achievements
Bronek Masojada	Delivering the 2019 business plan	Bronek has led the business to achieve growth in gross premiums written of 8.1% in constant currency to $4 billion, however, profits of $53 million were below target. The Retail business increased profits by 22%, however, during the year the business had to publish new guidance for the combined ratio over the medium term, due to an uptick in claims activity and a more cautious approach to reserving in the USA.
	Deliver Executive Committee priorities	Supporting business opportunities to drive value for the Group including Hiscox USA, Hiscox Asia and the use of third-party capital. Progress has been made in Direct Asia, adding new partnerships to drive growth. The direct and partnership division in the USA has had sustained investment in marketing and IT to protect our market position in the direct small business market. The third-party capital strategy is developing well. Refreshing the values, defining a purpose and common vision was also a priority for the Executive Committee. Bronek led this project with good results and engagement across the business.
	Ensure Hiscox operates within risk, regulatory and societal expectations	Bronek has instigated structural processes across the Group to facilitate horizon scanning of emerging risk and regulatory change. The successful implementation of the FCA's Senior Managers & Certification Regime is an example of this. Bronek has also brought together our environmental, social and governance (ESG) efforts across the Group under a distinctive Hiscox ESG framework.
Richard Watson	Review how we manage casualty exposure	Richard has established a new process of review and action to ensure proactive management of casualty business around the Group and create an environment of constant course correction. He has also improved our understanding of the cyber peril; driving a refresh of existing large loss scenarios, and leading a three-day large loss training exercise which tested the Group's response to a market-changing cyber loss event.
	Reshape our underwriting portfolio to achieve the right balance of profitable business	Balancing the portfolio takes constant course correction and there is still more to do. However, Richard drove decisive action in underperforming lines, cutting over $200 million of business in 2019. At the same time we have grown in profitable areas to achieve overall growth in constant currency of 8.1%.
	Ongoing development of underwriting talent	Richard has driven refinements in talent monitoring processes and has encouraged courageous career moves for high potential underwriters. The successful move of Hiscox Re & ILS's CUO to Hiscox USA is a good example of this.
	Diversity and inclusion (D&I)	As Executive Sponsor for D&I, Richard has overseen another year of improved engagement in D&I initiatives. The Group now has nine established employee networks with over 1,000 members combined, and KPIs that are creating more gender-balanced shortlists for roles.
Aki Hussain	Balance sheet management	In another volatile year for earnings, Aki oversaw the continued optimisation of the Group's capital and financial flexibility, maintaining the strength of the Hiscox balance sheet. Hiscox is well capitalised against both regulatory and ratings agency requirements.
	ROE enhancing opportunities across the business	Hiscox is able to self-fund ambitious infrastructure plans in Retail, including additional investment in marketing for Hiscox USA, due to Aki's efforts to improve the Group's financial flexibility. Similarly, the Group's third-party capital capabilities in the big-ticket businesses have evolved to take advantage of opportunities that arise.
	Deliver finance transformation	The multi-year finance transformation programme is progressing to plan and budget, with five of the nine systems now embedded across the Group. Preparations for the final phase of the programme were completed successfully in 2019, with the final systems and organisational changes to be deployed in 2020.
	Focus on the efficiency agenda	An Executive Committee priority has been to reduce Hiscox's expense ratio over time, which has been impacted by a series of capital intensive projects to support greater scale in the business. Although improvements in efficiency are being made, for example through increased automation, there is more to do, and plans for 2020 include moving 300 roles out of London to more cost-effective locations.

How we have addressed the following factors in the 2018 UK Corporate Governance Code

Factor	Consideration of how this is addressed for Hiscox
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	— Shareholders' views on the key changes to the policy have been sought. — Although the Committee did not consult directly with the broader workforce on Executive Directors' remuneration policy, there is a process by which employees' views are gathered on a range of topics and reflected in Board discussion. The Remuneration Committee also receives information on broader workforce remuneration policies and practices during the year which informs its consideration of the policy for Executive Directors.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	— Hiscox's remuneration framework is simple, comprising three main elements: i) fixed pay (base salary, benefits and pension); ii) annual bonus; and iii) PSP awards. — The remuneration philosophy is a simple one: to reward performance. For over a decade, the foundation of the Group's remuneration strategy has been the belief that the best way to foster a high-performance culture across the Group is to ensure that pay reflects our results, not just effort. — The remuneration policy's operation, including form of awards, time horizons, and performance measures, is designed to avoid complexity and is fully disclosed in the Directors' remuneration report.
Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	— Incentive awards are capped and are not considered excessive. — Executive Directors' annual bonus awards are judgement based to ensure they reflect their overall performance rather than being measured according to a formulaic outcome. Risk is also taken into consideration as part of this. — In the new policy, the Committee has the ability to apply independent judgement to ensure that the PSP outcome is a fair reflection of both the company's performance and that of the individual over that period. — Part of the annual bonus is subject to deferral, and PSP awards are subject to a holding period following vesting. Deferred bonus and variable pay awards are subject to malus and clawback.
Predictability – the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy.	— The range of possible values are set out in the performance scenario charts in the remuneration policy. — Limits and ability to exercise discretion are also set out in the policy.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	— Historic variable incentive pay-outs have had a strong link to the Company's actual performance. There is a track record of payment for performance, with evidence of zero bonuses where ROE performance has been below the predetermined hurdle.
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	— The variable incentive schemes, including quantum, time horizons, form of award and performance measures are all designed with the Company's purpose, values and strategy in mind. — The pay arrangements for the Executive Directors are aligned with those of the broader workforce and senior team.

Long-term incentives

Performance Share Plan awards (PSP) where the performance period ends with the 2019 financial year

The Executive Directors were granted nil-cost options under the PSP on 7 April 2017 for the three-year performance period 1 January 2017 to 31 December 2019.

The performance conditions for this award were set at the start of the performance period and are as follows:

	Required average post-tax ROE over three-year performance period %	Proportion of PSP vesting %
Minimum threshold vesting	Expected investment return + 5 = 7	25
Maximum vesting	Expected investment return + 12.5 = 14.5	100
Straight-line vesting between these points		

Performance outcome

Based on the three-year average post-tax return on equity of 3%, the awards ending with the 2019 performance year will not vest as the minimum performance threshold has not been met.

PSP awards granted during the 2019 financial year

On 8 April 2019, the Executive Directors were granted nil-cost options under the PSP.

	Percentage of salary	Number of awards granted	Market prices at date of grant*	Market value at date of grant
Bronek Masojada	200%	82,000	£15.46	£1,267,720
Richard Watson	200%	63,250	£15.46	£977,845
Aki Hussain	200%	63,250	£15.46	£977,845

*Middle market quotation on 8 April 2019.

The performance condition for these awards, measured over the period 1 January 2019 to 31 December 2021 is as follows:

	Growth in net asset value plus dividends measured on a per-share basis	Proportion of PSP vesting %
Minimum threshold vesting	RFR + 6 = 7.5	20
Maximum vesting	RFR + 14 = 15.5	100
Straight-line vesting between these points		

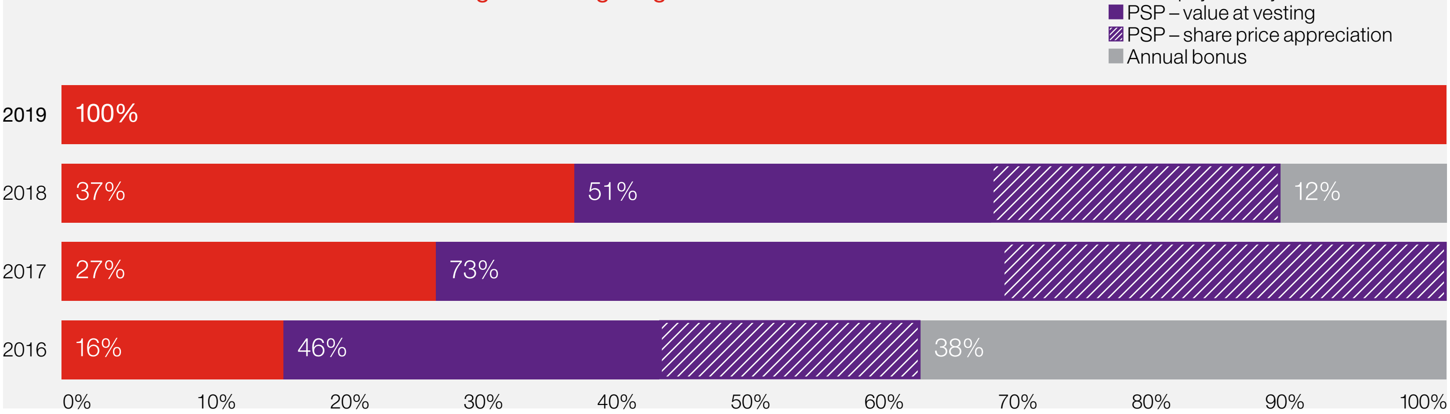
The net asset value targets, which are reviewed annually, are designed to outperform the risk-free rate (RFR) and motivate the management team while driving the right behaviours. The RFR for the awards granted in 2019 was 1.5%.

Executive Directors will be required to retain any shares vesting (net of tax charges) at the end of the performance period for a further two years (five years post the start of the performance period).

Balance between pay elements

The chart below shows the balance between fixed pay, annual variable pay and long-term variable pay for the CEO over the past four years. The value of vested PSPs has been the material element of the CEO's remuneration. Good performance and share price appreciation has increased the value of PSPs over time.

CEO remuneration – short-term versus long-term weighting



Details of pension entitlements

Bronek Masojada, Richard Watson and Aki Hussain hold lifetime allowance protection certificates and have therefore opted out of the Company defined contribution pension scheme. They receive a 10% cash allowance (less an offset for the employer's UK National Insurance liability) in lieu of the standard employer pension contribution. The value of this benefit is shown in the Executive Director remuneration table on page 68. Executive Director retirement benefits are consistent with those offered to the majority of UK employees. This has been the policy at Hiscox for a number of years.

The table below details the legacy entitlements from the closed defined benefit pension plan.

Pensions

	Normal retirement age	Increase in accrued pension during the year £000	**Total accrued annual pension at 31 December 2019 £000**	Increase in accrued pension net of inflation £000	Transfer value of accrued pension at 31 December 2018 £000	**Transfer value of accrued pension at 31 December 2019 £000**	Increase/ (decrease) in transfer value of accrued pension during the year £000
Bronek Masojada	60	3	**58**	–	2,107	**2,331**	224
Richard Watson	60	9	**185**	–	7,092	**7,884**	792

There are no further accruals under this plan.

In the event of early retirement the Directors receive a reduced pension to reflect early payment in accordance with the scheme rules.

Non Executive Director remuneration

The table below sets out the remuneration received by the Non Executive Directors for the financial years ending 31 December 2019 and 31 December 2018.

	2019					2018				
	Ltd Board fee £	**Ltd Committee fee £**	**Subsidiary Board fee £**	**Benefits[1] £**	**Total Hiscox fees £**	Ltd Board fee £	Ltd Committee fee £	Subsidiary Board fee £	Benefits £	Total Hiscox fees £
Robert Childs	**145,000**	**–**	**145,000**	**11,860**	**301,860**	145,000	–	145,000	11,301	301,301
Caroline Foulger	**67,398**	**36,834**	**89,469**	**–**	**193,701**	64,662	35,338	87,846	–	187,846
Michael Goodwin	**67,398**	**28,997**	**28,409**	**–**	**119,122**	64,662	27,820	21,805	–	92,482
Thomas Hürlimann	**67,398**	**28,997**	**50,000**	**–**	**146,395**	64,662	27,820	40,254	–	132,736
Colin Keogh	**79,937**	**35,266**	**47,000**	**–**	**162,204**	76,692	34,211	15,567	–	126,470
Anne MacDonald	**67,398**	**28,997**	**–**	**–**	**96,395**	64,662	27,820	–	–	92,482
Bob McMillan[2]	**25,344**	**10,904**	**62,696**	**–**	**98,943**	64,662	31,579	60,150	–	156,391
Constantinos Miranthis	**67,398**	**28,997**	**37,618**	**–**	**134,013**	64,662	27,820	19,825	–	112,307
Lynn Pike	**67,398**	**34,483**	**61,783**	**–**	**163,664**	64,662	33,083	–	–	97,745

[1] Benefits include life assurance and healthcare.
[2] Bob McMillan stepped down from the Ltd Board following the May AGM.
There was no change to the Ltd Board and Committee US Dollar fee structure in 2019.
2018 fees that were paid in US Dollar have been converted using an exchange rate of 1.33. Those paid in Euros were converted using 1.18.
2019 US Dollar fees were converted using 1.276 and Euros were converted using 1.14.

Directors' shareholding and share interests

To align their interests with those of Hiscox shareholders, senior managers are expected to own a minimum number of Hiscox shares. Executive Directors are required to hold Hiscox shares valued at 200% of salary within five years of becoming an Executive Director. Bronek Masojada and Richard Watson have over 20 and 30 years' service respectively, so their shareholdings far exceed the guidelines. Aki Hussain was appointed to the Board in September 2016 and has met his minimum shareholding requirement.

As part of the renewal of the remuneration policy we intend to introduce a post-employment shareholding guideline for our Executive Directors which will apply for a period of two years from stepping down from the Board. This will be set at the level of the in-employment shareholding guideline for one year (or the actual shareholding on stepping down from the Board if lower) and at half of this amount for the following year.

The interests of Executive and Non Executive Directors are set out below, including shares held by connected persons. There have been no changes in the Director share interests between 31 December 2019 and 2 March 2020.

Directors	31 December 2019 6.5p ordinary shares number of shares beneficial	31 December 2018 6.5p ordinary shares number of shares beneficial
Executive Directors		
Bronek Masojada	2,990,109	3,014,894
Richard Watson	494,946	614,973
Aki Hussain	71,794	64,794
Non Executive Directors		
Robert Childs	1,200,810	1,274,610
Caroline Foulger	13,231	8,231
Michael Goodwin	4,986	4,950
Thomas Hürlimann	8,863	3,660
Colin Keogh	24,967	20,942
Anne MacDonald	35,375	28,611
Bob McMillan	–	–
Constantinos Miranthis	4,525	4,525
Lynn Pike	–	–

Performance Share Plan (PSP)

Awards in the form of nil-cost options are granted under the PSP as a percentage of salary. All awards are subject to performance conditions. The interests of Executive Directors are set out below:

	Number of awards at 1 January 2019	Number of awards granted	Number of awards lapsed	Number of awards exercised	Number of awards at 31 December 2019	Mid market price at date of grant £	Average market price at date of exercise £	Date from which released
Bronek Masojada	168,450	–	–	(37,500)	130,950	6.94	15.75	17-Mar-17*
	117,006	–	–	–	117,006	8.82		13-Apr-18*
	120,000	2,385	(63,084)	–	59,301	9.56		08-Apr-19*
	105,000	–	–	–	105,000	11.19		07-Apr-20
	83,250	–	–	–	83,250	14.88		06-Apr-21
	–	82,000	–	–	82,000	15.46		08-Apr-22
Richard Watson	87,484	–	–	–	87,484	8.82		13-Apr-18*
	82,800	1,646	(43,528)	–	40,918	9.56		08-Apr-19*
	75,000	–	–	–	75,000	11.19		07-Apr-20
	58,000	–	–	–	58,000	14.88		06-Apr-21
	–	63,250	–	–	63,250	15.46		08-Apr-22
Aki Hussain	75,000	1,301	(39,428)	–	36,873	10.46		08-Apr-19*
	75,000	–	–	–	75,000	11.19		07-Apr-20
	58,000	–	–	–	58,000	14.88		06-Apr-21
	–	63,250	–	–	63,250	15.46		08-Apr-22
Total	1,104,990	213,832	(146,040)	(37,500)	1,135,282			

*Awards have vested but are unexercised.

Sharesave Schemes

The interests of Executive Directors under the Sharesave Schemes are set out below:

The scheme offers a three-year savings contract where the exercise price of the options is calculated based on an average share price over five days prior to the invitation date, with a 20% discount.

	Number of options at 1 January 2019	Number of options granted	Number of options lapsed	Number of options exercised	**Number of options at 31 December 2019**	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date
Bronek Masojada	1,040	–	–	–	**1,040**	8.648		01-Jun-20	30-Nov-20
	778	–	–	–	**778**	11.556		01-Jun-21	30-Nov-21
Richard Watson	1,557	–	–	–	**1,557**	11.556		01-Jun-21	30-Nov-21
Aki Hussain	2,081	–	–	–	**2,081**	8.648		01-Jun-20	30-Nov-20
Total	5,456	–	–	–	**5,456**				

External Non Executive Directorships

Executive Directors may not accept any external appointment that may give rise to a conflict of interest, and all external appointments require the consent of the Chairman. During the year Bronek Masojada held Directorships on the Board of the Association of British Insurers, Bajka Investments (Pty) Ltd, Heptagon Assets Ltd, Heptagon BIR Ltd and Pool Reinsurance Company Limited and was Chair of Policy Placement Limited. Bronek Masojada was remunerated £40,114 gross for his Directorship at Pool Reinsurance Company Limited. Richard Watson held a Directorship at White Oak Underwriting Agency Limited and was not remunerated for his services. Aki Hussain held a Directorship at VISA Europe Limited and received a gross fee of £46,320.

Table of historic data

The table below shows the single total remuneration figure for the Chief Executive for the past ten years.

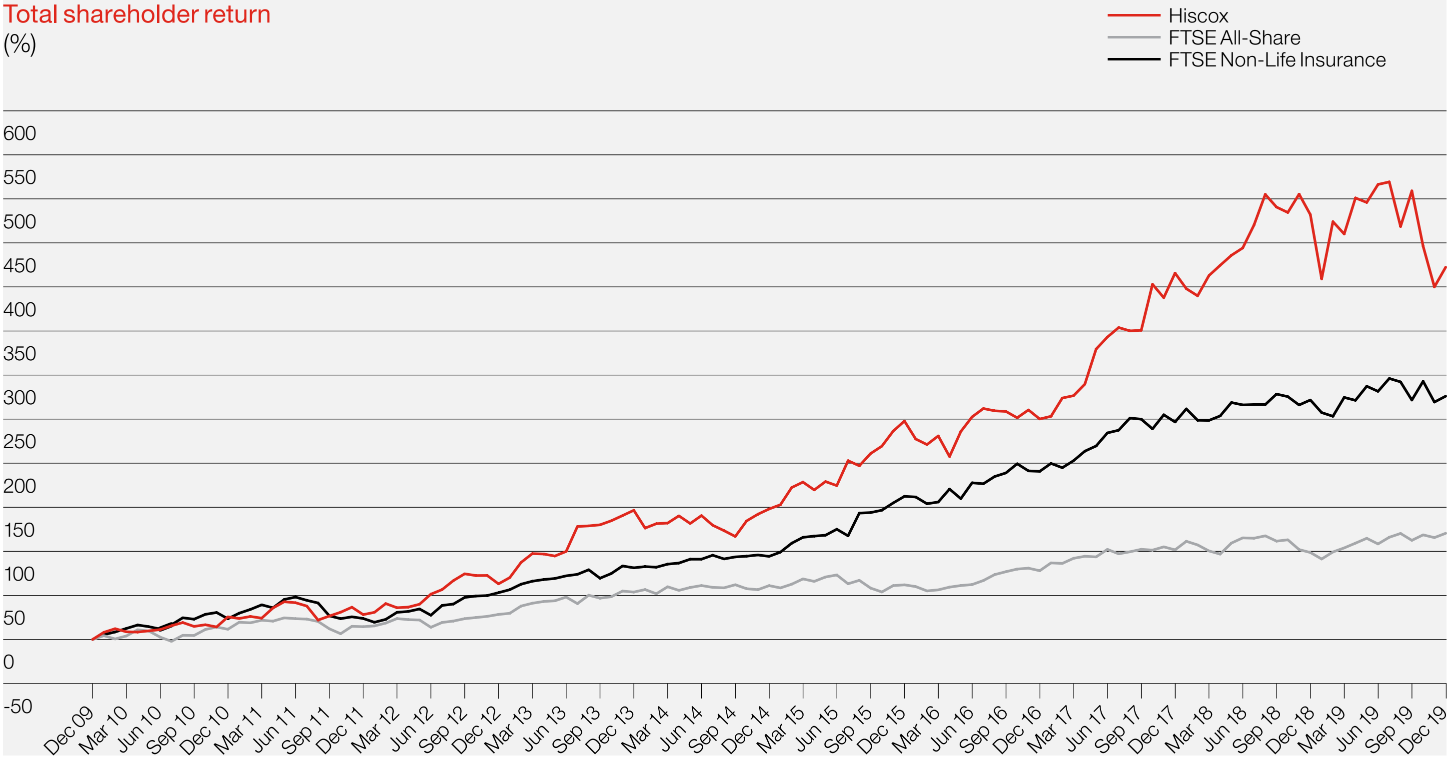
	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
CEO single figure of remuneration (£)	1,759,123	1,509,248	1,938,759	2,341,737	3,130,535	3,358,894	3,970,466	2,394,428	1,818,086	**698,196**
Annual bonus as percentage of current max	29	0	46	51	44	39	64	0	9	**0**
PSP vesting as percentage of maximum opportunity	100	85	39	53	100	100	100	85	47	**0**

Prior to 2015 the annual bonus was operated on an uncapped basis. In order to facilitate comparison the current 400% salary cap has been applied retrospectively.

Total shareholder return performance

The graph below shows the total shareholder return of the Group against the FTSE All-Share and FTSE Non-Life Insurance indices. These reference points have been shown to assess performance against the general market and industry peers. Between December 2009 and 2019, Hiscox delivered total shareholder return of 422% – well above the FTSE All-Share and FTSE Non-Life Insurance indices.

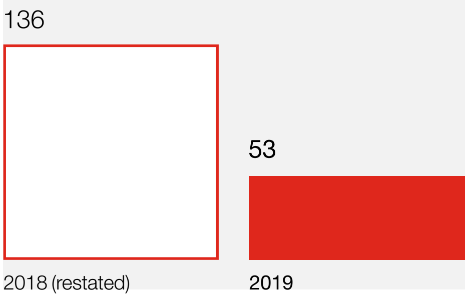
Total shareholder return
(%)



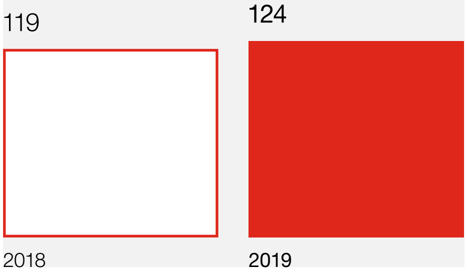
Relative importance of the spend on pay

The charts below show the relative movement in profit, shareholder returns and employee remuneration for the 2018 and 2019 financial years. Shareholder return for the year incorporates the distribution made in respect of that year. Employee remuneration includes salary, benefits, bonus, long-term incentives and retirement benefits. Profit is the ultimate driver behind the performance metrics of the bonus and long-term incentive schemes. Profit before tax can be located on page 108.

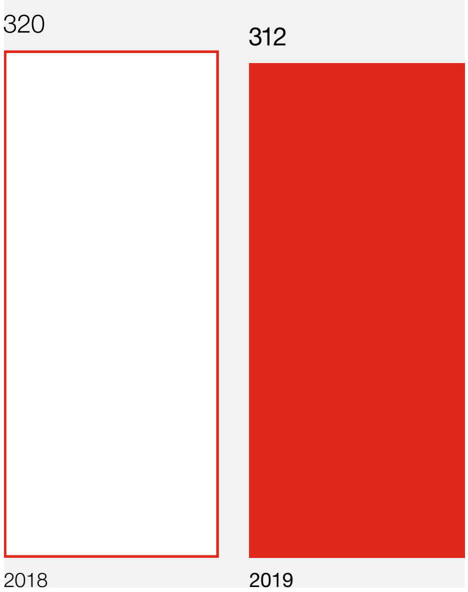
Profit before tax ($m)
-61.0 (% change)



Dividend and return of capital to shareholders ($m)
+4.2 (% change)



Total employee remuneration ($m)
-2.5 (% change)



Remuneration for the wider workforce

The Remuneration Committee receives information on Group-wide remuneration policies and uses internal and external measures to assess the appropriateness of the remuneration policy and outcomes for Executive Directors. During the year, the Committee reviewed information on market levels of pay in our peer group, bonus pools split by business area, levels of share plan participation and pay ratios between Executives and average employees.

Percentage change in Chief Executive remuneration

The table below shows the percentage change in base salary, benefits and annual bonus of the Chief Executive between the 2018 and 2019 financial years. As the Chief Executive is based in the UK, UK-based employees have been used as the comparator group for base salary and benefits. This ensures that any comparison avoids the impact of exchange rates and takes into account country-specific inflation and local benefit plans. For the bonus, we have used Group employees as this is a more accurate comparator. The percentage change is based on employees who were employed and eligible for a salary review and bonus in both financial years.

	% change 2018 to 2019		% change 2017 to 2018	
	CEO	Employee	CEO	Employee
Base salary	2.7	2.8	3.4	3.0
Benefits (including retirement benefits)	2.7	2.0	3.3	2.7
Bonus	N/A*	(58.8)	N/A*	56.5

*No bonus was paid to the CEO in respect of 2019 or 2017.

Chief Executive pay ratio

The CEO's total remuneration compared with the median (50th percentile) remuneration of the Company's UK employees as at 31 December 2019 is shown below, along with the 25th and 75th percentiles.

Full year	Calculation methodology	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2019	A	1:19	1:11	1:7
2018*	B	1:35	1:29	1:15

*Based on restated CEO single figure for 2018.

Last year the lower quartile, median and upper quartile employees were determined based on data used to calculate our gender pay gap. This was 'Option B' in terms of the permitted calculation methodologies. For 2019 and future years we have selected 'Option A' as it is the more robust approach and favoured by investors. This involves calculating the 'single figure' remuneration for every employee for 2019 and ranking them in order. Part-time employee single figures were annualised to provide more meaningful comparison. The single figure for P25 was £36,210, P50 £61,155 and P75 £94,661. The salary for P25 was £29,607, P50 £52,248 and P75 £81,145.

The Committee has considered the pay data for the three employees identified and believes that it fairly reflects pay at the relevant quartiles amongst the UK employee population. The calculations were in line with the single figure methodology, with no elements of pay and benefits omitted.

By design, the remuneration of our most senior executives including the CEO is more highly performance geared than other roles in the business. The Committee therefore appreciates that the ratio between the pay of the CEO and wider employees can vary significantly over time. For example, in a year when the business performs well, the ratio would typically be higher. In contrast if the CEO's incentives lapse in full as they have in 2019, the ratio will be lower. The Committee is comfortable that the medium pay ratio aligns to the pay and progression policies for employees, in particular that pay is truly linked to performance and that individuals are appropriately motivated and rewarded according to their knowledge and seniority within the business.

Richard Watson's retirement from the Board

Richard Watson stepped down as Chief Underwriting Officer and as an Executive Director of Hiscox Ltd with effect from 31 December 2019. He continues to be an employee of Hiscox Ltd following his retirement from the Board. Accordingly he has received no loss of office payment in respect of his service as a Director.

As he had served a full year as an Executive Director, Richard Watson was considered for an annual incentive award in respect of 2019. In line with the other Executive Directors, no bonus was payable. Similarly, in line with the other Executive Directors, his 2017 PSP award will lapse in full.

In accordance with the remuneration policy and plan rules, Richard's outstanding deferred bonuses earned and disclosed in previous years (of £107,500) and unvested PSP awards (121,250 shares) will subsist, subject to performance testing and continued employment with the Group. His outstanding options under the HMRC-approved all-employee Sharesave Scheme have been dealt with in accordance with the rules of the scheme.

Payments to past Directors

There were no payments made during 2019.

New appointments to the Board

Joanne Musselle joined the Board in March 2020, following her appointment as Group Chief Underwriting Officer, effective 1 January 2020. Her salary from this date will be £490,000. In line with practice for the current Executive Directors and the majority of other employees, she will receive a combination of pension contributions and cash allowance, totalling 10% of salary. Joanne will receive the same benefits as other Executive Directors, including healthcare insurance, life insurance and the opportunity to participate in all-employee Sharesave Schemes. Details of her variable pay opportunities for 2020 are set out in the following section.

As an internal promotion, there is no buyout associated with her appointment. All other elements of her package are in line with the remuneration policy.

Implementation of remuneration policy for 2020

Salary

Annual salary reviews take effect from April each year. The Committee takes account of a number of factors, primarily the increase applied to other UK-based employees. The Committee applies judgement when using external market data.

For 2020, salaries for Executive Directors will be increased by 2.7%. This is in line with other UK-based employees. Salaries from April 2020 will be as follows:

	April 2020 £
Bronek Masojada	654,000
Aki Hussain	503,500
Joanne Musselle	503,500

Annual bonus

Under the new remuneration policy (detailed on pages 83 to 93), we intend to reduce the maximum opportunity under the annual bonus by 100% of salary.

The maximum opportunity and overall bonus structure for the year ending 31 December 2020 will be 300% of salary (and 400% of salary for the CUO).

In determining the bonuses to be paid to Executive Directors, the Committee bases its judgements on both the performance of the Group and a robust assessment of individual performance. These objectives are not prospectively disclosed as they are considered to be commercially sensitive as a result of their close alignment with Hiscox's strategic goals and objectives over the coming year.

Bonuses are not paid unless the Group's performance exceeds a given ROE threshold. There is no change in this threshold for 2020 (ROE of risk-free rate (RFR) plus 5%). A maximum bonus will only be achieved for ROE performance of at least RFR plus 20%, taking into account individual performance and risk management. The ranges used to support the Committee's decision-making will be disclosed in next year's Directors' remuneration report, together with an overview of the individual objectives set.

Performance Share Plan (PSP)

As set out elsewhere in this report, under the new remuneration policy (pages 83 to 93) we are proposing to increase the maximum PSP opportunity to 250% of salary, as part of the rebalancing of the incentive opportunity towards the long-term. This increased opportunity will only be delivered where more stretching performance targets have been met over a three-year period.

Subject to the new remuneration policy being approved by shareholders, the maximum opportunity for the awards to be granted to the Executive Directors in 2020 will be 250% of salary. These award levels will be kept under review for future years.

For 2020, PSP awards will continue to be measured against growth in net asset value (NAV) plus dividends, measured on a per-share basis. The Committee deems growth in NAV to be the most appropriate metric for the PSP given that our strategy is built around the objective of generating long-term shareholder value and NAV is aligned with shareholder value creation.

There will be no change in the level of payout (as percentage of salary) for threshold performance. The additional award opportunity above 200% of salary will only be delivered for higher levels of NAV growth, as set out below. The increased targets are considered to be very stretching, requiring average NAV growth plus dividends of above RFR + 17% p.a. over three years for maximum vesting.

Growth in NAV plus dividends measured on a per-share basis	Award vesting (% of salary)
Less than RFR + 6% p.a.	Nil
RFR + 6% p.a.	40% (no change from current plan)
RFR + 14% p.a.	200% (no change from current plan)
>RFR + 14% to RFR +17% p.a.	Straight-line vesting between 200% of salary and maximum award

The risk-free rate (RFR) will be 1% for 2020.

Membership of the Remuneration Committee

The Committee members during the year were Caroline Foulger, Bob McMillan, Lynn Pike, Anne MacDonald, Thomas Hürlimann, Michael Goodwin, Constantinos Miranthis and Colin Keogh (Chairman).

Non Executive Director fees

Following two years in which Directors fees were not reviewed, the Company Secretary recommended changes based on third-party data which benchmarked Director fees against peer companies. These changes were reviewed in November 2019 by the Nominations and Governance Committee. No Director was involved in approving fees that related to themselves, and recused themselves with respect to any discussion about fee increases.

The Chairman's fees increased by $3,190, an increase of 1.7%. The Remuneration Committee Chairman and Remuneration Committee membership fees increased by $1,000 and $500 respectively. The Nominations and Governance Committee membership fees increased by $1,500 and the Senior Independent Director fee increased by $1,000. In addition, to reflect the increase in responsibility and the additional time commitment, it was agreed that the role of Employee Liaison would receive a fee of $10,000. All other fees remained the same.

The Non Executive Director fees which apply for 2020 are set out below.

	2020 fees
Board Chairman	£147,500
Basic fee	$ 86,000
Additional fees for:	
Audit Committee Chair	$ 26,000
Audit Committee member	$16,000
Remuneration Committee Chair	$18,000
Remuneration Committee member	$9,000
Risk Committee Chair	$17,000
Risk Committee member	$10,000
Nominations and Governance Committee member	$4,000
Senior Independent Director fee	$17,000
Employee Liaison fee	$10,000

External advisors

The Committee received independent advice from Deloitte, who were appointed by the Committee in 2013 following a competitive tender process. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under its code of conduct. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance and institutional investor views, and on the development of the Company's incentive arrangements. Total fees for advice provided to the Committee during the year were £92,625 based on a time and materials basis. The Committee regularly reviews the advice it receives and is satisfied that this has been objective and independent. During the year Deloitte also provided the Company with other tax and consulting services.

In addition to the external advisors, the Chief Executive and Group HR Director attend the Committee meetings by invitation and provided material assistance to the Remuneration Committee during the year. No Director or Committee member was involved in determining their own remuneration during the year.

Statement of shareholder voting

At the AGM on 16 May 2019, the Directors' annual report on remuneration received the votes below from shareholders.
The remuneration policy was last voted on at the 2017 AGM; votes shown below.

	Annual remuneration report	Remuneration policy
For	228,264,867	177,072,418
%	98.58	84.46
Against	3,292,502	32,579,285
%	1.42	15.54
Withheld	618,886	1,016,024
Total votes	232,176,255	210,667,727

Remuneration policy
Hiscox has a forward-looking remuneration policy for its Board members.

The core function of the Remuneration Committee's role is to determine:
- the overall remuneration strategy, policy and cost for the Group;
- the levels and make-up of remuneration for Executive Directors and senior management;
- the award of material bonuses to individuals other than the Executive Directors; and
- the awards and wider operation of the Company's share plans, including the Performance Share Plan.

The Company's intended forward-looking remuneration policy for Board members is set out on pages 83 to 93.

We are a Bermuda-incorporated company and therefore is not subject to the UK Companies Act and related UK secondary legislation. Our intention, however, has always been to provide transparent remuneration disclosure and to engage with shareholders on the topic, therefore our remuneration reporting is consistent with the UK regulations and we will be submitting the policy and remuneration report for an advisory vote at the Annual General Meeting on 14 May 2020.

Changes to the policy
The new remuneration policy has been determined by the Committee following a robust process, which took into account the views of Hiscox's major shareholders.

The policy has been drafted to incorporate the changes previously adopted by the Company in 2017. These have been communicated to shareholders in prior years and are formalised under the new policy. The changes previously adopted are:
- **threshold vesting** – a reduction in the minimum vesting threshold of PSP awards from up to 25% to up to 20% of maximum;
- **performance condition** – an amendment to the performance condition used to determine PSP awards from ROE to growth in net asset value plus dividends per share; and
- **shareholding guidelines** – an increase in shareholding guidelines from 150% to 200% of salary for all Executive Directors.

In addition to the above, the Remuneration Committee has been mindful of the views of shareholders and the provisions detailed within the revised UK Corporate Governance Code. As a result we are proposing the following additional changes to our policy.
- **Rebalancing the weighting of incentives further towards the long term** – in order to encourage and support an ownership culture and increase the focus on long-term performance, it is proposed to increase the maximum award opportunity under the PSP from 200% to 250% of salary. The maximum opportunity under the annual bonus opportunity will be reduced from 400% to 300% of salary for the CEO and CFO and from 500% to 400% of salary for the CUO.
- **Post-employment shareholding guidelines** – in recognition of the changes to the UK Corporate Governance Code, Executive Directors will now be expected to maintain an interest in Hiscox shares after they step down from the Board.
- **Recovery and discretion** – the recovery provisions have been strengthened and discretion to override formulaic returns introduced to the PSP to enable the Committee to apply judgement to plan outcomes under the PSP in exceptional circumstances, in line with the 2018 UK Corporate Governance Code.

Other minor drafting changes are proposed to clarify areas of implementation.

The Company consulted with major shareholders regarding the above changes and generally received positive feedback in respect of the changes.

Future policy table
Executive Director remuneration

Base salary

Purpose and link to strategy	Fixed-pay elements enable the Company to be competitive in the recruitment market when looking to employ individuals of the calibre required by the business.
Operation	Base salary is normally reviewed annually, taking into account a range of factors including inflation rate movements by country, relevant market data and the competitive position of Hiscox salaries by role. Individual salaries are set by taking into account the above information as well as the individual's experience, performance and skills, increases to salary levels across the wider Group and overall business performance. By exception, an individual's salary may be amended outside of the annual review process.
Maximum potential value	The salaries for current Executive Directors which apply for 2020 are set out on page 79. Executive Directors' salary increases will normally be in line with overall employee salary increases in the relevant location. Increases above this level may be considered in other circumstances as appropriate (for example, to address market competitiveness, development in the role, or a change in role size, scope or responsibility).
Performance metrics	Individual and business performance are taken into account when setting salary levels.
Application to broader employee population	Process for review of salaries is consistent for all employees.

Future policy table
Executive Director remuneration

Benefits (including retirement benefits)

Purpose and link to strategy	Fixed-pay elements enable the Company to be competitive in the recruitment market when looking to employ individuals of the calibre required by the business.
Operation	**Retirement benefits** These vary by local country practice but all open Hiscox retirement schemes are based on defined contributions or an equivalent cash allowance. This approach will be generally maintained for any new appointments other than in specific scenarios (for example, local market practice dictates other terms). For current Executive Directors, a cash allowance of up to 10% of salary is paid in lieu of the standard employer pension contribution, or a combination of pension contributions and cash allowance, totalling 10% of salary. Certain Board members retain legacy interests in closed defined benefit schemes. However, there is no entitlement to any further accrual under these schemes. **Other benefits** Benefits are set within agreed principles but reflect normal practice for each country. Hiscox benefits include, but are not limited to: health insurance, life assurance, long-term disability schemes and participation in all-employee share plans such as the Sharesave Scheme. Executive Directors are included on the directors and officers' indemnity insurance. The Committee may provide reasonable additional benefits based on the circumstances (for example, travel allowance and relocation expenses) for new hires and changes in role.
Maximum potential value	Set at an appropriate level by reference to the local market practice and reflecting individual and family circumstances. Pension benefits will be in line with the standard employer contribution taking into account any local requirements.
Performance metrics	None.
Application to broader employee population	Executive Directors' benefits are determined on a basis consistent with all employees.

Future policy table
Executive Director remuneration

Annual bonus

Purpose and link to strategy	To reward for performance against the achievement of financial results over the financial year and key objectives linked to the strategic priorities. To provide a direct link between reward and performance. To provide competitive compensation packages.
Operation	Executive Directors participate in profit-related bonus pools. Bonus pools are calculated at a business unit level and for the Group as a whole on the basis of Group financial results. For 2020, the bonus pool will be funded by a set percentage of profits on achievement of a hurdle rate of ROE. The bonus for prior years was determined on a similar basis. Further detail is set out on page 69. For Executive Directors, individual allocations from the pool are determined by the Remuneration Committee based on a judgement of various factors including: —— size of the Group bonus pool; —— results of business area (where relevant); —— individual performance, including non-financial and strategic factors; —— consideration of risk. Amounts are paid in accordance with the bonus deferral mechanism described on page 86. Bonus awards are non-pensionable. Bonus awards are subject to malus and clawback provisions as described in the notes to the policy table on page 90.
Maximum potential value	The maximum bonus opportunity for the Executive Directors will be as follows: —— CEO and CFO – 300% of salary; —— CUO – up to 400% of salary. Where performance is deemed to be below a predetermined hurdle, payouts will be nil. The total of individual bonuses paid to Executive Directors for a year will not normally exceed 15% of the total pool. If the number of Executive Directors increased in the future, this percentage would be adjusted as required.
Performance metrics	Performance is measured over one financial year. Bonus pools are determined based on financial performance against a hurdle (reviewed annually). Performance at or above this hurdle is rewarded and where performance falls below this hurdle, payouts will be nil. Financial performance is therefore the main determinant of overall bonus payouts. In determining the level of bonuses awarded, the Committee also considers a range of other factors including the achievement of stretching personal and strategic objectives during the relevant year together with a consideration of risk, ensuring a robust assessment of performance.
Application to broader employee population	The operation of the annual incentive is consistent for the majority of employees across the Group. Arrangements tailored to roles and responsibilities are operated for selected positions. Bonuses for more junior employees are calculated using a more formulaic approach. Further details are set out on page 69.

Future policy table
Executive Director remuneration

Bonus deferral

Purpose and link to strategy	To encourage retention of employees. To facilitate and encourage share ownership in order to align senior employees with Hiscox shareholders.
Operation	Larger bonuses are normally deferred over a three-year period and paid subject to continuing service as explained in the table below. Deferral points are determined based on the currency in which the Executive Director's salary is paid and are normally as follows:

Bonus of £50,000, €75,000, $100,000, and below	Paid shortly after the end of the financial year in which the bonus was achieved.
Bonus above £50,000 and below £100,000 Bonus above €75,000 and below €150,000 Bonus above $100,000 and below $200,000	£50,000, €75,000, $100,000, paid shortly after the end of the financial year in which the bonus was achieved. Balance of bonus split 50% to be paid after year two (24 months after the start of the bonus year), and 50% after year three (36 months after the start of the bonus year).
Bonus above £100,000, €150,000, $200,000	50% of bonus paid shortly after the end of the financial year following the announcement of results. Balance of bonus split 50% to be paid after year two, and 50% after year three.

Participants are able to (subject to any local tax/legal/regulatory restrictions) draw deferred bonuses early in certain circumstances in order to enable the acquisition of Hiscox shares. Such amounts remain subject to continued employment.

The Remuneration Committee can agree to early payment of deferred bonuses to Executive Directors on an exceptional basis at their discretion.

Deferred awards are subject to malus and clawback provisions as described in the notes to the policy table on page 90.

Maximum potential value	In accordance with the operation of the annual bonus.
Performance metrics	In accordance with the operation of the annual bonus.
Application to broader employee population	Approach is consistent for all employees across the Group who are awarded a sizeable bonus.

Future policy table
Executive Director remuneration

Performance Share Plan (PSP)

Purpose and link to strategy	To motivate and reward for the delivery of long-term objectives in line with business strategy. To encourage share ownership among participants and align interests with shareholders. To provide competitive compensation packages for senior employees.
Operation	Awards are granted under, and governed by, the rules of the PSP as approved by shareholders from time to time. Share awards (typically structured as either conditional awards or nil cost options) are made at the discretion of the Remuneration Committee. Awards normally vest after a three-year period subject to the achievement of performance conditions. An additional holding period, which is currently two years, may also apply. Further details are set out on page 73. Awards are generally subject to continued employment, however awards may vest to leavers in certain scenarios (for example, ‘good’ leaver circumstances). Dividends (or equivalents) may accrue on vested shares prior to release. Awards are subject to malus and clawback provisions as described in the notes to the policy table on page 90. Maximum annual grant of up to 250% of salary in respect of any one financial year.
Maximum potential value	The performance conditions for awards are set to align with the long-term objectives of the Company.
Performance metrics	The Committee reviews the targets prior to each grant to ensure that they remain appropriate. Currently, the performance measures are linked to the achievement of growth in net asset value plus dividends, measured on a per-share basis, over the performance period. For delivery of the threshold hurdle, up to 20% of the relevant award will vest. For full vesting, the stretch hurdle needs to be met in full. The discretions available to the Committee in assessing the achievement of the performance target are as set out in the notes to the policy table on page 90. Where the Committee considers it appropriate to do so, under the plan rules the Committee is able to modify performance criteria for outstanding awards on the occurrence of certain events (for example, major disposal).
Application to broader employee population	Participation in this plan is restricted to Executive Directors and other senior individuals.

Future policy table
Executive Director remuneration

Shareholding guidelines

Purpose and link to strategy	To ensure Executive Directors are aligned with shareholder interests.
Operation	Within five years of becoming an Executive Director, individuals will normally be expected to have acquired an interest in Hiscox shares valued at 200% of salary. Shares owned by the Executive Director (and any connected person) count towards the guidelines as do shares subject to any vested but unexercised PSP award (net of assumed taxes). Executive Directors are normally expected to remain aligned with the interests of shareholders for an extended period after leaving the Company. Executive Directors will typically be expected to retain a shareholding at the level of the in-employment shareholding guideline for one year (or the actual shareholding on stepping down, if lower) and at half of this amount for the following year, unless the Committee determines otherwise in exceptional circumstances.
Maximum potential value	N/A.
Performance metrics	N/A.
Application to broader employee population	Executive Directors are required to hold more shares than other senior managers. Post-employment shareholding guidelines only apply to Executive Directors.

Future policy table
Non Executive Director remuneration

General approach	The total aggregate fees payable are set within the limit specified by the Company's Bye-laws. The fees paid are determined by reference to the skills and experience required by the Company as well as the time commitment associated with the role. The decision-making process is informed by appropriate market data. Non Executive Directors are not eligible for participation in the Company's incentive plans. Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed to Non Executive Directors (including any tax thereon where these are deemed to be taxable benefits). Non Executive Directors are included on the directors and officers' indemnity insurance. The current fees payable to Non Executive Directors are set out on page 80.
Chairman	The Chairman typically receives an all-inclusive fee in respect of the role. In addition to his fees the Chairman may be provided with incidental benefits, for example, private healthcare and life assurance (including any tax thereon where these are deemed to be taxable benefits). The remuneration of the Chairman is determined by the Committee.
Non Executive Directors	Non Executive Directors receive an annual fee in respect of their Board appointments together with additional compensation for further duties (for example, Board Committee membership and chairmanship). The fees for the Non Executive Directors (excluding the Chairman) are determined by the Governance and Nominations Committee.

Notes to the policy table

Performance measures, target setting and assessment

The performance targets for the annual bonus and share plan awards to Executive Directors are closely aligned with the Company's short-term and long-term objectives. The intention is to provide a direct link between reward levels and performance.

The Company operates a bonus pool approach for the annual incentive. This ensures that both individual bonus levels and overall spend are commensurate with the performance of the Company. The Committee applies judgement based on a range of factors (as described in the table on page 85) to ensure that outcomes for Executive Directors are based on performance in-the-round rather than on a formulaic outcome. The profit pool approach currently used ensures that overall bonus amounts are aligned to the performance of the Company and remain appropriate and affordable.

PSP performance measures are intended to motivate and reward to deliver long-term Company success. The Committee considers performance metrics and targets prior to the grant of each award to ensure that these remain suitable and relevant.

It is the intention of the Committee that the vesting of PSP awards should normally reflect the outcome of the performance measures set, although the Committee has the ability to apply independent judgement to ensure that the outcome is a fair reflection of the performance of the Company and individual over the performance period. When making this judgement, the Committee has scope to consider any such factors as it deems relevant.

Detailed provisions

The Committee may make minor changes to this remuneration policy to aid in its operation or implementation (for example, for regulatory or administrative purposes), provided that any such change is not to the material advantage of Directors. The Committee may continue to operate the share awards under the 2006 and 2016 PSP in accordance with the rules (for example, the treatment of awards in the context of a change of control or other forms of corporate restructure).

The Committee may continue to satisfy remuneration payments and payments for loss of office (including the exercise of any discretions available to the Committee in connection with such payments) where the terms of the payment were: i) agreed before 15 May 2014 when the first approved remuneration policy came into effect; ii) agreed before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' remuneration policy in force at the time they were agreed; or iii) agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, such payments include the Committee satisfying awards of variable remuneration.

Malus and clawback provisions

Deferred bonus awards and PSP awards granted for 2020 are subject to malus and clawback provisions as set out below. The Committee may, in its absolute discretion, determine at any time prior to the vesting of an award to reduce, defer, cancel or impose further conditions in the following circumstances:

- a retrospective material restatement of the audited financial results of the Group for a prior period error in accordance with IAS 8;
- an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted, or vests;
- actions of gross misconduct or material error, including fraud, by the participant or their team;
- significant reputational or financial damage to the Company (as a result of the participant's conduct).

Annual bonus and PSP awards granted to Executive Directors shall also be subject to clawback provisions for up to two years from the date of vesting in the above circumstances.

The malus and clawback provisions that apply to awards made prior to 2020 are as set out in the relevant remuneration policy as at the date of award.

Recruitment policy

A new hire will ordinarily be remunerated in accordance with the policy described in the table on the previous pages. In order to define the remuneration for an incoming Executive Director, the Committee will take account of:

- prevailing competitive pay levels for the role;
- experience and skills of the candidate;
- awards (shares or earned bonuses) and other elements which will be forfeited by the candidate;
- transition implications on initial appointment;
- the overall Hiscox approach.

A 'buy-out' payment/award may be necessary in respect of arrangements forfeited on joining the Company. The size and structure of any such buy-out arrangement will take account of relevant factors in respect of the forfeited terms including potential value, time horizons and any performance conditions which apply. The objective of the Committee will be to suitably limit any buy-out to the commercial value forfeited by the individual.

On initial appointment (including interim Director appointments) the maximum level of variable remuneration (excluding any buy-outs) is capped at the maximum level set out in the policy table on pages 85 to 87. Within these limits and where appropriate the Committee may tailor the award (for example, time frame, form, performance criteria) based on the commercial circumstances. Shareholders would be informed of the terms for any such arrangements. Ordinarily, it would be expected that the package on recruitment would be consistent with the usual ongoing Hiscox incentive arrangements.

On the appointment of a new Non Executive Chairman or Non Executive Director, the fees will normally be consistent with the policy. Fees to Non Executives will not include share options or other performance-related elements.

Service contracts

It is the Company's policy that Executive Directors should have service contracts with an indefinite term which can be terminated by the Company by giving notice not exceeding 12 months or the Director by giving notice of six months.

Non Executive Directors are appointed for a three-year term, which is renewable, with three months' notice on either side, no contractual termination payments being due and subject to re-election pursuant to the Bye-laws at the Annual General Meeting. The contract for the Chairman is subject to a six-month notice provision on either side.

The terms set out in the service contracts for the current Executive Directors do not allow for any payments that are not in line with this policy.

Policy on payment for loss of office

Subject to the execution of an appropriate general release of claims an Executive Director may receive on termination of employment by the Company:

1. Notice period of up to 12 months

In the normal course of events, an Executive will remain on the payroll but may be placed on gardening leave for the duration of the notice period (or until they leave early by mutual agreement, whichever is sooner). During this period they will be paid as normal, including base pay, pension contributions (or cash allowance as appropriate) and other benefits (for example, healthcare).

In the event of a termination where Hiscox requests that the Executive Director ceases work immediately, a payment in lieu of notice may be made that is equal to fixed pay, pension entitlements and other benefits (benefits may continue to be provided). Payments may be made in instalments and would ordinarily be subject to mitigation should the individual find alternative employment during the unexpired notice period.

2. Bonus payment for the financial year of exit

The Committee may pay a bonus calculated in line with the normal bonus scheme timings and performance metrics. The bonus amount would normally be pro-rated depending on the proportion of the financial year which has been completed by the time of the termination date.

3. Release of any deferred bonuses

All outstanding bonuses deferred from the annual incentive scheme will normally be paid in full at the normal vesting date.

4. Unvested Performance Share Plan awards

Treatment would be in accordance with the plan rules and relevant grant documentation. The intended approach is summarised below.

- Awards will vest in line with the normal plan vesting date (unless the Committee determines otherwise). Awards vest to the extent that the relevant performance target is considered to have been met.
- The award will normally be pro-rated to reflect the period which has elapsed from the commencement of the award to the date of termination unless the Committee determines otherwise.

If the departing Executive Director does not sign a release of claims, they would normally be entitled to payments defined under point 1 only. In the event that the Executive is dismissed for gross misconduct, they would forfeit any payments under UK and Bermuda employment law. In the event of a voluntary resignation to join another company, no payments would normally be made other than remaining on the payroll, with associated benefits, during the contractual notice period of six months.

The Committee may also make a payment in respect of outplacement costs, legal fees and costs of settling any potential claims where appropriate.

5. Change of control

In the event of a change of control, outstanding PSP awards will normally vest early to the extent that the performance condition, as determined by the Committee in its discretion, has been satisfied and unless the Committee determines otherwise, would be pro-rated to reflect the period which has elapsed from the commencement of the award to the date of the relevant corporate event.

Deferred bonus awards will vest in full. Outstanding awards under all-employee share plans will be treated in accordance with the relevant plan rules.

Consideration of employment conditions elsewhere

At Hiscox we encourage employees to share in the Group's success through competitive pay, profit and performance-related bonuses, all employee share plans and a generous benefits package.

Salary reviews are applied consistently throughout the Group, ensuring employees are paid fairly in line with their responsibilities, experience and the market rate for the role. All employees (including Executive Directors) are encouraged to become Hiscox shareholders through our SAYE schemes and have benefited from the strong share price growth over recent years. Employees participate in a discretionary profit-related bonus scheme, with the overall level of payout based primarily on financial performance. More junior employees may also receive a personal performance bonus.

Remuneration for the most senior executives, including the CEO is more highly performance geared towards the longer term in order to encourage delivery of strong returns across the insurance cycle and create sustainable long-term value for our shareholders. Senior employees participate in a performance share plan with awards normally vesting after a three-year period subject to the achievement of performance conditions. An additional holding period applies for Executive Directors.

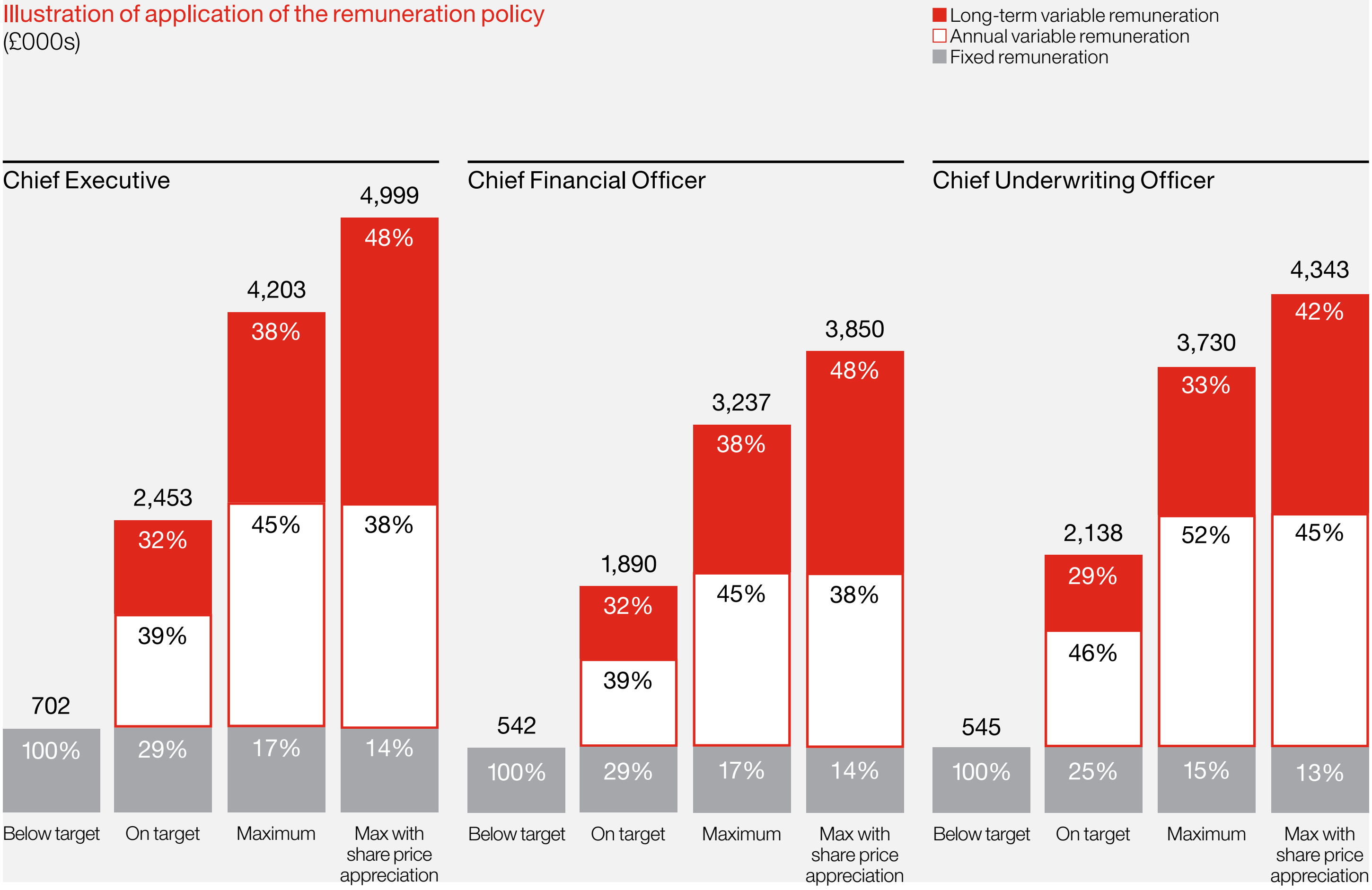
Whilst the Committee did not consult directly with the broader workforce on the remuneration policy for Executive Directors, we have introduced a process by which employee views are gathered on a range of topics and presented to the Board. The Remuneration Committee also receives an update on the broader workforce remuneration policies and practices during the year which informs the Committee's consideration of the policy for Executive Directors

Consideration of shareholder views

Hiscox regularly discusses remuneration policy matters with a selection of shareholders. The Remuneration Committee takes into consideration the range of views expressed in making its decisions.

The Committee consulted with major shareholders during 2019 and took shareholders feedback into account when finalising the revised 2020 policy.

Illustration of application of the remuneration policy
(£000s)



The charts above have been compiled using the following assumptions.

Fixed remuneration	Fixed reward (base salary, benefits and retirement benefit). — Salary with effect from 1 April 2019. — Benefits as received during 2019, as disclosed in the Executive Director remuneration table on page 68. — Retirement benefit as received during 2019, as disclosed in the Executive Director remuneration table on page 68.
Variable remuneration	Assumptions have been made in respect of the annual incentive and the PSP for the purpose of these illustrations. — Annual incentive: the amounts shown in the scenarios are for illustration only. In practice, the award would be determined based on a range of performance factors and therefore vary depending on the circumstances. The maximum award reflects the incentive caps described at the beginning of this report. — PSP: scenario analysis assumes awards are granted at the maximum level set out in the policy table on page 87. In practice, award levels are determined annually and are not necessarily granted at the plan maximum every year.

Performance scenarios	
Below target performance	Fixed reward only.
On target performance	Fixed reward plus variable pay for the purpose of illustration as follows. — Annual incentive: assume a bonus equivalent to 50% of the maximum opportunity. — PSP: assume vesting of 50% of the maximum award.
Maximum performance	Fixed reward plus variable pay for the purpose of illustration as follows. — Annual incentive: maximum bonus equivalent to 300% of salary for the CEO and CFO and 400% of salary for the CUO. — PSP: vesting of 100% of the maximum award.
Maximum performance with share price appreciation	Fixed reward plus variable pay for the purpose of illustration as follows. — Annual incentive: maximum bonus equivalent to 300% of salary for the CEO and CFO and 400% of salary for the CUO. — PSP: vesting of 100% of the maximum award plus assumed share price growth of 50%.

The insurance industry is a huge part of the City of London, yet many children who grow up in its shadows never consider working in it. That's why Hiscox supports social mobility charity The Brokerage: to connect with young Londoners so we can spread the word about the great career opportunities that insurance can offer them.

Members of our team mentor ambitious students at inner city schools and we also hold 'master classes' to teach them about the business of insurance and help them develop extra skills that would be desirable in the Square Mile.

Chapter 5:
Shareholder information

Directors' report

The Directors have pleasure in submitting their Annual Report and consolidated financial statements for the year ended 31 December 2019.

Management report

The Company is a holding company for subsidiaries involved in the business of insurance and reinsurance in Bermuda, the USA, the UK, Guernsey, Europe and Asia. The information found on pages 17 to 25, 28 to 31, 108 to 166 and 168 fulfils the requirements of the management report as referred to in Chapter 4 of the Disclosure Guidance and Transparency Rules (DTR). This includes additional explanation of the figures detailed in the financial statements and the office locations of the Group in different countries.

The key performance indicators are shown on pages 2 to 3. Details of the use of financial instruments are set out in note 19 to the consolidated financial statements. An analysis of the development and performance of the business during the financial year, its position at the end of the year, any important events since the end of the year and the likely future development can be found within the Chief Executive's report on pages 17 to 25. The Chief Executive's report also describes the main trends and factors likely to affect the future development, performance and position of the Company's business. A description of the Company's strategy and business model is set out on pages 6 to 7. A description of the principal risks and uncertainties and how they are managed or mitigated can be found in the key risks section on page 9 and the risk management section on pages 28 to 31. In addition, note 3 to the consolidated financial statements provides a detailed explanation of the principal risks which are inherent to the Group's business and how those risks are managed.

Compliance with the UK Corporate Governance Code 2018 (the Code)

Details of how the Company has applied the principles set out in the Code and the extent to which it has complied with the provisions of the Code are set out on pages 54 to 57.

Emerging and principal risks

The confirmation required by provision 28 of the Code in relation to the Board's assessment of the Company's emerging and principal risks can be found on page 9.

Corporate governance statement

The information that fulfils the requirements of the corporate governance statement as referred to in DTR 7.2 can be found on pages 49 to 53 in this report.

Diversity

The diversity of the business is outlined in the Nominations and Governance Committee report on pages 58 to 59.

Financial results

The Group achieved a pre-tax profit for the year of $53.1 million (2018: $135.6 million). Detailed results for the year are shown in the consolidated income statement on page 108.

Going concern

A review of the financial performance of the Group is set out in the Chief Executive's report on pages 17 to 25. The financial position of the Group, its cash flows and borrowing facilities are included in the capital section on pages 26 and 27. The Group has considerable financial resources and a well-balanced book of business.

After making enquiries, the Directors have an expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, a period of at least 12 months from the date of this report. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements.

Viability statement

It is fundamental to the Group's longer-term strategy that the Directors manage and monitor risk, taking into account all key risks the Group faces, including insurance risks, so that it can continue to meet its obligations to policyholders. The Group is also subject to extensive regulation and supervision including Bermuda Solvency Capital Requirement.

Against this background, the Directors have assessed the prospects of the Group in accordance with provision 31 of the UK Corporate Governance Code 2018, with reference to the Group's current position and prospects, its strategy, risk appetite and key risks, as detailed in the key risks section on page 9 and the risk management section on pages 28 to 31, as well as note 3 to the consolidated financial statements. The assessment of the Group's prospects by the Directors covers the three years to 2022 and is underpinned by management's 2020-2022 business plan which includes projections of the Group's capital, liquidity and solvency and reflects the Group's risk profile of a portfolio of diversified short-tailed and medium-tailed insurance liabilities. The Group's stress and scenario testing considers the Group's capacity to respond to a series of relevant financial, insurance-related or operational shocks should future circumstances or events differ from these current assumptions. These allow the Board to review and challenge the risk management strategy and consider potential mitigating actions.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year assessment period.

Dividends

An interim dividend of 13.75¢ was paid on 11 September 2019 in respect of the year ended 31 December 2019. As in previous years a scrip dividend alternative was offered. The Directors are proposing payment of a final dividend in respect of the year ended 31 December 2019 of 29.6¢ which will be paid on 10 June 2020 to shareholders on the register at 15 May 2020.

Bye-laws

The Company's Bye-laws contain no specific provisions relating to their amendment and any such amendments are governed by Bermuda Company Law and subject to the approval of shareholders in a general meeting. A copy of the Company's Bye-laws is available for inspection at the Company's registered office.

Share capital

Details of the structure of the Company's share capital and changes in the share capital during the year are disclosed in note 22 to the consolidated financial statements. The ordinary shares of 6.5p each are the only class of shares presently in issue and carry voting rights. There is power under Bye-law 45 of the Company's Bye-laws for voting rights to be suspended if calls on shares are unpaid. However, there are no nil or partly paid shares in issue on which calls could be made. The Bye-laws also allow the Company to investigate interests in its shares and apply restrictions including suspending voting rights where information is not provided. No such restrictions are presently in place. The Company was authorised by shareholders at the 2019 Annual General Meeting to purchase in the market up to 10% of the Company's issued ordinary shares. No shares have been bought back under this authority as at the date of this report.

Directors

The names and details of all Directors of the Company who served during the year and up to the date of this report are set out on pages 44 and 46. Details of the Chairman's professional commitments are included in his biography on page 44 and there were no changes during the year. The Bye-laws of the Company govern the appointment and replacement of Directors. In accordance with the Code, the Directors will submit themselves for re-election at the Annual General Meeting, with the exception of Richard Watson who stepped down from the Ltd Board with effect from 31 December 2019 following his retirement as Chief Underwriting Officer. Joanne Musselle was appointed as his successor with effect from 1 January 2020, and joined the Board in March, subject to her re-election by shareholders at the Annual General Meeting. Biographical details of the Directors are set out on pages 44 to 45, as are the reasons why the Board believes their contribution is (and continues to be) important to the Company's long-term sustainable success. This information will also be set out in the circular which will accompany the notice of Annual General Meeting.

Major interests in shares

The Company has been notified of the interests of 5% or more of voting rights in its ordinary shares, which are outlined in the table above, right.

Any acquisitions or disposals of major shareholdings notified to the Company in accordance with DTR 5.1 are announced and those announcements are available on the Company's website, **hiscoxgroup.com.**

Major interests in shares

The Company has been notified of the following interests of 5% or more of voting rights in its ordinary shares:

	Number of shares	% of issued share capital as at 31 January 2020*
Massachusetts Financial Services Company	37,242,009	12.91
Fidelity Management & Research	19,791,140	6.86

*Per RNS announcement there were 288,584,493 shares in issue (excluding Treasury shares) as at 2 January 2020.
As at 28 February 2020, no changes have been notified to the Company.

Political donations and charitable contributions

The Group made no political donations during the year (2018: $nil). Information concerning the Group's charitable activities is contained in the environmental, social and governance (ESG) section on pages 34 to 41 and at **hiscoxgroup.com/responsibility.**

Power of Directors

The powers given to the Directors are contained in the Company's Bye-laws and are subject to relevant legislation and, in certain circumstances (including in relation to the issuing and buying back by the Company of its shares), approval by shareholders in a general meeting. At the Annual General Meeting in 2019, the Directors were granted authorities to allot and issue shares and to make market purchases of shares and intend to seek renewal of these authorities in 2020.

Disclosure under LR 9.8.4 of the Listing Rules

The information that fulfils the reporting requirements relating to the following matters can be found at the pages identified below.

Details of long-term incentive schemes	Annual report on remuneration (page 73)
Allotment of shares for cash pursuant to employee share schemes	Note 22 to the consolidated financial statements on employee share schemes (page 151)

Annual General Meeting

The notice of the Annual General Meeting, to be held on 14 May 2020, will be contained in a separate circular to be sent to shareholders. The deadline for submission of proxies is 48 hours before the meeting.

By order of the Board
Marc Wetherhill
Company Secretary

Chesney House
96 Pitts Bay Road
Pembroke HM 08
Bermuda
2 March 2020

Directors’ responsibilities statement

The Board is responsible for ensuring the maintenance of proper accounting records which disclose with reasonable accuracy the financial position of the Group. It is required to ensure that the financial statements present a fair view for each financial period. The Directors explain in the Annual Report their responsibility for preparing the Annual Report and Accounts.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view, in all material respects, the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors responsible for authorising the responsibility statement on behalf of the Board are the Chairman, Robert Childs, and the Chief Financial Officer, Hamayou Akbar Hussain. The statements were approved for issue on 2 March 2020.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company’s and the Group’s position, performance, business model and strategy.

Advisors

Hiscox Ltd

Secretary
Marc Wetherhill

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Pembroke HM 08
Bermuda

Registered number
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Hamilton HM 11
Bermuda

Solicitors
Appleby
Canon's Court
22 Victoria Street
PO Box HM 1179
Hamilton HM EX
Bermuda

Bankers
HSBC Bank Bermuda Limited
37 Front Street
Hamilton HM 11
Bermuda

Stockbrokers
UBS Limited
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

Registrars
Equiniti (Jersey) Limited
c/o Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
United Kingdom

At Hiscox, we want our customers to be at the centre of everything we do. That's why we regularly connect with micro and small businesses in the UK and USA – the backbone of both economies and Hiscox Retail's core clientele.

We trust their judgement – if they don't like something we'll change it. They're our very own focus groups, ensuring we never rest on our laurels. By connecting with them and garnering their feedback, we are able to continually improve our service and make our products even better.

Every month, we contact our 'SME panel' of 500 small British businesses, as well as frequently touching base with our American small business customers. We canvas their opinions and find out what's on their minds. We might test a new ad with them before launch. Or we ask them what else we could do that would help make their lives easier, such as apps.

Chapter 6:
Financial summary

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Hiscox Ltd (the Company) and its subsidiaries (together 'the Group') as at 31 December 2019, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

What we have audited

Hiscox Ltd's consolidated financial statements comprise:
- the consolidated income statement for the year ended 31 December 2019;
- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

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

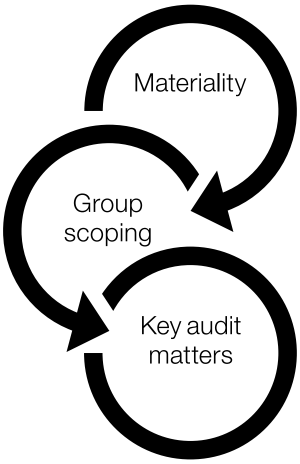
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



- Overall group materiality: $29.4 million, which represents 0.75% of the gross earned premium for the year ended 31 December 2019.

- We performed full scope audit procedures over six significant components.
- For certain other components, we performed audit procedures over specified financial statement line item balances.
- For the remaining components that were not inconsequential, analytical procedures were performed by the Group engagement team.

- Valuation of gross incurred but not reported (IBNR) loss reserves and the associated reinsurers' share of IBNR loss reserves.
- Uncertain tax positions.

Audit scope

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

Materiality

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

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $1.4 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overall Group materiality	$29.4 million
How we determined it	0.75% of gross earned premium for the year ended 31 December 2019
Rationale for the materiality benchmark applied	In determining our materiality, we have considered financial metrics which we believe to be relevant to the primary users of the consolidated financial statements. We concluded gross earned premium was the most relevant benchmark to these users. Gross earned premium provides a good representation of the size and complexity of the business and it is not distorted by insured catastrophe events to which the Group is exposed or the levels of external reinsurance purchased by the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of gross incurred but not reported (IBNR) loss reserves and the associated reinsurers' share of IBNR loss reserves *Refer to note 2.14, 2.22 and 23 to the consolidated financial statements for disclosures of related accounting policies and balances.* Total gross IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves are material estimates in the consolidated financial statements and as at 31 December 2019 amount to $4.017 billion and $2.106 billion respectively. The methodologies and assumptions used to develop gross IBNR loss reserves and the reinsurers' share of IBNR loss reserves involves a significant degree of judgement. As a result, we focused on this area as the valuation can be materially impacted by numerous factors including: — the underlying volatility attached to estimates for certain classes of business, where small changes in assumptions can lead to large changes in the levels of the estimate held; — the risk of inappropriate assumptions used in determining current year estimates. Given that limited data is available, especially for 'long-tailed' classes of business, there is greater reliance on expert judgement in management's estimation; — the judgements made in significant areas of uncertainty, for example liability and casualty classes of business; and — the risk that key assumptions in respect of natural catastrophes and other large claims losses are inappropriate. There is significant judgement involved in these loss estimates, particularly as they are often based on limited data.	We have understood, evaluated and tested the design and operational effectiveness of key controls in place in respect of the valuation of gross IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves. This work, supplemented with tests of detail, included: (i) reviewing and testing the reconciliation of data from the underlying policy administration systems to the data used in the actuarial projections; (ii) testing the completeness and accuracy of premiums and claims data used in the actuarial projections; and (iii) testing to ensure gross IBNR loss reserves, as a component of insurance liabilities, and the associated reinsurers' share of IBNR loss reserves were reviewed, approved and reconciled to the consolidated financial statements. In performing our detailed audit work over the valuation of gross IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves we used PwC actuarial specialists, where appropriate. Our procedures included: — developing independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 30 September 2019 and performing roll-forward testing to 31 December 2019; — testing, for certain other classes of business (including those impacted by natural catastrophes and other large claims), the methodology and assumptions used by management to derive the gross IBNR loss reserve estimates; — performing analytical review procedures over the remaining classes of business to evaluate gross IBNR loss reserves; — evaluating the appropriateness of the booked gross IBNR management margin, taking into account estimation uncertainty inherent in the underlying insurance business; — re-calculating gross to net ratios on a sample basis against the estimated gross IBNR loss reserves to calculate the estimated reinsurers' share of IBNR loss reserves; and — comparing our estimates, based on the procedures performed above, to those booked by management. The results of our procedures indicated that the valuation of gross IBNR loss reserves and the associated reinsurers' share of IBNR loss reserves were supported by the evidence we obtained.

Key audit matter	How our audit addressed the key audit matter
Uncertain tax positions *Refer to note 2.15, 2.22, 3.4 and 25 to the consolidated financial statements for disclosures of related accounting policies and balances.* The Group recognises provisions, or determines it appropriate not to recognise provisions for uncertain tax positions based on facts and circumstances at the balance sheet date. We focused on this area because the Group is subject to taxation in multiple jurisdictions and, in some cases, the ultimate tax treatment is uncertain until resolved with the relevant tax authority. Consequently, management make judgements and estimates with respect to the incidence and quantum of tax liabilities. The provision for uncertain tax positions may be materially impacted by numerous factors including: — decisions and pronouncements made by the relevant tax authorities; — assumptions used in interpreting the relevant tax regulations; and — assumptions used in determining transactions subject to the relevant tax regulations.	In performing our detailed audit work over uncertain tax positions we were assisted by our PwC tax specialists. Our procedures included: — evaluating management's rationale for the accounting treatment of potential and recognised liabilities, and assessing this treatment against the relevant accounting standards; — examining documentation and correspondence with the relevant tax authorities; — evaluating and challenging management's assumptions and agreeing input data to underlying supporting evidence; and — testing the accuracy of the calculations management used to determine the uncertain tax positions as at the balance sheet date. The results of our procedures indicated that management's determination of uncertain tax positions were supported by the evidence we obtained.

How we tailored our Group audit scope

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

The Group is structured into four segments (see note 4 to the consolidated financial statements) and is a consolidation of over 50 separate legal entities.

The Group is a global specialist insurer and reinsurer, and it's operations primarily consist of the legal entity operations in the United Kingdom, Europe, the United States and Bermuda. A full scope audit was performed for six components located in the aforementioned locations. Financial statement line item audit procedures were also performed over certain other components in the United Kingdom and Bermuda. Taken together, this work gave us over 90% coverage of the Group's gross earned premium and over 90% of the Group's total assets.

The six full scope audit components are:
(i) Hiscox Dedicated Corporate Member Syndicate No. 33;
(ii) Hiscox Dedicated Corporate Member Syndicate No. 3624;
(iii) Hiscox Insurance Company Limited;
(iv) Hiscox Insurance Company Inc.;
(v) Hiscox Société Anonyme; and
(vi) the parent company, Hiscox Ltd (including consolidation).

For certain other components, we identified account balances which were considered to be significant in size or audit risk at the financial statement line item level in relation to the consolidated financial statements, and scoped the audit of these by performing financial statement line item audits over the specified balances. Analytical procedures over the remaining components that were not inconsequential were performed by the Group engagement team.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or by the component audit teams within the PwC United Kingdom, PwC Luxembourg, PwC United States and PwC Bermuda firms operating under our instruction. Where the work was performed by component audit teams, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained. The Group engagement team had regular interaction with the component teams, and senior engagement team members visited the United Kingdom, Europe (Portugal), and Bermuda during the audit process. Senior members of the Group engagement team reviewed in detail all reports with regards to the audit approach and findings submitted by the component auditors. This together with additional procedures performed at the Group level, as described above, gave us the evidence we needed for our opinion on the consolidated financial statements as a whole.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon).

Except as noted in the 'report on other legal and regulatory requirements' section, our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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

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

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

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

Report on other legal and regulatory requirements

Going concern

The Directors have concluded that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements, as explained on page 96. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the balance sheet date. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Directors' remuneration

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

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

Corporate governance statement

Under the United Kingdom's Listing Rules we are required to review the part of the corporate governance statement on pages 49 to 57 relating to 11 provisions of the UK Corporate Governance Code and the Directors have requested that we also review their statements on going concern and the longer-term viability of the Company as required for UK registered companies with a premium listing on the London Stock Exchange. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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

PricewaterhouseCoopers Ltd.
Chartered Professional Accountants
Hamilton
Bermuda
2 March 2020

Consolidated income statement

For the year ended 31 December 2019	Note	2019 Total $m	2018 Total (restated)* $m
Income			
Gross premiums written	4	4,030.7	3,778.3
Outward reinsurance premiums		(1,351.9)	(1,196.8)
Net premiums written	4, 23.2	2,678.8	2,581.5
Gross premiums earned		3,931.9	3,699.8
Premiums ceded to reinsurers		(1,296.3)	(1,126.2)
Net premiums earned	4, 23.2	2,635.6	2,573.6
Investment result	7	223.0	38.1
Other income	9	53.1	46.8
Total income		2,911.7	2,658.5
Expenses			
Claims and claim adjustment expenses	23.2	(3,206.7)	(2,326.6)
Reinsurance recoveries	23.2	1,630.6	1,100.8
Claims and claim adjustment expenses, net of reinsurance	23.2	(1,576.1)	(1,225.8)
Expenses for the acquisition of insurance contracts	15	(944.9)	(882.0)
Reinsurance commission income	15	283.9	240.3
Operational expenses	9	(593.5)	(607.5)
Net foreign exchange gain/(loss)		8.5	(13.7)
Total expenses		(2,822.1)	(2,488.7)
Results of operating activities		89.6	169.8
Finance costs	10	(36.6)	(34.6)
Share of profit of associates after tax	14	0.1	0.4
Profit before tax		53.1	135.6
Tax expense	25	(4.2)	(17.7)
Profit for the year (all attributable to owners of the Company)		48.9	117.9
Earnings per share on profit attributable to owners of the Company			
Basic	28	17.2¢	41.6¢
Diluted	28	16.9¢	40.8¢

*See note 2.2 for further details.

Consolidated statement of comprehensive income

For the year ended 31 December 2019	Note	2019 Total $m	2018 Total (restated)* $m
Profit for the year		48.9	117.9
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Remeasurements of the net defined benefit obligation	27	(16.5)	20.2
Income tax effect		3.4	(4.1)
		(13.1)	16.1
Items that may be reclassified subsequently to the income statement:			
Exchange losses on translating foreign operations		(1.0)	(14.7)
		(1.0)	(14.7)
Other comprehensive income net of tax		(14.1)	1.4
Total comprehensive income for the year (all attributable to owners of the Company)		34.8	119.3

*See note 2.2 for further details.

The notes on pages 112 to 166 are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2019	Note	2019 $m	2018 (restated)* $m	2017 (restated)* $m
Assets				
Goodwill and intangible assets	12	**278.0**	204.6	186.0
Property, plant and equipment	13	**128.4**	61.4	65.6
Investments in associates	14	**8.6**	9.9	10.7
Deferred tax	26	**76.9**	60.7	53.5
Deferred acquisition costs	15	**456.1**	455.9	446.1
Financial assets carried at fair value	17	**5,539.0**	5,029.7	5,139.6
Reinsurance assets	16, 23	**3,386.9**	2,456.6	1,833.3
Loans and receivables including insurance receivables	18	**1,556.3**	1,265.1	1,121.5
Current tax asset		**4.7**	3.6	5.7
Cash and cash equivalents	21	**1,115.9**	1,288.8	867.8
Total assets		**12,550.8**	10,836.3	9,729.8
Equity and liabilities				
Shareholders' equity				
Share capital	22	**34.1**	34.0	33.9
Share premium	22	**70.5**	57.6	45.8
Contributed surplus	22	**184.0**	184.0	184.0
Currency translation reserve		**(326.3)**	(325.3)	(310.6)
Retained earnings		**2,226.3**	2,307.6	2,363.0
Equity attributable to owners of the Company		**2,188.6**	2,257.9	2,316.1
Non-controlling interest		**1.1**	1.1	1.1
Total equity		**2,189.7**	2,259.0	2,317.2
Employee retirement benefit obligations	27	**55.1**	35.8	64.1
Deferred tax	26	**0.4**	9.1	9.6
Insurance liabilities	23	**8,094.5**	6,701.5	6,007.7
Financial liabilities	17	**728.8**	700.5	391.1
Current tax		**62.0**	43.9	47.3
Trade and other payables	24	**1,420.3**	1,086.5	892.8
Total liabilities		**10,361.1**	8,577.3	7,412.6
Total equity and liabilities		**12,550.8**	10,836.3	9,729.8

*See note 2.2 for further details.

The notes on pages 112 to 166 are an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 2 March 2020 and signed on its behalf by:

Aki Hussain
Chief Financial Officer

Bronek Masojada
Chief Executive

Consolidated statement of changes in equity

	Note	Share capital $m	Share premium $m	Contributed surplus $m	Currency translation reserve $m	Retained earnings $m	Equity attributable to owners of the Company $m	Non-controlling interest $m	Total equity $m (restated)*
Balance at 1 January 2018 as reported previously		33.9	45.8	184.0	(310.6)	2,414.2	2,367.3	1.1	2,368.4
Cumulative impact of prior period adjustments		–	–	–	–	(51.2)	(51.2)	–	(51.2)
Balance at 1 January 2018 (restated)		33.9	45.8	184.0	(310.6)	2,363.0	2,316.1	1.1	2,317.2
Profit for the year (all attributable to owners of the Company)		–	–	–	–	117.9	117.9	–	117.9
Other comprehensive income net of tax (all attributable to owners of the Company)		–	–	–	(14.7)	16.1	1.4	–	1.4
Employee share options:									
Equity settled share-based payments		–	–	–	–	(3.6)	(3.6)	–	(3.6)
Proceeds from shares issued	22	0.1	4.0	–	–	–	4.1	–	4.1
Deferred and current tax on employee share options		–	–	–	–	4.2	4.2	–	4.2
Net movements of treasury shares held by Trust		–	–	–	–	(76.5)	(76.5)	–	(76.5)
Shares issued in relation to Scrip Dividend	22, 29	–	7.8	–	–	–	7.8	–	7.8
Dividends paid to owners of the Company	29	–	–	–	–	(113.5)	(113.5)	–	(113.5)
Balance at 31 December 2018		34.0	57.6	184.0	(325.3)	2,307.6	2,257.9	1.1	2,259.0
Profit for the year (all attributable to owners of the Company)		–	–	–	–	48.9	48.9	–	48.9
Other comprehensive income net of tax (all attributable to owners of the Company)		–	–	–	(1.0)	(13.1)	(14.1)	–	(14.1)
Employee share options:									
Equity settled share-based payments		–	–	–	–	3.6	3.6	–	3.6
Proceeds from shares issued	22	–	3.6	–	–	–	3.6	–	3.6
Deferred and current tax on employee share options		–	–	–	–	0.2	0.2	–	0.2
Net movements of treasury shares held by Trust		–	–	–	–	–	–	–	–
Shares issued in relation to Scrip Dividend	22, 29	0.1	9.3	–	–	–	9.4	–	9.4
Dividends paid to owners of the Company	29	–	–	–	–	(120.9)	(120.9)	–	(120.9)
Balance at 31 December 2019		**34.1**	**70.5**	**184.0**	**(326.3)**	**2,226.3**	**2,188.6**	**1.1**	**2,189.7**

*See note 2.2 for further details.

The notes on pages 112 to 166 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2019	Note	2019 $m	2018 (restated)* $m
Profit before tax		53.1	135.6
Adjustments for:			
Net foreign exchange (gain)/loss		(8.5)	13.7
Interest and equity dividend income		(123.7)	(103.0)
Interest expense		36.6	34.6
Net fair value (gains)/losses on financial assets		(70.8)	33.8
Depreciation, amortisation and impairment	9, 12, 13	44.6	33.2
Charges in respect of share-based payments	9, 22	3.6	(3.6)
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		414.3	136.3
Financial assets carried at fair value		(405.0)	3.0
Financial liabilities carried at fair value		(0.5)	(18.3)
Financial liabilities carried at amortised cost		0.8	(53.2)
Other assets and liabilities		14.3	58.5
Cash paid to the pension fund		(3.6)	(3.7)
Interest received		130.8	90.8
Equity dividends received		1.1	0.8
Interest paid		(36.4)	(33.9)
Current tax paid		(11.2)	(24.2)
Net cash flows from operating activities		39.5	300.4
Purchase of property, plant and equipment		(6.4)	(7.8)
Purchase of intangible assets		(90.9)	(51.8)
Net cash flows from investing activities		(97.3)	(59.6)
Proceeds from the issue of ordinary shares	22	3.6	4.1
Shares repurchased	22	–	(76.5)
Distributions made to owners of the Company	22, 29	(111.6)	(105.7)
Proceeds from long-term debt issue, net of fees		–	380.3
Principal elements of lease payments		(15.5)	–
Net cash flows from financing activities		(123.5)	202.2
Net (decrease)/increase in cash and cash equivalents		(181.3)	443.0
Cash and cash equivalents at 1 January		1,288.8	867.8
Net (decrease)/increase in cash and cash equivalents		(181.3)	443.0
Effect of exchange rate fluctuations on cash and cash equivalents		8.4	(22.0)
Cash and cash equivalents at 31 December	21	1,115.9	1,288.8

*See note 2.2 for further details.

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

Included within cash and cash equivalents held by the Group are balances totalling $167 million (2018: $211 million) not available for immediate use by the Group outside of the Lloyd's syndicate within which they are held. Additionally, $41 million (2018: $24 million) is pledged cash held against Funds at Lloyd's, and $0.3 million (2018: $10 million) held within trust funds against reinsurance arrangements.

The notes on pages 112 to 166 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information
The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review 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 3,100 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 consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the Financial Conduct Authority (FCA) and in accordance with the provisions of the Bermuda Companies Act 1981.

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

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

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

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

The financial statements were approved for issue by the Board of Directors on 2 March 2020.

2.1 Significant accounting policies
The principal accounting policies applied in the preparation of these consolidated Group financial statements are set out below. The most critical individual components of these financial statements that involve the highest degree of judgement or significant assumptions and estimations are identified in note 2.22.

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

New accounting standards, interpretations and amendments to published standards

A number of new standards, amendments to standards and interpretations, as adopted by the European Union, are effective for annual periods beginning on, or after, 1 January 2019. They have been applied in preparing these consolidated financial statements.

The new standards include:
- IFRS 16 *Leases*

  IFRS 16 supersedes IAS 17 *Leases* and sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 requires lessees to account for leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

  The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

2 Basis of preparation continued
2.1 Significant accounting policies
New accounting standards, interpretations and amendments to published standards continued

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using applicable incremental borrowing rates as of 1 January 2019. Lease liabilities amounts are presented in balance sheet under trade and other payables.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. Right-of-use assets are presented in the balance sheet under property, plant and equipment.

The Group has elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its previous application of IAS 17. As permitted by IFRS 16, the Group also elected to use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

In addition, the Group has opted to use the recognition exemptions for lease contracts that, at the commencement date:
- have a lease term of 12 months or less and do not contain a purchase option (short-term leases); and
- lease contracts for which the underlying asset is of low value (low-value assets).

Payments associated with short-term leases amounting to $2.7 million and leases of low-value assets amounting to $0.1 million are recognised on a straight-line basis as an expense in profit or loss.

The impact on the consolidated balance sheet as at 1 January 2019 is shown below:

	$m
Assets	
Increase in property, plant and equipment	78.8
Analysed as right-of-use assets related to:	
Properties	77.9
Other	0.9
Liabilities	
Increase in trade and other payables	78.8
Analysed as lease liabilities	78.8

The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.4%.

The undiscounted future minimum payments disclosed under the prior standard at 31 December 2018 were $87.0 million. The impact of discounting was $6.3 million, the short-term leases, for which an exemption was applied, amounted to $1.9 million. The resulting total lease liability recognised as at 1 January 2019 under IFRS 16 is $78.8 million.

Impact on the consolidated income statement for the year ended 31 December 2019
The depreciation expenses from right-of-use assets (operating expenses) and interest expense on the lease liabilities (finance costs) under IFRS 16 in 2019 were $1.1 million higher than the amount of operating lease expenses under IAS 17.

Impact on the consolidated cash flow statement for the year ended 31 December 2019
Compared with the previous accounting for operating leases under IAS 17, the application of the new standard affects the classification of cash flows. In prior years, operating lease payments were presented as operating cash flows. Lease payments are now split into payments of principal that are presented as financing cash flows, and payments of interest that are presented as operating cash flows under interest expense. Payments related to leases for 2019 amounting to $15.5 million, which under IAS 17 would be classified as operating leases, are presented under cash flows from financing activities. Additionally, the interest expense on the lease liabilities calculated under IFRS 16 amounting to $1.8 million is presented under cash flows from operating activities.

- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*
The amendments to IAS 19 address the accounting for the current service cost and net interest when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments are in line with the Group's existing accounting policy. The adoption of these amendments has no impact on the Group's consolidated financial statements.

- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*
This Interpretation clarifies the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:
  - whether an entity considers uncertain tax treatments separately;
  - the assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
  - how an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

2 Basis of preparation continued
2.1 Significant accounting policies
New accounting standards, interpretations and amendments to published standards continued

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the interpretation had an impact on its consolidated financial statements. The adoption of the interpretation did not have an impact on the consolidated financial statements as the clarified guidance is consistent with the Group's accounting policy.

There were no other new standards or amendments that had a material impact on the Group.

The following new standards, and amendments to standards, are effective for annual periods beginning after 1 January 2018 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. At 31 December 2015 (the date specified by IFRS 4), the carrying value of the Group's liabilities connected with insurance comprised over 90% of the total liabilities. These include significant insurance liabilities; the subordinated debt ($0.4 billion) as this debt counts towards the Group's regulatory and rating agency capital requirements; and creditors arising from insurance operations ($0.3 billion). The activities of the Group remain predominantly connected with insurance.

  Under the current requirements (IAS 39), a majority of the Group's investments were designated as at fair value through profit or loss on initial recognition and subsequently remeasured to fair value at each reporting date, reflecting the Group's business model for managing and evaluating the investment portfolio. Adoption of IFRS 9 is not expected to result in any changes to the measurement of the Group's investments, which continues to be at fair value through profit or loss.

  Financial assets within the scope of IFRS 17 *Insurance Contracts* such as premiums receivable and reinsurance and other recoveries on paid claims, which together form the majority of the carrying value of the Group's loans and receivables, and reinsurance recoveries on outstanding claims are outside the scope of IFRS 9 and are unaffected by the new requirements.

  In addition to those balances, loans and receivables also includes due from brokers, agents and intermediaries and other financial assets which are within the scope of IFRS 9. Under IFRS 9, these assets continue to be recognised at amortised cost less impairment, with the measurement of impairment reflecting expected as well as incurred credit losses. The Group expects a recognition of an earlier and higher loss allowance under this approach compared to current approach resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. IFRS 9 has been endorsed by the EU.
- IFRS 17 *Insurance Contracts*
  IFRS 17 will replace IFRS 4 and includes a number of significant changes to the measurement, presentation and disclosure of insurance contracts. It prescribes a general measurement model based on the discounted current estimates of future cash flows, including an explicit risk adjustment and a contractual service margin which represents the unearned profit of the contracts. Application of a simplified premium allocation approach, which is similar to the current unearned premium approach, is permitted if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. IFRS 17 requires any expected losses arising from loss-making contracts to be accounted for in the income statement when the entity determines that losses are expected. The Group is evaluating the impact of adopting IFRS 17 on the financial statements which includes:
  - performing a PAA eligibility assessment on a group of (re)insurance contracts with a coverage period of more than one year;
  - making initial accounting policy decisions under IFRS 17 to continue amortising acquisition expenses under PAA approach, and to present insurance finance income and expenses in the income statement.

  The Group's implementation programme is progressing in line with expectations. IFRS 17 is currently expected to be effective on 1 January 2022 and has not been endorsed by the EU.

2 Basis of preparation

2.2 Prior-period adjustments

In 2019, the Group has made an additional tax provision relating to reappraisal of uncertain tax positions, the most significant one relates to a classification of marketing activity affecting a historical tax position. This has been presented as a prior-period adjustment and has led to a decrease in profit after tax of $10.1 million in 2018 and a decrease in opening retained earnings for 2018 of $51.2 million, with a decrease in closing equity at 31 December 2018 of $58.1 million. The impact on the consolidated income statement, balance sheet, equity and cash flow statements are shown in the tables below.

Consolidated income statement 2018	As reported previously $m	Effect of prior-period adjustments $m	Restated $m
Total expenses	2,486.9	1.8	2,488.7
Effect analysed as:			
Operational expenses	605.7	1.8	607.5
Profit before tax	137.4	(1.8)	135.6
Tax expense	(9.4)	(8.3)	(17.7)
Profit after tax	128.0	(10.1)	117.9

Consolidated statement of comprehensive income 2018	As reported previously $m	Effect of prior-period adjustments $m	Restated $m
Profit for the year	128.0	(10.1)	117.9
Exchange losses on translating foreign operations	(17.9)	3.2	(14.7)
Total comprehensive income	126.2	(6.9)	119.3

Consolidated statement of changes in equity 2018	As reported previously $m	Effect of prior-period adjustments $m	Restated $m
Balance at 1 January	2,368.4	(51.2)	2,317.2
Effect analysed as:			
Retained earnings	2,414.2	(51.2)	2,363.0

	2018				2017		
Balance sheet	As reported previously $m	Effect of prior-period adjustments – opening balance $m	Effect of prior-period adjustments at 31 December 2018 $m	Restated $m	As reported previously $m	Effect of prior-period adjustments at 31 December 2017 $m	Restated $m
Total assets	10,846.3	–	(10.0)	10,836.3	9,729.8	–	9,729.8
Effect analysed as adjustments to:							
Current tax asset	13.6	–	(10.0)	3.6	5.7	–	5.7
Total liabilities	8,529.2	51.2	(3.1)	8,577.3	7,361.4	51.2	7,412.6
Effect analysed as adjustments to:							
Deferred tax	–	9.6	(0.5)	9.1	–	9.6	9.6
Current tax	10.3	37.8	(4.2)	43.9	9.5	37.8	47.3
Trade and other payables	1,081.1	3.8	1.6	1,086.5	889.0	3.8	892.8
Total equity	2,317.1	(51.2)	(6.9)	2,259.0	2,368.4	(51.2)	2,317.2
Effect analysed as adjustments to:							
Retained earnings	2,368.9	(51.2)	(10.1)	2,307.6	2,414.2	(51.2)	2,363.0
Currency translation reserve	(328.5)	–	3.2	(325.3)	(310.6)	–	(310.6)

Other 2018	As reported previously	Effect of prior-period adjustments	Restated
Earnings per share (¢)	45.1	(3.5)	41.6
Diluted earnings per share (¢)	44.3	(3.5)	40.8
NAV per share (¢)	819.1	(20.5)	798.6
Tangible net asset value per share (¢)	746.8	(20.6)	726.2
Return on equity (ROE) (%)	5.6	(0.3)	5.3

The impact on the consolidated cash flow statement is limited to a decrease in profit before tax and a corresponding increase in changes in other assets and liabilities within net cash flows from operating activities of $1.8 million for the year ended 31 December 2018.

2 Basis of preparation continued

2.3 Basis of consolidation

(a) Subsidiaries

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

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

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

(b) Associates

Associates are those entities in which the Group has significant influence but not control over the financial and operating policies. Significant influence is generally identified with a shareholding of between 20% and 50% of an entity's voting rights. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity-accounted basis from the date that significant influence commences until the date that significant influence ceases. The Group's share of its associates' post-acquisition profits or losses after tax is recognised in the income statement for each period, and its share of the movement in the associates' net assets is reflected in the investments' carrying values in the balance sheet. When the Group's share of losses equals or exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(c) Transactions eliminated on consolidation

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

2.4 Foreign currency translation

(a) Functional currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as IAS 39 effective net investment hedges or when the underlying balance is deemed to form part of the Group's net investment in a subsidiary operation and is unlikely to be settled in the foreseeable future. Non-monetary items carried at historical cost are translated in the balance sheet at the exchange rate prevailing on the original transaction date. Non-monetary items measured at fair value are translated using the exchange rate ruling when the fair value was determined.

Following the approval of the Part VII transfers, insurance contracts covering EU risks and written by Hiscox Insurance Company Limited (HIC) were transferred to Hiscox SA (HSA). These contracts were measured in Euro, the functional currency of HSA.

(c) Group companies

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

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

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

2 Basis of preparation continued

2.5 Property, plant and equipment

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

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

The rates applied are as follows:

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

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

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

2.6 Intangible assets

(a) Goodwill

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

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

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

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

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

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

(b) Other intangible assets

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

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

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

Subsequent expenditure on other intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

2.7 Fair value

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

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

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

2 Basis of preparation

2.7 Fair value continued

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

2.8 Financial assets and liabilities including loans and receivables

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

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Receivables arising from insurance contracts are included in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Loans and receivables are carried at amortised cost less any provision for impairment in value.

(c) Long-term debt

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

2.9 Cash and cash equivalents

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

2.10 Impairment of assets

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

(a) Non-financial assets

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

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

(b) Financial assets

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

- negative rating agency announcements in respect of investment issuers, reinsurers and debtors;
- significant reported financial difficulties of investment issuers, reinsurers and debtors;
- actual breaches of credit terms such as persistent late payments or actual default;
- the disintegration of the active market(s) in which a particular asset is traded or deployed;
- adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability; and
- the withdrawal of any guarantee from statutory funds or sovereign agencies implicitly supporting the asset.

(c) Impairment loss

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

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently valued at fair value at each balance sheet date. Fair values are obtained from quoted market values and, if these are not available, valuation techniques including option pricing models as appropriate. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

2 Basis of preparation

2.11 Derivative financial instruments continued

For derivatives not formally designated as a hedging instrument, fair value changes are recognised immediately in the income statement. Changes in the value of derivatives and other financial instruments formally designated as hedges of net investments in foreign operations are recognised in the currency translation reserve to the extent they are effective; gains or losses relating to the ineffective portion of the hedging instruments are recognised immediately in the consolidated income statement.

The Group had no derivative instruments designated for hedge accounting during the current and prior financial year (see note 2.17).

2.12 Own shares

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

2.13 Revenue

Revenue comprises insurance and reinsurance premiums earned on the rendering of insurance protection, net of reinsurance, together with profit commission, investment returns, agency fees and other income. The Group's share of the results of associates is reported separately. The accounting policies for insurance premiums are set out in note 2.14.

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

2.14 Insurance contracts

(a) Classification

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

(b) Recognition and measurement

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

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

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

(c) Deferred acquisition costs (DAC)

Commissions and other direct and indirect costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as deferred acquisition costs. All other costs are recognised as expenses when incurred. DAC are amortised over the terms of the insurance contracts as the related premium is earned.

(d) Liability adequacy tests

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

(e) Outwards reinsurance contracts held

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

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

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

2 Basis of preparation

2.14 Insurance contracts continued

(f) Retroactive reinsurance transactions

Reinsurance transactions that transfer risk but are retroactive are included in reinsurance assets. The excess of estimated liabilities for claims and claim expenses over the consideration paid is established as a deferred credit at inception. The deferred amounts are subsequently amortised using the recovery method over the settlement period of the reserves and reflected through the claims and claim adjustment expenses line. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim adjustment expenses a loss is recognised immediately.

(g) Reinsurance commission income

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

(h) Receivables and payables related to insurance contracts

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

(i) Salvage and subrogation reimbursements

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

2.15 Taxation

Current tax, including corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on advice sought from specialist tax advisors.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits

(a) Pension obligations

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

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

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

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

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

2 Basis of preparation

2.16 Employee benefits continued

(b) Other long-term employee benefits

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

(c) Share-based compensation

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

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

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

(d) Termination benefits

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

(e) Profit sharing and bonus plans

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

(f) Accumulating compensation benefits

The Group recognises a liability and an expense for accumulating compensation benefits (for example, holiday entitlement), based on the additional amount that the Group expects to pay as a result of the unused entitlement accumulated at the balance sheet date.

2.17 Net investment hedge accounting

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at each period end to ensure that the hedge remains highly effective. The Group hedged elements of its net investment in certain foreign entities through foreign currency borrowings that qualified for hedge accounting from 3 January 2007 until their replacement on 6 May 2008; accordingly gains or losses on retranslation are recognised in equity to the extent that the hedge relationship was effective during this period. Accumulated gains or losses will be recycled to the income statement only when the foreign operation is disposed of. The ineffective portion of any hedge is recognised immediately in the income statement.

2.18 Finance costs

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

2.19 Provisions

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

2.20 Leases

(a) Hiscox as lessee

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

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

2 Basis of preparation

2.20 Leases

(a) Hiscox as lessee continued

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

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(b) Hiscox as lessor

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

2.21 Dividend distribution

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

2.22 Use of significant judgements, estimates and assumptions

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

The Audit Committee reviews the reasonableness of critical judgements, estimates and assumptions applied and the appropriateness of significant accounting policies. The significant issues considered by the Committee in the year are included within the Audit Committee report on pages 60 to 61.

Critical accounting judgements

The following accounting policies are those considered to have a significant impact on the amounts recognised in the consolidated financial statements, with those judgements involving estimation summarised thereafter.

- 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 contract: assessment of the significance of insurance risk transferred to the Group in determining whether a contract should be accounted for as an insurance contract or as a financial instrument;
- Financial investments: classification and measurement of investments including the application of the fair value option.

Significant accounting estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events. Actual results may differ from those estimates, possibly significantly.

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The following describes items considered particularly susceptible to changes in estimates and assumptions. The most critical estimate included within the Group's balance sheet is the estimate for losses incurred but not reported, which is included within insurance liability and reinsurance assets in the balance sheet. The total gross estimate as at 31 December 2019 is $4,017.0 million (2018: $3,035.0 million) and is included within total insurance liabilities on the balance sheet. The total estimate for reinsurers' share of losses incurred but not reported as at 31 December 2019 is $2,106.4 million (2018: $1,356.5 million).

Estimates of losses incurred but not reported 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. Although the possibility exists for material changes in estimates to have a critical impact on the Group's reported performance and financial position, it is anticipated that the scale and diversity of the Group's portfolio of insurance business considerably lessens the likelihood of this occurring. The overall reserving risk is discussed in more detail in note 3.1 and the procedures used in estimating the cost of settling insured losses at the balance sheet date including losses incurred but not reported are detailed in note 23.

Another key estimate contained within the Group's close process is an estimate of gross premium written during the year that have not yet been notified by the financial year-end. Premiums in respect of insurance contracts underwritten under binding authorities include those that have not been notified and are estimated based on information provided by the brokers and coverholders, past underwriting experience, the contractual terms of the policy and prevailing market conditions. The estimates are updated on a regular basis.

The Group carries its financial investments at fair value through profit or loss, with fair values determined using published price quotations in the most active financial markets in which the assets trade, where available. Where quoted market prices are not available, valuation techniques are used to value financial instruments. These include third-party valuation reports and models utilising both observable and unobservable market inputs. The valuation techniques involve judgement with regard to the valuation models used and the inputs to these models can lead to a range of plausible valuation for financial investments. Note 3.2(a) discusses the reliability of the Group's fair values.

The employee retirement benefit scheme obligations are calculated and valued with reference to a number of actuarial assumptions including mortality, inflation rates and discount rate, many of which have been subject to specific recent volatility. This complex set of economic

2 Basis of preparation
2.22 Use of significant judgements, estimates and assumptions
Significant accounting estimates continued

variables can have a significant impact on the financial statements, as shown in note 27.

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

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

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

2.23 Reporting of additional performance measures
The Directors consider that the combined ratio measures reported in respect of operating segments and the Group overall in note 4 and net asset value per share and return on equity measures disclosed in notes 5 and 6, provide useful information regarding the underlying performance of the Group's businesses. These measures are widely recognised by the insurance industry and are consistent with the internal performance measures reviewed by senior management including the chief operating decision-maker. However, these measures are not defined within the IFRS framework and body of standards and interpretations and therefore may not be directly comparable with similarly titled additional performance measures reported with similarly titled additional performance measures reported by other companies.

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

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

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

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

i) Underwriting risk

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

The Board requires all underwriters to operate within an overall Group appetite for individual events. This defines the maximum exposure that the Group is prepared to retain on its own account for any one potential catastrophe event or disaster.

The Group's underwriting risk appetite seeks to ensure that it should not lose more than 12.5% of core capital, defined as NAV plus subordinated debt less expected dividend less buffer capital, plus 100% of buffer capital ($135 million) with an allowance for expected investment income, as a result of a one-in-200 aggregate bad underwriting year.

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

3 Management of risk

3.1 Insurance risk

i) Underwriting risk continued

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

- regularly updating the Group's risk models;
- documenting, monitoring and reporting on the Group's strategy to manage risk;
- developing systems that facilitate the identification of emerging issues promptly;
- utilising sophisticated computer modelling tools to simulate catastrophes and measure the resultant potential losses before and after reinsurance;
- monitoring legal developments and amending the wording of policies when necessary;
- regularly aggregating risk exposures across individual underwriting portfolios and known accumulations of risk;
- examining the aggregated exposures in advance of underwriting further large risks; and
- developing processes that continually factor market intelligence into the pricing process.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular review. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as the maximum sums insured per insurance contract, maximum gross premiums written and maximum aggregated exposures per geographical zone and risk class. Regular meetings are held between the Chief Underwriting Officer and a specialist team in order to monitor claim development patterns and discuss individual underwriting issues as they arise.

The Group compiles estimates of losses arising from extreme loss events using statistical models alongside input from its underwriters. These require significant management judgement. The extreme loss scenarios, shown on page 30, represent hypothetical major events occurring in areas with large insured values. They also represent areas of potentially significant exposure for Hiscox.

The selection of extreme loss scenario events is adjusted each year and they are not therefore necessarily directly comparable from one year to the next. The events are extreme and unprecedented, and as such these estimates may prove inadequate as a result of incorrect assumptions, model deficiencies, or losses from unmodelled risks. This means that should an extreme loss event actually occur, the Group's final ultimate losses could materially differ from those estimates modelled by management. The Group's insurance contracts include provisions to contain losses, such as the ability to impose deductibles and demand reinstatement premiums in certain cases. In addition, in order to manage the Group's exposure to repeated catastrophic events, relevant policies frequently contain payment limits to cap the maximum amount payable from these insured events over the contract period.

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

Below is a summary of the gross and net insurance liabilities for each category of business.

The estimated liquidity profile to settle the gross claims liabilities is given in note 3.2(e).

The specific insurance risks accepted by the Group fall broadly into the following main categories: reinsurance inwards, marine and major asset property, other property risks, casualty professional indemnity and casualty other insurance risks. These specific categories are defined for risk review purposes only, as each contains risks specific to the nature of the cover provided. They are not exclusively aligned to any specific reportable segment in the Group's operational structure or the primary internal reports reviewed by the chief operating decision-maker. The following describes the policies and procedures used to identify and measure the risks associated with each individual category of business.

Estimated concentration of gross and net insurance liabilities on balance sheet 31 December 2019

Types of insurance risk in the Group

		Reinsurance inwards $m	Property – marine and major assets $m	Property – other assets $m	Casualty – professional indemnity $m	Casualty – other risks $m	Other* $m	Total $m
Total	Gross	2,809.1	228.8	1,098.3	2,420.5	1,020.1	517.7	8,094.5
	Net	556.1	183.6	710.8	2,013.4	813.7	430.0	4,707.6

Estimated concentration of gross and net insurance liabilities on balance sheet 31 December 2018

Types of insurance risk in the Group

		Reinsurance inwards $m	Property – marine and major assets $m	Property – other assets $m	Casualty – professional indemnity $m	Casualty – other risks $m	Other* $m	Total $m
Total	Gross	1,999.6	263.7	1,034.0	2,100.0	806.1	498.1	6,701.5
	Net	483.9	209.3	684.3	1,785.3	660.8	421.3	4,244.9

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

3 Management of risk
3.1 Insurance risk
i) Underwriting risk continued

Reinsurance inwards

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

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

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

Property risks – marine and major assets

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

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

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

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

Other property risks

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

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

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

Casualty insurance risks

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

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

The Group's casualty insurance contracts mainly experience low severity attritional losses. By nature, some casualty losses may take longer to settle than the other categories of business.

In addition there is increased potential for accumulation in casualty risk due to the growing complexity of business, technological advances, and greater interconnectivity and interdependency across the world due to globalisation.

3 Management of risk
3.1 Insurance risk
i) Underwriting risk

Casualty insurance risks continued

The Group's pricing strategy for casualty insurance policies is typically based upon historical claim frequencies and average claim severities, adjusted for inflation and extrapolated forwards to incorporate projected changes in claims patterns. In determining the price of each policy an allowance is also made for acquisition and administration expenses, reinsurance costs, investment returns and the Group's cost of capital.

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

ii) Reserving risk

The Group's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 23.

The Group's provision estimates are subject to rigorous review by senior management from all areas of the business. The managed Syndicates and US business receive a review of their estimates from independent actuaries. The final provision is approved by the relevant boards on the recommendation of dedicated reserving committees.

Similar to the underwriting risk detailed above, the Group's reserve risks are well diversified. The short-tailed claims are normally notified and settled within 12 to 24 months of the insured event occurring. Those claims taking the longest time to develop and settle typically relate to casualty risks where legal complexities occasionally develop regarding the insured's alleged omissions or negligence. The length of time required to obtain definitive legal judgements and make eventual settlements exposes the Group to a degree of reserving risk in an inflationary environment.

The final quantum for casualty claims may not be established for many years after the event. Consequently a significant proportion of the casualty insurance amounts reserved on the balance sheet may not be expected to settle within 24 months of the balance sheet date. This has been considered in the reserving process.

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

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

3.2 Financial risk
Overview

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

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

(a) Reliability of fair values

The Group has elected to carry loans and receivables at amortised cost and all financial investments at fair value through profit or loss as they are managed and evaluated on a fair value basis in accordance with a documented strategy. With the exception of unquoted equity investments and the insurance-linked funds shown in note 20, all of the financial investments held by the Group are available to trade in markets and the Group therefore seeks to determine fair value by reference to published prices or as derived by pricing vendors using observable quotations in the most active financial markets in which the assets trade. The fair value of financial assets is measured primarily with reference to their closing market prices at the balance sheet date. The ability to obtain quoted market prices may be reduced in periods of diminished liquidity. In addition, those quoted prices that may be available may represent an unrealistic proportion of market holdings or individual trade sizes that could not be readily available to the Group. In such instances fair values may be determined or partially supplemented using other observable market inputs such as prices provided by market makers such as dealers and brokers, and prices achieved in the most recent regular transaction of identical or closely related instruments occurring before the balance sheet date but updated for relevant perceived changes in market conditions.

At 31 December 2019, the Group holds asset-backed and mortgage-backed fixed income instruments in its investment portfolio, but has minimal direct exposure to sub-prime asset classes. Together with the Group's investment managers, management continues to monitor the potential for any adverse development associated with this investment exposure through the analysis of relevant factors such as credit ratings, collateral, subordination levels and default rates in relation to the securities held. The Group did not experience any material defaults on debt securities during the year.

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

3 Management of risk
3.2 Financial risk
(a) Reliability of fair values continued
Note 20 provides an analysis of the measurement attributes of the Group's financial instruments.

(b) Equity price risk
The Group is exposed to equity price risk through its holdings of equity and investment funds. This is limited to a relatively small and controlled proportion of the overall investment portfolio and the equity and investment funds involved are diversified over a number of companies and industries. The fair value of equity assets in the Group's balance sheet at 31 December 2019 was $486 million (2018: $398 million).

These may be analysed as follows:

Nature of equity and investment funds	2019 % weighting	2018 % weighting
Directly held equity securities	4	4
Units held in funds – traditional long only	52	58
Units held in funds – long and short and special strategies	44	38
Geographic focus		
Specific UK mandates	29	36
Global mandates	71	64

The allocation of equity risk is not heavily confined to any one market index so as to reduce the Group's exposure to individual sensitivities. We make an allocation to less volatile, absolute return strategies within our risk assets, so as to balance our desire to maximise returns with the need to ensure capital is available to support our underwriting throughout any downturn in financial markets. A 10% downward correction in equity prices at 31 December 2019 would have been expected to reduce Group equity and profit after tax for the year by approximately $44.4 million (2018: $36.4 million) assuming that the only area impacted was equity financial assets. A 10% upward movement is estimated to have an equal but opposite effect.

(c) Interest rate risk
Fixed income investments represent a significant proportion of the Group's assets and the Board continually monitors investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Group is able to underwrite or its ability to settle claims as they fall due. The fair value of the Group's investment portfolio of debt and fixed income securities is normally inversely correlated to movements in market interest rates. If market interest rates rise, the fair value of the Group's debt and fixed income investments would tend to fall and vice versa if credit spreads remained constant. Debt and fixed income assets are predominantly invested in high-quality corporate, government and asset-backed bonds. The investments typically have relatively short durations and terms to maturity. The portfolio is managed to minimise the impact of interest rate risk on anticipated Group cash flows.

The Group may also, from time to time, enter into interest rate future contracts in order to reduce interest rate risk on specific portfolios. The fair value of debt and fixed income assets in the Group's balance sheet at 31 December 2019 was $4,990 million (2018: $4,575 million).

These may be analysed below as follows:

Nature of debt and fixed income holdings	2019 % weighting	2018 % weighting
Government issued bonds and instruments	28	33
Agency and government supported debt	6	10
Asset-backed securities	1	2
Mortgage-backed instruments – agency	5	3
Mortgage-backed instruments – non-agency	1	1
Mortgage-backed instruments – commercial	–	–
Corporate bonds	57	49
Lloyd's deposits and bond funds	2	2

One method of assessing interest rate sensitivity is through the examination of duration-convexity factors in the underlying portfolio. Using a duration-convexity-based sensitivity analysis, if market interest rates had increased or decreased by 100 basis points at the balance sheet date, the Group equity and profit after tax for the year might have been expected to increase or decrease by approximately $76 million (2018: $69 million) assuming that the only balance sheet area impacted was debt and fixed income financial assets. Duration is the weighted average length of time required for an instrument's cash flow stream to be recovered, where the weightings involved are based on the discounted present values of each cash flow. A closely related concept, modified duration, measures the sensitivity of the instrument's price to a change in its yield to maturity. Convexity measures the sensitivity of modified duration to changes in the yield to maturity. Using these three concepts, scenario modelling derives the above estimated impact on instruments' fair values for a 100 basis point change in the term structure of market interest rates.

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

At 31 December 2019, no cash was drawn on the Group's borrowing facility (2018: $nil). At 31 December 2019, the Group had long-term debt of £550 million (2018: £550 million). The £550 million consists of two listed instruments of £275 million each, as explained in note 17: the first being fixed-to-floating rate notes where the floating rate becomes effective from November 2025; the second being fixed rate notes maturing in December 2022. The Group has no other significant borrowings or other assets or liabilities carrying interest rate risk, other than the facilities and Letters of Credit outlined in note 30.

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

3 Management of risk
3.2 Financial risk
(d) Credit risk continued

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

The Group's maximum exposure to credit risk is represented by the carrying values of financial assets and reinsurance assets included in the consolidated balance sheet at any given point in time. The Group does not use credit derivatives or other products to mitigate maximum credit risk exposures on reinsurance assets, but collateral may be requested to be held against these assets. The Group structures the levels of credit risk accepted by placing limits on its exposure to a single counterparty, or groups of counterparties, and having regard to geographical locations. Such risks are subject to an annual or more frequent review. There is no significant concentration of credit risk with respect to loans and receivables, as the Group has a large number of internationally dispersed debtors with unrelated operations. Reinsurance is used to contain insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The Group Credit Committee assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance as well as detailed analysis from the Group's internal credit analysis team. The financial analysis of reinsurers produces an assessment categorised by factors including S&P rating (or equivalent when not available from S&P).

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

The Committee considers the reputation of its reinsurance partners and also receives details of recent payment history and the status of any ongoing negotiations between Group companies and these third parties.

This information is used to update the reinsurance purchasing strategy.

Individual operating units maintain records of the payment history for significant brokers and contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset, where counterparties are both debtors and creditors of the Group, and obtaining collateral from unrated counterparties. Management information reports detail provisions for impairment on loans and receivables and subsequent write-off. Exposures to individual intermediaries and groups of intermediaries are collected within the ongoing monitoring of the controls associated with regulatory solvency.

The Group also mitigates counterparty credit risk by concentrating debt and fixed income investments in high-quality instruments, including a particular emphasis on government bonds issued mainly by North American countries and the European Union. The Group has no direct exposure to sovereign debt in Spain, Italy, Ireland, Greece or Portugal.

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

As at 31 December 2019	Note	AAA $m	AA $m	A $m	BBB $m	Other/ non-rated $m	Total $m
Debt and fixed income securities	17	629.7	2,083.7	1,259.1	972.8	44.6	4,989.9
Deposits with credit institutions	17	–	–	–	–	–	–
Reinsurance assets	16	1,236.8	606.5	1,525.5	2.3	15.8	3,386.9
Cash and cash equivalents	21	101.7	230.2	754.1	24.3	5.6	1,115.9
Total		**1,968.2**	**2,920.4**	**3,538.7**	**999.4**	**66.0**	**9,492.7**

As at 31 December 2018	Note	AAA $m	AA $m	A $m	BBB $m	Other/ non-rated $m	Total $m
Debt and fixed income securities	17	762.1	1,951.8	1,044.1	767.6	49.0	4,574.6
Deposits with credit institutions	17	–	–	–	0.4	–	0.4
Reinsurance assets	16	846.4	351.4	1,236.7	0.4	21.7	2,456.6
Cash and cash equivalents	21	174.7	115.2	820.7	178.2	–	1,288.8
Total		1,783.2	2,418.4	3,101.5	946.6	70.7	8,320.4

3 Management of risk
3.2 Financial risk
(d) Credit risk continued

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

The largest aggregated counterparty exposure related to debt and fixed income securities holdings at 31 December 2019 of $1,279 million is to the US Treasury (2018: $1,214 million).

The Group is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The largest counterparty exposure included in reinsurance assets at 31 December 2019 is to Kiskadee. The fully collateralised recoverable from Kiskadee represents 17% (2018: 17%) of this category of assets.

For the current period and prior period, the Group did not experience any material defaults on debt securities. The Group's AAA rated reinsurance assets include fully collateralised positions at 31 December 2019 and 2018.

(e) Liquidity risk

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

A significant proportion of the Group's investments is in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The deposits with credit institutions largely comprise short-dated certificates for which an active market exists and which the Group can easily access. The Group's exposure to equities is concentrated on shares and funds that are traded on internationally recognised stock exchanges.

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

Fair values at balance sheet date analysed by contractual maturity	Less than one year $m	Between one and two years $m	Between two and five years $m	Over five years $m	**2019 total $m**	2018 total $m
Debt and fixed income securities	1,447.3	1,389.6	1,735.0	418.0	**4,989.9**	4,574.6
Deposits with credit institutions	–	–	–	–	**–**	0.4
Cash and cash equivalents	1,115.9	–	–	–	**1,115.9**	1,288.8
Total	2,563.2	1,389.6	1,735.0	418.0	**6,105.8**	5,863.8

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

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

Average contractual maturity analysed by denominational currency of investments as at 31 December	**2019 years**	2018 years
US Dollar	**3.30**	2.72
Sterling	**3.26**	2.95
Euro	**2.26**	2.03
Canadian Dollar	**1.82**	1.71

3 Management of risk

3.2 Financial risk

(e) Liquidity risk continued

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

Liquidity requirements to settle estimated profile of gross claim liabilities on balance sheet	Within one year $m	Between one and two years $m	Between two and five years $m	Over five years $m	2019 Total $m
Reinsurance inwards	969.2	805.2	594.8	179.3	**2,548.5**
Property – marine and major assets	76.9	47.0	42.8	13.1	**179.8**
Property – other assets	344.0	202.1	127.8	44.7	**718.6**
Casualty – professional indemnity	505.8	468.3	434.7	301.6	**1,710.4**
Casualty – other risks	339.8	201.7	213.3	62.4	**817.2**
Other*	166.9	58.3	56.8	19.5	**301.5**
Total	**2,402.6**	**1,782.6**	**1,470.2**	**620.6**	**6,276.0**

Liquidity requirements to settle estimated profile of gross claim liabilities on balance sheet	Within one year $m	Between one and two years $m	Between two and five years $m	Over five years $m	2018 Total $m
Reinsurance inwards	821.1	512.6	356.0	74.0	1,763.7
Property – marine and major assets	109.6	56.1	42.6	9.5	217.8
Property – other assets	340.4	173.9	70.1	10.3	594.7
Casualty – professional indemnity	463.0	455.3	417.1	148.9	1,484.3
Casualty – other risks	191.5	126.4	225.1	102.9	645.9
Other*	209.7	49.9	24.8	1.4	285.8
Total	2,135.3	1,374.2	1,135.7	347.0	4,992.2

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

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

(f) Currency risk

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

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

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

Operational currency risk

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

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

Structural currency risk

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

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

3 Management of risk
3.2 Financial risk
(f) Currency risk
Structural currency risk continued

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

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

As at 31 December 2019	US Dollar $m	Sterling $m	Euro $m	Other $m	Total $m
Goodwill and intangible assets	87.1	188.1	–	2.8	278.0
Property, plant and equipment	38.8	66.4	21.4	1.8	128.4
Investments in associates	–	8.6	–	–	8.6
Deferred income tax	51.9	20.4	4.6	–	76.9
Deferred acquisition costs	262.2	126.6	52.4	14.9	456.1
Financial assets carried at fair value	3,791.3	1,157.7	400.7	189.3	5,539.0
Reinsurance assets	2,384.6	349.7	143.7	508.9	3,386.9
Loans and receivables including insurance receivables	856.8	503.8	97.8	97.9	1,556.3
Current tax asset	0.6	–	4.1	–	4.7
Cash and cash equivalents	524.0	310.9	178.0	103.0	1,115.9
Total assets	7,997.3	2,732.2	902.7	918.6	12,550.8

	US Dollar $m	Sterling $m	Euro $m	Other $m	Total $m
Employee retirement benefit obligations	–	55.1	–	–	55.1
Deferred tax	–	–	0.4	–	0.4
Insurance liabilities	5,333.2	1,316.7	689.1	755.5	8,094.5
Financial liabilities	131.1	597.7	–	–	728.8
Current tax	1.9	43.5	16.6	–	62.0
Trade and other payables	943.5	287.3	146.2	43.3	1,420.3
Total liabilities	6,409.7	2,300.3	852.3	798.8	10,361.1
Total equity	1,587.6	431.9	50.4	119.8	2,189.7

As at 31 December 2018 (restated)*	US Dollar $m	Sterling $m	Euro $m	Other $m	Total $m
Goodwill and intangible assets	37.1	164.9	–	2.6	204.6
Property, plant and equipment	5.6	50.1	4.7	1.0	61.4
Investments in associates	–	9.4	0.5	–	9.9
Deferred tax	47.6	13.1	–	–	60.7
Deferred acquisition costs	258.5	119.0	68.4	10.0	455.9
Financial assets carried at fair value**	3,450.4	991.7	436.3	151.3	5,029.7
Reinsurance assets	1,982.4	247.3	142.9	84.0	2,456.6
Loans and receivables including insurance receivables	689.6	464.4	71.3	39.8	1,265.1
Current tax asset	1.0	0.1	2.5	–	3.6
Cash and cash equivalents	614.8	377.7	225.0	71.3	1,288.8
Total assets	7,087.0	2,437.7	951.6	360.0	10,836.3

	US Dollar $m	Sterling $m	Euro $m	Other $m	Total $m
Employee retirement benefit obligations	–	35.8	–	–	35.8
Deferred tax	–	9.1	–	–	9.1
Insurance liabilities	4,780.5	1,153.2	647.8	120.0	6,701.5
Financial liabilities	2.1	697.7	–	0.7	700.5
Current tax	8.4	33.7	1.8	–	43.9
Trade and other payables	687.6	270.2	83.5	45.2	1,086.5
Total liabilities	5,478.6	2,199.7	733.1	165.9	8,577.3
Total equity	1,608.4	238.0	218.5	194.1	2,259.0

*See note 2.2 for further details.
**Following a review of the underlying currency of the debt and fixed income securities, an amount of $67.9 million has been reclassified from US Dollars and Sterling to Euro and other currencies.

3 Management of risk
3.2 Financial risk
(f) Currency risk continued
Sensitivity analysis

As at 31 December 2019, the Group used closing rates of exchange of $1:£0.76 and $1:€0.89 (2018: $1:£0.79 and $1:€0.87). The Group performs sensitivity analysis based on a 10% strengthening or weakening of the US Dollar against Sterling and the Euro.

This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities together with the impact on the retranslation of those Group entities with non-US Dollar functional currency financial statements.

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

As at 31 December	December 2019 effect on equity after tax $m	December 2019 effect on profit before tax $m	December 2018 effect on equity after tax $m	December 2018 effect on profit before tax $m
Strengthening of Sterling	64.1	28.6	52.2	9.0
Weakening of Sterling	(52.4)	(23.4)	(42.7)	(7.4)
Strengthening of Euro	21.2	6.3	16.5	9.9
Weakening of Euro	(15.3)	(5.2)	(13.5)	(8.1)

(g) Limitations of sensitivity analysis
The sensitivity information given in notes 3.2(a) to (f) demonstrates the estimated impact of a change in a major input assumption while other assumptions remain unchanged. In reality, there are normally significant levels of correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The same limitations exist in respect to the retirement benefit scheme sensitivities presented in note 27 to these financial statements. Furthermore, estimates of sensitivity may become less reliable in unusual market conditions such as instances when risk-free interest rates fall towards zero.

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

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

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

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

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

At 31 December 2019 available capital was $2,276 million (2018 restated: $2,405 million), comprising net tangible asset value of $1,912 million (2018 restated: $2,055 million) and subordinated debt of $364 million (2018: $350 million).

The Group can source additional funding from revolving credit and Letter of Credit (LOC) facilities. Standby funding from these sources comprised $800 million at 31 December 2019 (2018: $800 million), of which $50 million was utilised at 31 December 2019 (2018: $50 million).

3 Management of risk
3.3 Capital risk management continued

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

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

Gearing

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

- Letter of Credit and revolving credit facility – the Group's main facility of $800 million may be drawn as cash (under a revolving credit facility), utilised as Letter of Credit or a combination thereof. This facility was increased to $800 million from $500 million in June 2018 by the Company's subsidiary Hiscox plc with the maximum cash portion increased to $800 million from $300 million. This enables the Group to utilise the Letter of Credit as Funds at Lloyd's to support underwriting on the 2018, 2019 and 2020 years of account. The facility can also be used to provide regulatory ancillary own funds within a number of the Group's insurance companies. The revolving credit facility has a maximum three-year contractual period for repayment. At 31 December 2019, $50 million was utilised by way of Letter of Credit to support the Funds at Lloyd's requirement and there were no cash drawings outstanding to support general trading activities (2018: $50 million and £nil respectively);
- £275 million of fixed-to-floating rate subordinated notes that are classified as Tier 2 debt. This was raised in November 2015 and matures in 2045. The debt is rated BBB- by S&P and Fitch;
- £275 million of fixed rate senior notes raised in March 2018 and maturing in 2022. The debt is rated BBB+ by S&P and Fitch;
- external Names – 27.4% of Syndicate 33's capacity is capitalised by third parties paying a profit share of approximately 20%;
- Syndicate 6104 at Lloyd's – with a capacity of £45 million for the 2020 year of account (2019 year of account: £55 million). This Syndicate is wholly backed by external members and takes pure years of account quota share of Syndicate 33's property catastrophe, terrorism and cyber reinsurance accounts;
- gearing quota shares – historically the Group has used reinsurance capital to fund its capital requirement for short-term expansions in the volume of business underwritten by the Syndicate; and
- qualifying quota shares – these are reinsurance arrangements that allow the Group to increase the amount of premium it writes.

Financial strength

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

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

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

Capital performance

The Group's main capital performance measure is the achieved return on equity (ROE). This marker best aligns the aspirations of employees and shareholders. As variable remuneration, the vesting of options and longer-term investment plans all relate directly to ROE, this concept is embedded in the workings and culture of the Group. The Group seeks to maintain its cost of capital levels and its debt to overall equity ratios in line with others in the non-life insurance industry.

Capital modelling and regulation

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

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

The Group's regulatory capital is supervised by the Bermuda Monetary Authority (BMA). The Group had sufficient capital at all times throughout the year to meet the BMA's requirements. The BMA is planning to phase in capital requirements changes between the 2019 and 2021 year-ends. The Group expect to maintain an appropriate margin of solvency after these changes have taken effect.

3 Management of risk
3.3 Capital risk management
Capital modelling and regulation continued

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

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

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

3.4 Tax risk
The Group is subject to income taxes levied by the various jurisdictions in which the Group operates, and the division of taxing rights between these jurisdictions results in the Group tax expense and effective rate of income tax disclosed in these financial statements. Due to the Group's operating model, there is an unquantifiable risk that this division of taxing rights could be altered materially, either by a change to the tax residence, or permanent establishment profile, of Hiscox Ltd or its principal subsidiaries; or due to the re-pricing or re-characterisation for tax purposes of transactions between members of the Group, under local transfer pricing or related tax legislation. The Group seeks to manage this risk by:
- maintaining appropriate internal policies and controls over its operations worldwide;
- monitoring compliance with these policies on an ongoing basis;
- adhering to internationally recognised best practice in determining the appropriate division of profits between taxing jurisdictions.
- taking additional advice and obtaining legal opinions from local third-party professionals with the necessary experience in the particular area.

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

The Group recognises uncertain tax provisions where there is uncertainty that a tax treatment will be accepted under local law, including matters which are under discussion with the tax authorities. Based on facts and circumstances at the balance sheet date, the range of the total exposure is estimated between $25 million and $88 million. The estimate is subject to review on an ongoing basis and is susceptible to the progress of the settlement discussions with the tax authorities. Matters under discussion which could affect the estimate include the Hiscox Group's policy on the allocation of expenses between companies within the Group, the allocation of income and expenses between branches of the same company, and the period subject to re-assessment.

4 Operating segments
In the first half of 2019, the Group reviewed the segmental presentation of financial information it requires to assess performance and allocate resources. To further align to how the Group manages its investments through a centralised investment function, and the basis for internal performance incentivisation, the Group has changed the method of allocation of the investment result to the reportable operating segments. Previously this was presented based on investment returns recognised by legal entities that made up the segments, and this is now allocated to each segment based on: attributed capital at the beginning of the year under the Group's capital allocation methodology; and weighted average insurance liabilities net of reinsurance. There is no impact on the consolidated investment result and following this change, the comparative figures in the segmental reporting have been re-presented.

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, as well as Hiscox Special Risks. Hiscox UK and Hiscox Europe underwrite personal and commercial lines of business through Hiscox Insurance Company Limited and Hiscox Société Anonyme (Hiscox SA), together with the fine art and non-US household insurance business written through Syndicate 33. In addition, Hiscox UK includes elements of specialty and international employees and officers' insurance written by Syndicate 3624. Hiscox Europe excludes the kidnap and ransom business written by Hiscox SA. Hiscox Special Risks comprises the specialty and fine art lines written through Hiscox Insurance Company (Guernsey) Limited and the European kidnap and ransom business written by Hiscox SA and Syndicate 33. Hiscox USA comprises commercial, property and specialty business written by Hiscox Insurance Company Inc. and Syndicate 3624.

4 Operating segments continued

- **Hiscox London Market** comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines, excluding the kidnap and ransom business. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage and aviation business.
- **Hiscox Re & ILS** is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda and London. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the healthcare and casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are also included. The segment also includes the performance and fee income from the ILS funds, along with the gains and losses made as a result of the Group's investment in the funds.
- **Corporate Centre** comprises finance costs and administrative costs associated with Group management activities and intragroup borrowings. The segment includes results from run-off portfolios where the Group has ceded all insurance risks to third-party reinsurers.

All amounts reported below 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 before tax.

(a) Profit before tax by segment

	Year to 31 December 2019					Year to 31 December 2018 (restated)*†				
	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre† $m	Total $m	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Gross premiums written	2,196.3	967.9	866.5	–	4,030.7	2,087.1	877.7	812.0	1.5	3,778.3
Net premiums written	1,957.5	504.6	216.7	–	2,678.8	1,874.5	522.9	241.5	(57.4)	2,581.5
Net premiums earned	1,895.1	527.9	212.6	–	2,635.6	1,821.8	551.8	257.4	(57.4)	2,573.6
Investment result‡	133.9	50.6	38.5	–	223.0	19.9	10.8	7.4	–	38.1
Other income	29.0	9.0	12.7	2.4	53.1	23.8	9.8	13.1	0.1	46.8
Total income	2,058.0	587.5	263.8	2.4	2,911.7	1,865.5	572.4	277.9	(57.3)	2,658.5
Claims and claim adjustment expenses, net of reinsurance	(929.7)	(356.1)	(290.3)	–	(1,576.1)	(812.1)	(253.3)	(217.9)	57.5	(1,225.8)
Expenses for the acquisition of insurance contracts	(497.0)	(147.9)	(16.1)	–	(661.0)	(459.3)	(164.6)	(17.4)	(0.4)	(641.7)
Operational expenses	(460.9)	(59.2)	(63.6)	(9.8)	(593.5)	(448.5)	(75.5)	(58.4)	(25.1)	(607.5)
Net foreign exchange gains/(losses)	9.2	7.1	13.8	(21.6)	8.5	1.1	(2.6)	(11.6)	(0.6)	(13.7)
Total expenses	(1,878.4)	(556.1)	(356.2)	(31.4)	(2,822.1)	(1,718.8)	(496.0)	(305.3)	31.4	(2,488.7)
Results of operating activities	179.6	31.4	(92.4)	(29.0)	89.6	146.7	76.4	(27.4)	(25.9)	169.8
Finance costs	(1.2)	(1.0)	(1.4)	(33.0)	(36.6)	(0.2)	(0.6)	(1.3)	(32.5)	(34.6)
Share of profit/(loss) of associates after tax	–	–	–	0.1	0.1	(0.2)	–	–	0.6	0.4
Profit/(loss) before tax	178.4	30.4	(93.8)	(61.9)	53.1	146.3	75.8	(28.7)	(57.8)	135.6

*See note 2.2 for further details.
†Includes a run-off casualty portfolio following the completion of a loss portfolio transfer reinsurance treaty effective from 2018 ceding any future payments on losses arising from claims developments related to policies written from 2010 to 2016, with premiums earned of $(57.4) million and claims adjustment expenses net of reinsurance of $57.5 million.
‡Re-presented to reflect change in the method of allocation of the investment result to reportable operating segments. The impact as at 31 December 2018 amounted to an increase of $10.4 million in Hiscox Retail, and decreases of $2.5 million in Hiscox London Market, $5.5 million in Hiscox Re & ILS and $2.4 million in Corporate Centre. See page 134 for further details.

4 Operating segments continued

The following charges are included within the consolidated income statement:

	Year to 31 December 2019					Year to 31 December 2018				
	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Depreciation	16.6	2.5	1.0	0.6	20.7	6.8	1.0	0.5	0.4	8.7
Amortisation of intangible assets	16.3	4.8	1.2	0.1	22.4	17.9	5.1	1.4	0.1	24.5
Impairment of tangible assets	0.5	0.6	0.3	0.1	1.5	–	–	–	–	–
Total	33.4	7.9	2.5	0.8	44.6	24.7	6.1	1.9	0.5	33.2

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

	Year to 31 December 2019					Year to 31 December 2018				
100% ratio analysis	Hiscox Retail	Hiscox London Market	Hiscox Re & ILS	Corporate Centre	Total	Hiscox Retail	Hiscox London Market	Hiscox Re & ILS	Corporate Centre	Total
Claims ratio (%)	48.9	66.3	132.8	–	60.4	43.8	46.0	83.8	–	48.5
Expense ratio (%)	49.8	38.1	31.1	–	45.3	49.8	43.3	33.1	–	46.4
Combined ratio (%)	98.7	104.4	163.9	–	105.7	93.6	89.3	116.9	–	94.9

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

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

	Year to 31 December 2019			Year to 31 December 2018		
	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m
At 100% level (note 4b) 1% change in claims or expense ratio	19.3	7.2	2.5	18.6	7.2	3.0
At Group level 1% change in claims or expense ratio	19.0	5.3	2.1	18.2	5.5	2.6

4 Operating segments continued

(b) 100% operating result by segment

	Year to 31 December 2019 Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m	Year to 31 December 2018 (restated)* Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
Gross premiums written	2,237.1	1,334.3	958.8	–	4,530.2	2,134.1	1,194.3	894.0	1.5	4,223.9
Net premiums written	1,994.7	705.6	254.6	–	2,954.9	1,913.8	710.8	282.0	(57.4)	2,849.2
Net premiums earned	1,934.4	721.6	249.4	–	2,905.4	1,863.0	719.4	298.1	(57.4)	2,823.1
Investment result	128.7	58.0	45.4	–	232.1	21.7	13.7	9.2	–	44.6
Other income	25.6	5.1	11.7	2.4	44.8	20.5	9.9	9.1	0.1	39.6
Claims and claim adjustment expenses, net of reinsurance	(945.5)	(478.6)	(331.3)	–	(1,755.4)	(816.1)	(330.9)	(249.8)	57.5	(1,339.3)
Expenses for the acquisition of insurance contracts	(509.2)	(205.1)	(20.7)	–	(735.0)	(475.6)	(213.9)	(19.5)	(0.4)	(709.4)
Operational expenses	(464.9)	(78.2)	(71.6)	(9.8)	(624.5)	(451.9)	(95.3)	(66.0)	(17.7)	(630.9)
Net foreign exchange gains/(losses)	9.4	8.4	14.9	(21.6)	11.1	0.3	(2.7)	(13.2)	(0.6)	(16.2)
Results of operating activities	178.5	31.2	(102.2)	(29.0)	78.5	161.9	100.2	(32.1)	(18.5)	211.5

*See note 2.2 for further details.

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

(c) Geographical information

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

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

Gross premium revenues earned from external parties	Year to 31 December 2019 Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m	Year to 31 December 2018 (restated)* Hiscox Retail $m	Hiscox London Market $m	Hiscox Re & ILS $m	Corporate Centre $m	Total $m
UK	721.3	23.1	14.0	–	758.4	701.4	21.3	12.4	1.5	736.6
Europe	438.4	42.2	17.6	–	498.2	416.3	39.0	17.1	–	472.4
United States	858.6	746.4	517.6	–	2,122.6	814.9	683.3	533.5	–	2,031.7
Rest of world	100.7	156.4	295.6	–	552.7	78.8	150.5	229.8	–	459.1
	2,119.0	968.1	844.8	–	3,931.9	2,011.4	894.1	792.8	1.5	3,699.8

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

Non-current assets	2019 total $m	2018 total (restated)* $m
UK	263.3	215.5
Europe	21.4	4.8
United States	120.8	52.0
Rest of world	9.5	3.6
	415.0	275.9

*See note 2.2 for further details.

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

	2019		2018 (restated)*	
	Net asset value (total equity) $m	Net asset value per share cents	Net asset value (total equity) $m	Net asset value per share cents
Net asset value	2,189.7	768.2	2,259.0	798.6
Net tangible asset value	1,911.7	670.6	2,054.4	726.2

*See note 2.2 for further details.

The net asset value per share is based on 285,051,997 shares (2018: 282,886,319 shares), being the shares in issue at 31 December 2019, 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 580.1p (2018: 627.0p).

6 Return on equity

	2019 $m	2018 (restated)* $m
Profit for the year (all attributable to owners of the Company)	48.9	117.9
Opening total equity*	2,259.0	2,317.2
Adjusted for the time-weighted impact of capital distributions and issuance of shares	(52.3)	(83.7)
Adjusted opening total equity	2,206.7	2,233.5
Return on equity (%)	2.2	5.3

*See note 2.2 for further details.

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

7 Investment result

The total investment result for the Group comprises:

	Note	2019 $m	2018 $m
Investment income including interest receivable		123.7	103.0
Net realised gains/(losses) on financial investments at fair value through profit or loss		34.4	(25.4)
Net fair value gains/(losses) on financial investments at fair value through profit or loss		73.0	(35.1)
Investment result – financial assets	8	231.1	42.5
Net fair value (losses)/gains on derivative financial instruments	19	(2.2)	1.3
Investment expenses		(5.9)	(5.7)
Total result		223.0	38.1

8 Analysis of return on financial investments

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

	2019 %	2018 %
US Dollar	4.2	1.1
Sterling	3.5	(0.5)
Euro	0.2	–
Other	2.6	1.5

(b) Investment return

	2019		2018	
	Return $m	Yield %	Return $m	Yield %
Debt and fixed income securities	161.8	3.4	57.5	1.3
Equities and investment funds	61.4	13.3	(27.5)	(6.2)
Deposits with credit institutions/cash and cash equivalents	7.9	0.7	12.5	0.8
Investment result – financial assets	231.1	3.6	42.5	0.7

9 Other income and operational expenses

	2019 $m	2018 (restated)* $m
Agency-related income	28.6	27.1
Profit commission	3.9	7.0
Other underwriting income/(loss)	0.9	(3.4)
Other income	19.7	16.1
Other income	53.1	46.8
Wages and salaries	192.3	212.3
Social security costs	33.9	32.7
Pension cost – defined contribution	16.7	14.6
Pension cost – defined benefit	1.0	2.2
Share-based payments	3.6	(3.6)
Temporary staff costs	49.6	55.6
Travel and entertainment	20.6	19.7
Legal and professional	40.7	39.9
Office costs	12.7	25.0
Computer costs	70.4	71.1
Marketing expenses	88.9	69.7
Depreciation, amortisation and impairment	44.6	33.2
Other expenses	18.5	35.1
Operational expenses	593.5	607.5

*See note 2.2 for further details.

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

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

Other underwriting income represents results from the insurance-linked securities managed by the Group and other income includes management fees which are recognised when the investment management services are rendered to the ILS funds.

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

10 Finance costs

	Note	2019 $m	2018 $m
Interest charge associated with long-term debt	17	**28.7**	28.3
Interest and expenses associated with bank borrowing facilities		**3.2**	2.5
Interest and charges associated with Letters of Credit	30	**2.0**	3.2
Other interest expenses†		**2.7**	0.6
Finance costs		**36.6**	34.6

†Including interest expenses on lease liabilities of $1.8 million (2018: $nil).

11 Auditor's remuneration

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

Group	2019 $m	2018 $m
Amounts receivable by the auditor and its associates in respect of:		
The auditing of the accounts of the Group and its subsidiaries	**3.2**	2.7
All audit-related assurance services	**0.3**	0.3
All other non-audit services	**–**	0.2
	3.5	3.2

*See note 2.1 for further details.

The full audit fee payable for the Syndicate 33 audit has been included above, although an element of this is borne by the third-party participants in the Syndicate.

12 Goodwill and intangible assets

	Goodwill $m	Syndicate capacity $m	State authorisation licences $m	Software and development costs $m	Other $m	Total $m
At 1 January 2018						
Cost	13.7	33.1	8.5	182.3	67.5	305.1
Accumulated amortisation and impairment	(5.2)	–	–	(82.2)	(31.7)	(119.1)
Net book amount	8.5	33.1	8.5	100.1	35.8	186.0
Year ended 31 December 2018						
Opening net book amount	8.5	33.1	8.5	100.1	35.8	186.0
Additions	–	–	–	51.5	–	51.5
Amortisation charges	–	–	–	(19.7)	(4.7)	(24.4)
Foreign exchange movements	(0.1)	–	–	(7.6)	(0.8)	(8.5)
Closing net book amount	8.4	33.1	8.5	124.3	30.3	204.6
At 31 December 2018						
Cost	13.6	33.1	8.5	220.7	65.5	341.4
Accumulated amortisation and impairment	(5.2)	–	–	(96.4)	(35.2)	(136.8)
Net book amount	8.4	33.1	8.5	124.3	30.3	204.6
Year ended 31 December 2019						
Opening net book amount	**8.4**	**33.1**	**8.5**	**124.3**	**30.3**	**204.6**
Additions	**–**	**–**	**–**	**90.7**	**–**	**90.7**
Amortisation charges	**–**	**–**	**–**	**(17.7)**	**(4.7)**	**(22.4)**
Foreign exchange movements	**(0.1)**	**–**	**–**	**4.8**	**0.4**	**5.1**
Closing net book amount	**8.3**	**33.1**	**8.5**	**202.1**	**26.0**	**278.0**
At 31 December 2019						
Cost	**13.4**	**33.1**	**8.5**	**269.3**	**66.5**	**390.8**
Accumulated amortisation and impairment	**(5.1)**	**–**	**–**	**(67.2)**	**(40.5)**	**(112.8)**
Net book amount	**8.3**	**33.1**	**8.5**	**202.1**	**26.0**	**278.0**

12 Goodwill and intangible assets continued

Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the smallest identifiable unit to which cash flows are generated. $7.2 million (2018: $7.4 million) is allocated to the Lloyd's corporate member entity CGU and $1.1 million (2018: $1.0 million) is allocated to the CGUs within the Hiscox Retail business segment. Goodwill is considered to have an indefinite life and as such is tested annually for impairment based on the recoverable amount which is considered to be the higher of the fair value less cost to sell or value in use.

Value in use is considered to be the best indication of the recoverable amount for goodwill. Value in use calculations are performed using cash flow projections based on financial forecasts covering a five-year period. A discount factor, based on a weighted average cost of capital (WACC) for the Group of 7.0% (2018: 7.0%), has been applied to the projections to determine the net present value. The outcome of the value in use calculation is measured against the carrying value of the asset and, where the carrying value is in excess of the value in use, the asset is written down to this amount.

There was no impairment in 2019 (2018: no impairment).

Intangible assets

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

(a) Syndicate capacity

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

The Group's intangible asset relating to Syndicate capacity has been allocated, for impairment testing purposes, to one individual CGU, being the active Lloyd's corporate member entity. The asset is tested annually for impairment based on its recoverable amount which is considered to be the higher of the asset's fair value less costs to sell or its value in use. The fair value of Syndicate capacity can be determined from the Lloyd's of London Syndicate capacity auctions. Based on the average open market price witnessed in the recent autumn 2019 auction, the carrying value of Syndicate capacity recognised on the balance sheet is significantly below the market price.

(b) US state authorisation licences

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

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

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

(c) Software and development costs

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

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

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

The carrying value of software and development costs is reviewed for impairment on an ongoing basis by reference to the stage and expectation of a project. Additionally, at the end of each reporting period, the Group reviews the positions for any indication of impairment, and as a result of this no impairment was provided for (2018: $nil).

At 31 December 2019 there were $79.8 million of assets under development on which amortisation has yet to be charged (2018: $37.5 million).

12 Goodwill and intangible assets
Intangible assets
(c) Software and development costs continued

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

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

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

At the end of each reporting period an assessment is made on whether there is any indication that customer contractual relationships may be impaired. Where indications of impairment are identified, the carrying value is tested for impairment based on the recoverable amount which is considered to be the higher of the fair value less costs to sell or value in use. The asset's value in use is considered to be the best indication of its recoverable amount. Value in use is calculated using the same method as described above for goodwill and the same discount rate used. The results of this test led to no impairment being recognised (2018: no impairment).

13 Property, plant and equipment

	Land and buildings $m	Leasehold improvements $m	Furniture fittings and equipment and art $m	Right-of-use assets: property $m	Right-of-use assets: other $m	Total $m
Year ended 31 December 2018						
Opening net book amount	27.7	4.0	33.9	–	–	65.6
Additions	–	0.5	7.3	–	–	7.8
Disposals	–	–	(0.1)	–	–	(0.1)
Depreciation charge	(1.2)	(1.2)	(6.3)	–	–	(8.7)
Transfers	0.1	–	(0.1)	–	–	–
Impairment	–	–	–	–	–	–
Foreign exchange movements	(1.5)	–	(1.7)	–	–	(3.2)
Closing net book amount	25.1	3.3	33.0	–	–	61.4
At 31 December 2018						
Cost	29.2	12.0	72.9	–	–	114.1
Accumulated depreciation	(4.1)	(8.7)	(39.9)	–	–	(52.7)
Net book amount	25.1	3.3	33.0	–	–	61.4
Year ended 31 December 2019						
Opening net book amount*	**25.1**	**3.3**	**33.0**	**77.9**	**0.9**	**140.2**
Additions	**–**	**5.7**	**4.7**	**1.4**	**0.7**	**12.5**
Disposals	**–**	**(0.3)**	**(3.9)**	**–**	**–**	**(4.2)**
Depreciation charge	**(1.2)**	**(0.8)**	**(4.7)**	**(13.4)**	**(0.6)**	**(20.7)**
Transfers	**–**	**–**	**–**	**–**	**–**	**–**
Impairment	**–**	**(0.7)**	**(0.8)**	**–**	**–**	**(1.5)**
Foreign exchange movements	**1.0**	**0.1**	**0.7**	**0.3**	**–**	**2.1**
Closing net book amount	**24.9**	**7.3**	**29.0**	**66.2**	**1.0**	**128.4**
At 31 December 2019						
Cost*	**30.4**	**17.4**	**75.0**	**79.7**	**1.6**	**204.1**
Accumulated depreciation	**(5.5)**	**(10.1)**	**(46.0)**	**(13.5)**	**(0.6)**	**(75.7)**
Net book amount	**24.9**	**7.3**	**29.0**	**66.2**	**1.0**	**128.4**

*See note 2.1 for further details.

The Group's land and buildings assets relate to freehold property in the UK. There was an impairment charge during the year of $1.5 million (2018: $nil).

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

The income from subleasing right-of-use assets amounted to $0.7 million (2018: $nil).

14 Subsidiaries, associates and interests in other entities

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

(a) Subsidiaries

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

As at 31 December 2019, HDCM owned 72.6% of Syndicate 33 (2018: 72.6%), and 100% of Syndicate 3624 (2018: 100%). In view of the several, but not joint liability of, underwriting members at Lloyd's for the transactions of Syndicates in which they participate, the Group's attributable share of the transactions, assets and liabilities of these Syndicates has been included in the financial statements. The Group manages the underwriting of, but does not participate as a member of, Syndicate 6104 at Lloyd's which provides reinsurance to Syndicate 33 on a normal commercial basis. Consequently, aside from the receipt of managing agency fees, defined profit commissions as appropriate and interest arising on effective assets included within the experience account, the Group has no share in the assets, liabilities or transactions of Syndicate 6104. The position and performance of that Syndicate is therefore not included in the Group's financial statements.

(b) Special purpose insurers

The Kiskadee Diversified Fund and Kiskadee Select Fund (the Funds) were launched in 2014 to provide investment opportunities to institutional investors in property catastrophe reinsurance and insurance-linked strategies. The Funds are managed by Hiscox Re Insurance Linked Strategies Ltd (formerly known as Kiskadee Investment Managers Ltd) which is a wholly owned subsidiary of the Group. The majority of the Funds' exposures to reinsurance risk are fronted by the Group into two Bermuda Licensed Special Purpose Insurers (SPI), Kiskadee Reinsurance 1 Ltd and Kiskadee Reinsurance 2 Ltd which have been collateralised by the Funds.

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

The Group determined that it does not control these entities. Hence they are not consolidated.

As at 31 December 2019, the Group recognised a financial asset at fair value of $61.2 million (2018: $55.2 million) in relation to its investment in the Funds (note 17). In assessing the maximum exposure to loss from its interest in the Funds and SPIs, the Group has determined it is no greater than the fair value recognised as at the balance sheet date. The total size of the funds were $888 million at 31 December 2019 (2018: $951 million). In addition to the return on the financial asset, the Group also receives fee income through Hiscox Re Insurance Linked Strategies Ltd and Hiscox Insurance Company (Bermuda) Ltd, both wholly owned subsidiaries, under normal commercial terms.

The Group is exposed to credit risk associated with reinsurance recoverables on risks fronted for the SPIs. Note 3.2(d) discusses how the Group manages credit risk associated with reinsurance assets. The operations of the Funds and SPIs are financed through the issuance of preference shares to external investors. The Group does not intend to provide any further financial support to the Funds or SPIs.

14 Subsidiaries, associates and interests in other entities continued

(c) Investments in associates

Year ended 31 December	2019 $m	2018 $m
At beginning of year	9.9	10.7
Disposals during the year	–	–
Impairments	(1.3)	–
Transfer to equity investments	(0.5)	–
Distributions received	(0.3)	(0.4)
Net profit from investments in associates	0.1	0.4
Foreign exchange movements	0.7	(0.8)
At end of year	8.6	9.9

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

					100% results
	% interest held at 31 December	Assets $m	Liabilities $m	Revenues $m	Profit after tax $m
2019					
Associates incorporated in the UK and USA	from 29% to 35%	18.7	13.7	12.2	(0.3)
Associates incorporated in Europe	from 26%	4.4	2.8	2.6	0.8
Total at the end of 2019		23.1	16.5	14.8	0.5

					100% results
	% interest held at 31 December	Assets $m	Liabilities $m	Revenues $m	Profit after tax $m
2018					
Associates incorporated in the UK	from 17% to 35%	16.9	11.8	16.3	1.3
Associates incorporated in Europe	from 10% to 26%	2.8	1.3	2.6	0.8
Total at the end of 2018		19.7	13.1	18.9	2.1

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

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

15 Deferred acquisition costs

			2019			2018
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance deferred at 1 January	455.9	(106.8)	349.1	446.1	(91.8)	354.3
Acquisition costs incurred in relation to insurance contracts written	943.4	(301.4)	642.0	898.2	(255.9)	642.3
Acquisition costs expensed to the income statement	(944.9)	283.9	(661.0)	(882.0)	240.3	(641.7)
Foreign exchange and other adjustments	1.7	(0.4)	1.3	(6.4)	0.6	(5.8)
Balance deferred at 31 December	456.1	(124.7)	331.4	455.9	(106.8)	349.1

The deferred amount of insurance contract acquisition costs attributable to reinsurers of $124.7 million (2018: $106.8 million) is not eligible for offset against the gross balance sheet asset and is included separately within trade and other payables (note 24).

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

	2019 $m	2018 $m
Within one year	301.7	314.7
After one year	29.7	34.4
	331.4	349.1

16 Reinsurance assets

	Note	2019 $m	2018 $m
Reinsurers' share of insurance liabilities		3,387.7	2,457.4
Provision for non-recovery and impairment		(0.8)	(0.8)
Reinsurance assets	23	**3,386.9**	2,456.6

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

Within one year	1,510.9	1,277.9
After one year	1,876.0	1,178.7
	3,386.9	2,456.6

Amounts due from reinsurers in respect of outstanding premiums and claims already paid by the Group are included in loans and receivables (note 18). The Group recognised a gain during the year of $14,000 (2018: gain of $10,000) in respect of previously impaired balances.

17 Financial assets and liabilities

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

	Note	2019 $m	2018 $m
Debt and fixed income securities		4,989.9	4,574.6
Equities and investment funds		486.4	398.0
Deposits with credit institutions		–	0.4
Total investments		5,476.3	4,973.0
Insurance-linked fund		61.2	55.2
Derivative financial instruments	19	1.5	1.5
Total financial assets carried at fair value		5,539.0	5,029.7

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

	2019 $m	2018 (restated)* $m
Within one year	1,447.3	1,258.0
After one year	3,542.6	3,316.6
	4,989.9	4,574.6

*Following a review of the contractual maturity of the securities, an amount of $40 million has been reclassified from within one year to after one year category.

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

An analysis of the credit risk and contractual maturity profiles of the Group's financial instruments is given in notes 3.2(d) and 3.2(e).

	Note	2019 $m	2018 $m
Derivative financial instruments	19	0.6	1.1
Total financial liabilities carried at fair value		0.6	1.1

	2019 $m	2018 $m
Long-term debt	725.6	697.1
Accrued interest on long-term debt	2.6	2.3
Total financial liabilities carried at amortised cost	728.2	699.4

17 Financial assets and liabilities continued

All of the financial liabilities carried at fair value are due within one year. The amounts owed to credit institutions relate to outstanding investment trades in trust funds that are not available for offset against the same counterparty under cash and cash equivalents. These positions would be rated A had they have been recorded under cash and cash equivalents. The long-term debt is due after one year, with its accrued interest due within one year.

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

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

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

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

The notes bear interest from, and including, 14 March 2018 at a fixed rate of 2% per annum annually in arrears starting 14 December 2018 until maturity on 14 December 2022.

On 14 March 2018, the notes were admitted for trading on the Luxembourg Stock Exchange's Euro MTF. The notes were rated BBB+ by S&P as well as by Fitch.

The fair value of the long-term debt is estimated at $787.3 million (2018: $706.3 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 increase in the carrying value of the long-term debt and accrued interest during the year comprises new debt issued at $nil million (2018: $380.3 million), the amortisation of the difference between the net proceeds received and the redemption amounts of $0.8 million (2018: $0.6 million) the movement in accrued interest of $0.2 million (2018: $nil million) plus exchange movements of $27.8 million (2018: less exchange movements of $53.9 million).

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

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

	2019 $m	2018 (restated)* $m
Debt and fixed income securities		
US Dollars	3,464.6	3,157.8
Sterling	961.6	831.0
Euro and other currencies	563.7	585.8
	4,989.9	4,574.6
Equities and investment funds		
US Dollars	265.5	237.3
Sterling	195.5	160.7
Euro and other currencies	25.4	–
	486.4	398.0
Deposits with credit institutions		
US Dollars	–	–
Sterling	–	–
Euro and other currencies	–	0.4
	–	0.4
Total investments	5,476.3	4,973.0

*Following a review of the underlying currency of the debt and fixed income securities, an amount of $67.9 million has been reclassified from US Dollars and Sterling to Euro and other currencies.

18 Loans and receivables including insurance receivables

	2019 $m	2018 $m
Gross receivables arising from insurance and reinsurance contracts	1,419.0	1,143.9
Provision for impairment	(7.4)	(2.1)
Net receivables arising from insurance and reinsurance contracts	1,411.6	1,141.8
Due from contract holders, brokers, agents and intermediaries	862.2	751.0
Due from reinsurance operations	549.4	390.8
	1,411.6	1,141.8
Prepayments and accrued income	16.9	26.1
Other loans and receivables:		
Net profit commission receivable	13.1	16.3
Accrued interest	22.3	20.9
Share of Syndicates' other debtors' balances	32.2	27.8
Other debtors including related party amounts	60.2	32.2
Total loans and receivables including insurance receivables	1,556.3	1,265.1

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

	2019 $m	2018 $m
Within one year	1,305.0	1,138.9
After one year	251.3	126.2
	1,556.3	1,265.1

There is no significant concentration of credit risk with respect to loans and receivables as the Group has a large number of internationally dispersed debtors. The Group has recognised a loss of $5.3 million (2018: gain of $0.1 million) for the impairment of receivables during the year ended 31 December 2019. This is recorded under operational expenses in the consolidated income statement. The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

19 Derivative financial instruments

The Group entered into both exchange-traded and over-the-counter derivative contracts for a number of purposes during 2019. The Group had the right and intention to settle each contract on a net basis. The assets and liabilities of these contracts at 31 December 2019 all mature within one year of the balance sheet date and are detailed below:

31 December 2019 Derivative financial instruments included on balance sheet	Gross contract notional amount $m	Fair value of assets $m	Fair value of liabilities $m	Net balance sheet position $m
Foreign exchange forward contracts	155.0	1.4	(0.6)	0.8
Interest rate futures contracts	82.4	0.1	–	0.1

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

Gross fair value of assets	124.5	28.0	152.5
Gross fair value of liabilities	(123.1)	(28.6)	(151.7)
	1.4	(0.6)	0.8

31 December 2018 Derivative financial instruments included on balance sheet	Gross contract notional amount $m	Fair value of assets $m	Fair value of liabilities $m	Net balance sheet position $m
Foreign exchange forward contracts	104.6	1.5	(0.6)	0.9
Interest rate futures contracts	118.5	–	(0.5)	(0.5)

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

Gross fair value of assets	72.6	32.9	105.5
Gross fair value of liabilities	(71.1)	(33.5)	(104.6)
	1.5	(0.6)	0.9

19 Derivative financial instruments continued

Foreign exchange forward contracts

During the current and prior year the Group entered into a series of conventional over-the-counter forward contracts in order to secure translation gains made on Euro, US Dollar and other non-Sterling denominated monetary assets. The contracts require the Group to forward sell a fixed amount of the relevant currency for Sterling at pre-agreed future exchange rates. The Group made a loss on these forward contracts of $1.5 million (2018: gain of $1.5 million) as included in the investment result in note 7. There was no initial purchase cost associated with these instruments.

Interest rate futures contracts

During the year the Group continued short selling a number of government bond futures denominated in a range of currencies to informally hedge substantially all of the interest rate risk on specific long portfolios of the matching currencies denominated corporate bonds. All contracts are exchange traded and the Group made a loss on these futures contracts of $0.7 million (2018: loss of $0.2 million) as included in the investment result in note 7.

Equity index options

During the year, no equity index futures were purchased.

20 Fair value measurements

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

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

As at 31 December 2018	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Debt and fixed income securities	1,509.0	3,065.6	–	4,574.6
Equities and investment funds	–	379.1	18.9	398.0
Deposits with credit institutions	0.4	–	–	0.4
Insurance-linked funds	–	–	55.2	55.2
Derivative financial instruments	–	1.5	–	1.5
Total	1,509.4	3,446.2	74.1	5,029.7
Financial liabilities				
Derivative financial instruments	–	1.1	–	1.1
Total	–	1.1	–	1.1

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

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

The fair values of the Group's financial assets are based on prices provided by investment managers who obtain market data 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.

20 Fair value measurements continued

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

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, long-term debt and exchange-traded equities which are measured based on quoted prices in active markets. The fair value of the long-term debt that is carried at amortised cost, is estimated at $787.3 million (2018: $706.3 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 a limited partnership, unquoted equity securities and insurance-linked funds which have limited observable inputs on which to measure fair value. Unquoted equities, including equity instruments in limited partnerships are carried at fair value. Fair value is determined to be net asset value for the limited partnerships, and for the equity holdings it is determined to be the latest available traded price. The effect of changing one or more inputs used in the measurement of fair value of these instruments to another reasonably possible assumption would not be significant. At 31 December 2019, the insurance-linked fund of $61.2 million represents the Group's investment in the Kiskadee Funds (2018: $55.2 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 7-9% change to the fair value of the liabilities would increase or decrease the fair value of the funds by $4.5 million to $5.2 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, there were no transfers made between Level 1, Level 2 or Level 3 of the fair value hierarchy.

20 Fair value measurements continued

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

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

*Fair value gains/(losses) are included within the investment result in the income statement for equities and investment funds and through other income for the insurance-linked fund.

	Financial assets		
31 December 2018	Equities and investment funds $m	Insurance-linked funds $m	Total $m
Balance at 1 January	15.4	49.9	65.3
Fair value gains or losses through profit or loss*	(0.4)	(3.1)	(3.5)
Foreign exchange losses	(0.7)	–	(0.7)
Purchases	5.0	9.3	14.3
Settlements	(0.4)	(0.9)	(1.3)
Closing balance	18.9	55.2	74.1
Unrealised gains and (losses) in the year on securities held at the end of the year	(0.4)	(3.1)	(3.5)

*Fair value gains/(losses) are included within the investment result in the income statement for equities and investment funds and through other income for the insurance-linked fund.

21 Cash and cash equivalents

	2019 $m	2018 $m
Cash at bank and in hand	903.2	1,124.3
Short-term deposits	212.7	164.5
Total	**1,115.9**	1,288.8

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

22 Share capital

Group	31 December 2019 Share capital $m	Number of shares 000	31 December 2018 Share capital $m	Number of shares 000
Authorised ordinary share capital of 6.5p (2018: 6.5p)	425.8	3,692,308	425.8	3,692,308
Issued ordinary share capital of 6.5p (2018: 6.5p)	34.1	296,108	34.0	295,315

The amounts presented in the equity structure of the Group above relate to Hiscox Ltd, the legal Parent Company.

Changes in Group share capital and contributed surplus	Ordinary share capital $000	Share premium $000	Contributed surplus $000
At 1 January 2018	33,913	45,849	183,969
Employee share option scheme – proceeds from shares issued	41	4,013	–
Scrip dividends to owners of the Company	32	7,818	–
At 31 December 2018	33,986	57,680	183,969
Employee share option scheme – proceeds from shares issued	28	3,595	–
Scrip dividends to owners of the Company	37	9,228	–
At 31 December 2019	**34,051**	**70,503**	**183,969**

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

During the year, the Group offered its shareholders the option of receiving a scrip dividend alternative to the interim cash dividend. This resulted in the Company paying the shareholders, who opted for a scrip dividend, in shares of equal value to the cash dividend at a specified date. The full dividend was distributed from retained earnings, and the new shares issued for the scrip dividend were reflected in share capital and share premium.

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

Share repurchase
The Trustees of the Group's Employee Benefit Trust did not purchase shares to facilitate the settlement of vesting awards under the Group's Performance Share Plan (2018: purchase of $76.5 million shares). As the trust is consolidated into the Group financial results, these purchases have been accounted for in the same way as treasury shares and have been charged against retained earnings. The shares are held by the trustees for the beneficiaries of the Trust.

Equity structure of Hiscox Ltd	Note	Number of ordinary shares in issue (thousands) 2019	Number of ordinary shares in issue (thousands) 2018
At 1 January		295,315	294,484
Employee share option scheme – ordinary shares issued		339	460
Scrip dividends to owners of the Company	29	454	371
At 31 December		**296,108**	295,315

All issued shares are fully paid.

Share options and Performance Share Plan awards
Performance Share Plan awards are granted to Directors and to senior employees. No exercise price is attached to performance plan awards, although their attainment is conditional on the employee completing three years' service (the vesting period) and the Group achieving targeted levels of returns on equity for pre-2018 awards and net asset value targets for awards from 2018. Share options are also conditional on the employees completing two or three years' service (the vesting period) or less under exceptional circumstances (death, disability, retirement or redundancy). The options are exercisable starting three years from the grant date only if the Group achieves its targets of return on equity or net asset value; the options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

In accordance with IFRS 2 the Group recognises an expense for the fair value of share option and Performance Share Plan award instruments issued to employees, over their vesting period through the income statement. The amount recognised in the consolidated income statement during the year was expense of $3.6 million (2018: income of $3.6 million). This comprises an expense of $2.7 million (2018: income of $4.6 million) in respect of Performance Share Plan awards and an expense of $0.9 million (2018: expense of $1.0 million) in respect of share option awards. The Group has applied the principles outlined in the Black-Scholes option pricing model when determining the fair value of each share option instrument.

22 Share capital continued

Share options and Performance Share Plan awards continued

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

Assumptions affecting inputs to fair value models	2019	2018
Annual risk-free rates of return and discount rates (%)	0.42-0.68	0.83-0.89
Long-term dividend yield (%)	2.39	3.05
Expected life of options (years)	3.25	3.25
Implied volatility of share price (%)	21.0	22.0
Weighted average share price (p)	1,555.3	1,497.8

The weighted average fair value of each share option granted during the year was 306.1p (2018: 302.5p). The weighted average fair value of each Performance Share Plan award granted during the year was 1,554.2p (2018: 1,492.9p).

Movements in the number of share options and Performance Share Plan awards during the year and details of the balances outstanding at 31 December 2019 for the Executive Directors are shown in the annual report on remuneration 2019. The total number of options and Performance Share Plan awards outstanding is 9,293,491 (2018: 9,804,430) of which 2,682,751 are exercisable (2018: 3,032,437). The total number of SAYE options outstanding is 1,530,653 (2018: 1,528,496).

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

For options issued after 1 January 2006 the assumptions regarding long-term dividend yield have been aligned to the progressive dividend policy announced during the 2005 Rights Issue.

23 Insurance liabilities and reinsurance assets

	Note	2019 $m	2018 $m
Gross			
Claims reported and claim adjustment expenses		2,259.0	1,957.2
Claims incurred but not reported		4,017.0	3,035.0
Unearned premiums		1,818.5	1,709.3
Total insurance liabilities, gross		8,094.5	6,701.5
Recoverable from reinsurers			
Claims reported and claim adjustment expenses		814.6	690.6
Claims incurred but not reported		2,106.4	1,356.5
Unearned premiums		465.9	409.5
Total reinsurers' share of insurance liabilities	16	3,386.9	2,456.6
Net			
Claims reported and claim adjustment expenses		1,444.4	1,266.6
Claims incurred but not reported		1,910.6	1,678.5
Unearned premiums		1,352.6	1,299.8
Total insurance liabilities, net		4,707.6	4,244.9

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

	2019 $m	2018 $m
Within one year	2,588.2	2,422.7
After one year	2,119.4	1,822.2
	4,707.6	4,244.9

The gross claims reported, the claims adjustment expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of 2019 and 2018 are not material.

23 Insurance liabilities and reinsurance assets continued

23.1 Insurance contracts assumptions

(a) Process used to decide on assumptions

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

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

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

The Group relies on actuarial analysis to estimate the settlement cost of future claims. 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 claim 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 claim 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.

(b) Claims development tables

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

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

23 Insurance liabilities and reinsurance assets continued
23.1 Insurance contracts assumptions
(b) Claims development tables continued
Insurance claims and claim adjustment expenses reserves – gross at 100%

Accident year	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	**2019 $m**	**Total $m**
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:	1,535.8	1,969.8	1,637.8	1,323.6	1,448.9	1,556.3	1,935.0	3,391.5	3,157.8	**3,358.1**	**21,314.6**
one year later	1,295.6	1,772.0	1,454.7	1,157.4	1,230.3	1,390.6	1,718.1	3,075.5	3,605.0	**–**	**16,699.2**
two years later	1,207.2	1,717.6	1,344.7	1,030.4	1,140.9	1,281.6	1,626.8	3,038.3	–	**–**	**12,387.5**
three years later	1,188.1	1,731.8	1,339.7	962.3	1,094.1	1,276.8	1,657.7	–	–	**–**	**9,250.5**
four years later	1,156.6	1,705.2	1,328.5	961.6	1,068.8	1,292.9	–	–	–	**–**	**7,513.6**
five years later	1,138.5	1,655.8	1,318.4	938.2	1,050.8	–	–	–	–	**–**	**6,101.7**
six years later	1,110.0	1,587.4	1,324.6	932.9	–	–	–	–	–	**–**	**4,954.9**
seven years later	1,092.6	1,547.4	1,301.8	–	–	–	–	–	–	**–**	**3,941.8**
eight years later	1,094.5	1,522.9	–	–	–	–	–	–	–	**–**	**2,617.4**
nine years later	1,085.8	–	–	–	–	–	–	–	–	**–**	**1,085.8**
Current estimate of cumulative claims	1,085.8	1,522.9	1,301.8	932.9	1,050.8	1,292.9	1,657.7	3,038.3	3,605.0	**3,358.1**	**18,846.2**
Cumulative payments to date	(1,040.1)	(1,502.7)	(1,172.2)	(877.4)	(934.7)	(1,040.8)	(1,280.7)	(1,895.9)	(1,565.7)	**(446.2)**	**(11,756.4)**
Liability recognised at 100% level	45.7	20.2	129.6	55.5	116.1	252.1	377.0	1,142.4	2,039.3	**2,911.9**	**7,089.8**
Liability recognised in respect of prior accident years at 100% level											**142.0**
Total gross liability to external parties at 100% level											**7,231.8**

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2019.

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

Accident year	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	**2019 $m**	**Total $m**
Current estimate of cumulative claims	1,085.8	1,522.9	1,301.8	932.9	1,050.8	1,292.9	1,657.7	3,038.3	3,605.0	**3,358.1**	**18,846.2**
Less: attributable to external Names	(171.6)	(220.6)	(168.6)	(100.4)	(112.6)	(132.7)	(182.6)	(412.8)	(471.7)	**(431.3)**	**(2,404.9)**
Group's share of current ultimate claims estimate	914.2	1,302.3	1,133.2	832.5	938.2	1,160.2	1,475.1	2,625.5	3,133.3	**2,926.8**	**16,441.3**
Cumulative payments to date	(1,040.1)	(1,502.7)	(1,172.2)	(877.4)	(934.7)	(1,040.8)	(1,280.7)	(1,895.9)	(1,565.7)	**(446.2)**	**(11,756.4)**
Less: attributable to external Names	160.3	213.6	152.9	91.6	99.1	107.3	139.9	252.6	201.8	**57.0**	**1,476.1**
Group's share of cumulative payments	(879.8)	(1,289.1)	(1,019.3)	(785.8)	(835.6)	(933.5)	(1,140.8)	(1,643.3)	(1,363.9)	**(389.2)**	**(10,280.3)**
Liability for 2010 to 2019 accident years recognised on Group's balance sheet	34.4	13.2	113.9	46.7	102.6	226.7	334.3	982.2	1,769.4	**2,537.6**	**6,161.0**
Liability for accident years before 2010 recognised on Group's balance sheet											**115.0**
Total Group liability to external parties included in balance sheet – gross**											**6,276.0**

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

23 Insurance liabilities and reinsurance assets continued
23.1 Insurance contracts assumptions
(b) Claims development tables continued
Insurance claims and claim adjustment expenses reserves – net of reinsurance at 100%

Accident year	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	**2019 $m**	**Total $m**
Estimate of ultimate claims costs as adjusted for foreign exchange* at end of accident year:	1,218.3	1,496.1	1,178.5	1,128.3	1,177.0	1,252.8	1,479.1	1,851.8	1,794.2	**1,785.7**	**14,361.8**
one year later	1,068.1	1,379.8	1,038.2	1,001.1	1,034.4	1,158.4	1,341.5	1,626.9	1,837.3	**–**	**11,485.7**
two years later	1,004.8	1,325.1	962.8	899.8	939.8	1,063.1	1,267.9	1,613.8	–	**–**	**9,077.1**
three years later	978.1	1,321.8	927.0	834.8	884.6	1,056.0	1,285.6	–	–	**–**	**7,287.9**
four years later	947.9	1,312.7	917.7	830.8	852.2	1,056.6	–	–	–	**–**	**5,917.9**
five years later	942.2	1,260.4	937.8	804.5	833.5	–	–	–	–	**–**	**4,778.4**
six years later	909.9	1,224.2	927.5	802.1	–	–	–	–	–	**–**	**3,863.7**
seven years later	894.9	1,191.8	910.2	–	–	–	–	–	–	**–**	**2,996.9**
eight years later	888.6	1,172.8	–	–	–	–	–	–	–	**–**	**2,061.4**
nine years later	885.2	–	–	–	–	–	–	–	–	**–**	**885.2**
Current estimate of cumulative claims	885.2	1,172.8	910.2	802.1	833.5	1,056.6	1,285.6	1,613.8	1,837.3	**1,785.7**	**12,182.8**
Cumulative payments to date	(849.0)	(1,162.0)	(812.6)	(751.6)	(709.9)	(815.2)	(976.8)	(1,127.9)	(930.1)	**(389.2)**	**(8,524.3)**
Liability recognised at 100% level	36.2	10.8	97.6	50.5	123.6	241.4	308.8	485.9	907.2	**1,396.5**	**3,658.5**
Liability recognised in respect of prior accident years at 100% level											**97.9**
Total net liability to external parties at 100% level											**3,756.4**

*The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2019.

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

Accident year	2010 $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	**2019 $m**	**Total $m**
Current estimate of cumulative claims	885.2	1,172.8	910.2	802.1	833.5	1,056.6	1,285.6	1,613.8	1,837.3	**1,785.7**	**12,182.8**
Less: attributable to external Names	(127.5)	(158.7)	(96.5)	(82.1)	(84.1)	(107.1)	(129.4)	(166.9)	(184.4)	**(195.9)**	**(1,332.6)**
Group's share of current ultimate claims estimate	757.7	1,014.1	813.7	720.0	749.4	949.5	1,156.2	1,446.9	1,652.9	**1,589.8**	**10,850.2**
Cumulative payments to date	(849.0)	(1,162.0)	(812.6)	(751.6)	(709.9)	(815.2)	(976.8)	(1,127.9)	(930.1)	**(389.2)**	**(8,524.3)**
Less: attributable to external Names	119.2	153.5	84.6	74.1	74.0	83.0	96.0	117.7	103.5	**46.5**	**952.1**
Group's share of cumulative payments	(729.8)	(1,008.5)	(728.0)	(677.5)	(635.9)	(732.2)	(880.8)	(1,010.2)	(826.6)	**(342.7)**	**(7,572.2)**
Liability for 2010 to 2019 accident years recognised on Group's balance sheet	27.9	5.6	85.7	42.5	113.5	217.3	275.4	436.7	826.3	**1,247.1**	**3,278.0**
Liability for accident years before 2010 recognised on Group's balance sheet											**77.0**
Total Group liability to external parties included in balance sheet – net**											**3,355.0**

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

23 Insurance liabilities and reinsurance assets continued

23.2 Movements in insurance claims liabilities and reinsurance claims assets

A reconciliation of the insurance claims liabilities is as follows:

Year ended 31 December	2019 Gross $m	2019 Reinsurance $m	2019 Net $m	2018 Gross $m	2018 Reinsurance $m	2018 Net $m
Total at beginning of year	4,992.2	(2,047.1)	2,945.1	4,350.6	(1,492.3)	2,858.3
Claims and claim adjustment expenses for the year	3,206.7	(1,630.6)	1,576.1	2,326.6	(1,100.8)	1,225.8
Cash paid for claims settled in the year	(1,940.6)	761.9	(1,178.7)	(1,567.2)	531.8	(1,035.4)
Foreign exchange and other adjustments	17.7	(5.2)	12.5	(117.8)	14.2	(103.6)
Total at end of year	6,276.0	(2,921.0)	3,355.0	4,992.2	(2,047.1)	2,945.1
Claims reported and claim adjustment expenses	2,259.0	(814.6)	1,444.4	1,957.2	(690.6)	1,266.6
Claims incurred but not reported	4,017.0	(2,106.4)	1,910.6	3,035.0	(1,356.5)	1,678.5
Total at end of year	6,276.0	(2,921.0)	3,355.0	4,992.2	(2,047.1)	2,945.1

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

Year ended 31 December	2019 Gross $m	2019 Reinsurance $m	2019 Net $m	2018 Gross $m	2018 Reinsurance $m	2018 Net $m
Current year claims and claim adjustment expenses	3,584.6	(1,982.6)	1,602.0	2,780.1	(1,227.8)	1,552.3
Over-provision in respect of prior year claims and claim adjustment expenses	(377.9)	352.0	(25.9)	(453.5)	127.0	(326.5)
Total claims and claim adjustment expenses	3,206.7	(1,630.6)	1,576.1	2,326.6	(1,100.8)	1,225.8

A reconciliation of the unearned premium reserves is as follows:

	2019 Gross $m	2019 Reinsurance $m	2019 Net $m	2018 Gross $m	2018 Reinsurance $m	2018 Net $m
Balance deferred at 1 January	1,709.3	(409.5)	1,299.8	1,657.2	(341.0)	1,316.2
Premiums written	4,030.7	(1,351.9)	2,678.8	3,778.4	(1,196.9)	2,581.5
Premiums earned through the income statement	(3,931.9)	1,296.3	(2,635.6)	(3,699.8)	1,126.2	(2,573.6)
Foreign exchange and other adjustments	10.4	(0.8)	9.6	(26.5)	2.2	(24.3)
Balance deferred at 31 December	1,818.5	(465.9)	1,352.6	1,709.3	(409.5)	1,299.8

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

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

	2019 $m	2018 $m
Gross premium written	4,030.7	3,778.3
Outward reinsurance premium	(1,351.9)	(1,196.8)
Net premium written	2,678.8	2,581.5
Change in gross unearned premium reserves	(98.8)	(78.6)
Change in reinsurers' share of unearned premium reserves	55.6	70.7
Change in net unearned premium reserves	(43.2)	(7.9)
Net premiums earned	2,635.6	2,573.6

24 Trade and other payables

	Note	2019 $m	2018 $m
Creditors arising out of direct insurance operations		139.4	74.1
Creditors arising out of reinsurance operations		823.1	664.8
		962.5	738.9
Share of Syndicates' other creditors' balances		2.9	5.8
Social security and other taxes payable		39.7	36.4
Lease liabilities		71.4	–
Other creditors		74.1	22.0
		188.1	64.2
Reinsurers' share of deferred acquisition costs	15	124.7	106.8
Accruals and deferred income		145.0	176.6
Total		1,420.3	1,086.5

Included within accruals and deferred income is $6.4 million (2018: $7.0 million) of deferred gain on retroactive reinsurance contracts.

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

	2019 $m	2018 $m
Within one year	1,317.1	947.6
After one year	103.2	138.9
	1,420.3	1,086.5

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

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

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

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

Maturity analysis – contractual undiscounted cash flows:

	2019 $m
Not later than one year	15.9
Later than one year and not later than five years	46.5
Later than five years	18.0
Total undiscounted lease liabilities at 31 December	80.4

The cost relating to variable lease payments that do not depend on an index or a rate amounted to $nil in the year ended 31 December 2019 (2018: $nil).

There were no leases with residual values guarantees. The leases not yet commenced to which the Group is committed amounted to $55.3 million (2018: $nil).

25 Tax expense

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

	2019 $m	2018 (restated)* $m
Current tax		
Expense for the year	36.0	28.0
Adjustments in respect of prior years	(7.0)	1.5
Total current tax expense	29.0	29.5
Deferred tax		
Credit for the year	(28.7)	(11.3)
Adjustments in respect of prior years	3.8	(1.0)
Effect of rate change	0.1	0.5
Total deferred tax credit	(24.8)	(11.8)
Total tax charged to the income statement	4.2	17.7

*See note 2.2 for further details.

The standard rate of corporation tax in Bermuda is 0% whereas the effective rate of tax for the Group is 8% (2018: 13%).

A reconciliation of the difference is provided below:

	2019 $m	2018 (restated)* $m
Profit before tax	53.1	135.6
Tax calculated at the standard corporation tax rate applicable in Bermuda: 0% (2018: 0%)	–	–
Effects of Group entities subject to overseas tax at different rates	7.9	4.4
Impact of overseas tax rates on:		
Effect of rate change	0.6	0.5
Expenses not deductible for tax purposes	1.2	9.7
Tax losses for which no deferred tax asset is recognised	1.6	5.3
Other	0.9	1.3
Adjustment for share-based payments	0.4	(0.2)
Non-taxable income	(5.2)	(3.8)
Prior year tax adjustments	(3.2)	0.5
Tax charge for the year	4.2	17.7

*See note 2.2 for further details.

The UK Finance Act 2015 introduced a new tax with effect from April 2015, the Diverted Profits Tax (DPT), which in certain situations applies a tax of 25% to income which would not otherwise be chargeable to UK tax. The Group has been proactively engaged in ongoing discussions with the UK's tax authority regarding taxing rights with respect to one long-standing intra-group arrangement. These discussions have now reached a conclusion with no assessment to DPT being raised. The Group therefore does not consider it probable that this transaction may be found to be subject to DPT and consequently no provision is made at 31 December 2019.

Uncertain tax positions

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

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

26 Deferred tax

Net deferred tax assets	2019 $m	2018 $m
Trading losses in overseas entities	51.5	47.6
Deferred tax assets	76.1	48.0
Deferred tax liabilities	(50.7)	(34.9)
Total deferred tax asset	76.9	60.7

Net deferred tax liabilities	2019 $m	2018 (restated)* $m
Deferred tax assets	–	–
Deferred tax liabilities	0.4	9.1
Total net deferred tax liability	0.4	9.1

*See note 2.2 for further details.

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

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

At 31 December	2018 (restated)* $m	Income statement (charge)/credit $m	Recognised in other comprehensive income/equity $m	Foreign exchange $m	2019 $m
Tangible assets	0.2	0.7	–	–	0.9
UK capital losses	0.8	(0.8)	–	–	–
Trade and other payables	2.9	1.0	–	0.1	4.0
Intangible assets – Syndicate capacity	1.6	(0.2)	–	0.1	1.5
Retirement benefit obligations	6.6	(1.5)	3.4	0.3	8.8
Open years of account	24.7	14.2	–	1.5	40.4
Unearned premium	–	8.3	–	–	8.3
Loss reserve discounting	–	5.7	–	–	5.7
Other items	11.2	(1.0)	(4.0)	0.3	6.5
Total deferred tax assets	48.0	26.4	(0.6)	2.3	76.1
Financial assets	(1.5)	0.4	–	(0.1)	(1.2)
Insurance contracts – equalisation provision	(18.2)	8.4	–	(0.5)	(10.3)
Reinsurance premiums	(15.2)	(8.2)	–	(0.9)	(24.3)
Deferred acquisition costs	–	(14.1)	–	–	(14.1)
Other items	–	(0.8)	–	–	(0.8)
Total deferred tax liabilities	(34.9)	(14.3)	–	(1.5)	(50.7)
Net total deferred tax assets/(liabilities)	13.1	12.1	(0.6)	0.8	25.4
Trading losses in overseas entities	47.6	4.0	–	(0.1)	51.5
Net total deferred tax assets/(liabilities)	13.1	12.1	(0.6)	0.8	25.4
Net deferred tax position asset/(liability)	60.7	16.1	(0.6)	0.7	76.9
Other	(9.1)	8.7	–	–	(0.4)
Net total deferred tax position liabilities	(9.1)	8.7	–	–	(0.4)
Net Group deferred tax asset/(liability)	51.6	24.8	(0.6)	0.7	76.5

*See note 2.2 for further details.

Following changes to the future UK main rate of corporation tax introduced in the Finance Act 2016, the deferred tax on the Syndicates' open years of account is calculated with reference to the tax rate expected to be in force when those years close. Equally, the deferred tax liability on equalisation provision is calculated at the tax rate expected to be applicable as it unwinds. All other UK deferred income tax assets and liabilities are calculated at 17% for the year ended 31 December 2019 (2018: 17%).

Movements in deferred and current tax relating to tax deductions arising on employee share options are recognised in the statement of changes in equity to the extent that the movement exceeds the corresponding charge to the income statement. Movements in deferred tax relating to the employee retirement benefit obligation are recognised in the statement of comprehensive income to the extent that the movement corresponds to actuarial gains and losses recognised in the statement of comprehensive income. The total recognised outside the income statement is $3.6 million income (2018: income of $0.1 million), comprising $0.5 million deferred tax expense and $4.1 million current tax income (2018: $3.9 million deferred tax expense and $4.0 million current tax income).

26 Deferred tax continued

Deferred tax assets of $51.5 million (2018: $47.6 million), relating to losses arising in overseas entities, which depend on the availability of future taxable profits, have been recognised. Business projections indicate it is probable that sufficient future taxable income will be available against which to offset these recognised deferred tax assets within five years. $12.3 million (2018: $4.9 million) of the tax losses to which these assets relate will expire within ten years; a further $39.2 million (2018: $42.7 million) will expire after ten years or will be available indefinitely. The Group has not provided for deferred tax assets totalling $18.5 million (2018: $13.9 million) in relation to losses in overseas companies of $102.9 million (2018: $76.9 million). In accordance with IAS 12, all deferred tax assets and liabilities are classified as non-current. The amount of deferred tax asset expected to be recovered after more than 12 months is $102.9 million (2018: $47.5 million).

27 Employee retirement benefit obligations

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

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

	2019 $m	2018 $m
Present value of scheme obligations	366.7	302.0
Fair value of scheme assets	(311.6)	(266.2)
Net amount recognised as a defined benefit obligation	55.1	35.8

As the present value of scheme obligations exceeds the fair value of the scheme assets, the scheme reports a deficit.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit actuarial cost method. A formal full actuarial valuation is performed on a triennial basis, most recently at 31 December 2017, and updated at each intervening balance sheet date by the actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of AA rated corporate bonds that have terms to maturity that approximate to the terms of the related pension liability.

The scheme assets are invested are as follows:

At 31 December	2019 $m	2018* $m
Investment assets		
Pooled investment vehicles	219.1	190.0
Equities	70.9	50.5
Bonds	7.4	5.7
Derivatives	0.1	(0.1)
Cash	14.1	20.1
	311.6	266.2

*On review of the 2018 net scheme assets available for benefits, two investment funds previously presented under bonds and equities have been reclassified consistent with their 2019 classification and in line with their underlying investment category. This reclassification had no impact on net assets and no impact upon the fund account.

27 Employee retirement benefit obligations continued

The amounts recognised in total comprehensive income are as follows:

	Note	2019 $m	2018 $m
Past service cost		–	0.1
Interest cost on defined benefit obligation		8.6	9.2
Interest income on plan assets		(7.6)	(7.6)
Net interest cost		1.0	1.6
Administrative expenses and taxes		–	0.5
Total expense recognised in operational expenses in the income statement	9	1.0	2.2
Remeasurements			
Effect of changes in actuarial assumptions		52.6	(46.3)
Return on plan assets (excluding interest income)		(32.8)	22.0
Remeasurement of third-party Names share of defined benefit obligation		(3.3)	4.1
Total remeasurement included in other comprehensive income		16.5	(20.2)
Total defined benefit credit recognised in comprehensive income		17.5	(18.0)

In October 2018, the High Court in the UK issued a ruling to address inequalities in the calculation of guaranteed minimum pensions (GMPs) for members of pension schemes. This ruling requires pension funds to increase the benefits of some members of the pension scheme.

The Group has completed an estimate of the impact of the ruling on the scheme using one of the methods identified by the High Court (C2) for equalising GMPs. The Group has concluded that nothing further has occurred during 2019 that would cause the allowance to be amended. Therefore, no charge has been recognised in 2019 (2018: $85,000).

The movement in liability recognised in the Group's balance sheet is as follows:

	2019 $m	2018 $m
Group defined benefit liabilities at beginning of year	35.8	64.1
Third-party Names' share of liability	(6.6)	(10.7)
Net defined benefit liability at beginning of year	29.2	53.4
Defined benefit cost included in net income	1.0	2.2
Contribution by employer	(3.6)	(3.7)
Credit from third-party Names	(0.2)	(0.4)
Foreign exchange movements	1.7	(2.1)
Total remeasurement included in other comprehensive income	16.5	(20.2)
Net defined benefit liability at end of year	44.6	29.2
Third-party Names' share of liability	10.5	6.6
Group defined benefit liability at end of year	55.1	35.8

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

	2019 $m	2018 $m
Opening fair value of scheme assets	266.2	305.5
Interest income	7.6	7.6
Cash flows		
Contribution by the employer	3.6	3.7
Benefit payments	(10.4)	(8.7)
Administration expenses	–	(0.5)
Remeasurements		
Return on plan assets (excluding interest income)	32.8	(22.0)
Foreign exchange movements	11.8	(19.4)
Closing fair value of scheme assets	311.6	266.2

27 Employee retirement benefit obligations continued

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

	2019 $m	2018 $m
Opening present value of scheme obligations	302.0	369.6
Past service cost	–	0.1
Interest expense	8.6	9.3
Cash flows		
Benefit payments	(10.4)	(8.7)
Remeasurements		
Changes in actuarial assumptions	52.6	(46.3)
Foreign exchange movements	13.9	(22.0)
Closing present value of scheme obligations	366.7	302.0

Assumptions regarding future mortality experience are set based on the S2PA light tables. Reductions in future mortality rates are allowed for by using the CMI 2017 projections (core model) with 1.25% p.a. long-term trend for improvements.

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

	2019 years	2018 years
Male	27.9	27.9
Female	29.0	28.9

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

	2019 years	2018 years
Male	29.0	28.9
Female	30.2	30.1

The weighted average duration of the defined benefit obligation at 31 December 2019 was 20.5 years (2018: 19.3 years).

Other principal actuarial assumptions are as follows:

	2019 %	2018 %
Discount rate	2.10	2.90
Inflation assumption (RPI)	2.90	3.10
Inflation assumption (CPI)	1.90	2.10
Pension increases	2.90	3.10

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

The triennial valuation carried out as at 31 December 2017 resulted in a deficit position of £26.5 million ($35.8 million) on a funding basis. The Group and the scheme's trustees have agreed a recovery plan to reduce the deficit and to eliminate the deficit by 2024. A funding contribution of £2.8 million ($3.6 million) was paid during 2019 and under the plan a further payment of £2.8 million ($3.6 million) will be made during 2020 and annually thereafter. The funding plan will be reviewed again following the next triennial funding valuation which will have an effective date of 31 December 2020.

While management believes that the actuarial assumptions are appropriate, any significant changes to those could affect the balance sheet and income statement. For example, an additional one year of life expectancy for all scheme members would increase the scheme obligations by £11.8 million ($15.6 million) at 31 December 2019 (2018: £8.8 million ($11.2 million), and would increase the recorded net deficit on the balance sheet by the same amounts.

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

27 Employee retirement benefit obligations continued

The Group has estimated the sensitivity of the net obligation recognised in the consolidated balance sheet to isolated changes in these assumptions at 31 December 2019 as follows:

	Present value of unfunded obligations before change in assumption $m	Present value of unfunded obligations after change $m	(Increase) /decrease in obligation recognised on balance sheet $m
Effect of a change in discount rate			
Use of discount rate of 2.35%	55.1	37.2	17.9
Use of discount rate of 1.85%	55.1	74.4	(19.3)
Effect of a change in inflation			
Use of RPI inflation assumption of 3.15%	55.1	61.5	(6.4)
Use of RPI inflation assumption of 2.65%	55.1	49.2	5.9

28 Earnings per share

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

Basic	2019	2018 (restated)*
Profit for the year attributable to the owners of the Company ($m)	48.9	117.9
Weighted average number of ordinary shares (thousands)	284,015	283,564
Basic earnings per share (cents per share)	17.2¢	41.6¢
Basic earnings per share (pence per share)	13.5p	31.2p

*See note 2.2 for further details.

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.

	2019	2018 (restated)*
Profit for the year attributable to the owners of the Company ($m)	48.9	117.9
Weighted average number of ordinary shares in issue (thousands)	284,015	283,564
Adjustments for share options (thousands)	4,361	5,650
Weighted average number of ordinary shares for diluted earnings per share (thousands)	288,376	289,214
Diluted earnings per share (cents per share)	16.9¢	40.8¢
Diluted earnings per share (pence per share)	13.3p	30.6p

*See note 2.2 for further details.

Diluted earnings per share has been calculated after taking account of 4,067,881 (2018: 5,103,924) Performance Share Plan awards and 293,028 (2018: 546,186) options under Save As You Earn schemes.

29 Dividends paid to owners of the Company

	2019 $m	2018 $m
Final dividend for the year ended:		
31 December 2018 of 28.6¢ (net) per share	81.4	–
31 December 2017 of 19.5p or 27.2¢ (net) per share	–	76.0
Interim dividend for the year ended:		
31 December 2019 of 13.75¢ (net) per share	39.5	–
31 December 2018 of 13.25¢ (net) per share	–	37.5
	120.9	113.5

The final dividend for the year ended 31 December 2018 was either paid in cash or issued as a scrip dividend equivalent of 28.6¢ per share. The final dividend for the year ended 31 December 2018 was paid in cash of $75.2 million (2018: $71.5 million) and 296,044 shares for the scrip dividend (2018: 263,368).

The interim dividends for 2019 and 2018 were either paid in cash or issued as a scrip dividend at the option of the shareholder. The interim dividend for the year ended 31 December 2019 was paid in cash of $36.4 million (2018: $35.7 million) and 157,487 shares for the scrip dividend (2018: 107,896).

From the 2018 interim dividend, dividends have been and will continue to be declared in US Dollars, aligning shareholder returns with the primary currency in which the Group generates cash flow.

The Board has declared a final dividend of 29.6¢ per share to be paid on 10 June 2020 to shareholders registered on 15 May 2020, taking the total ordinary dividend per share for the year to 43.35¢ (2018: 41.85¢). The dividends will be paid in Sterling unless shareholders elect to be paid in US Dollars. The foreign exchange rates at which future dividends declared in US Dollars will be calculated is 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 26 May 2020 to 1 June 2020 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.

30 Contingencies and guarantees

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

The following guarantees have also been issued:

(a) Hiscox Dedicated Corporate Member Limited (HDCM) and Hiscox Capital Ltd (HCL) provide assets under a Security and Trust Deed charged to Lloyd's of London, to meet any liabilities they occur from their interest in Syndicates 33 and 3624. At 31 December 2019, HDCM held $433.4 million of investments, $40.7 million of cash and a $25.0 million Letter of Credit in favour of Lloyd's of London under this arrangement. At 31 December 2019, HCL held $622.4 million of investments (2018: $571.9 million), $38.6 million of cash and a $25.0 million Letter of Credit in favour of Lloyd's of London under this arrangement.

(b) Hiscox plc continued with its Letter of Credit and revolving credit facility with Lloyds Banking Group, as agent for a syndicate of banks, at $800.0 million (2018: $800.0 million) which may be drawn in cash (under a revolving credit facility), Letter of Credit or a combination thereof. The terms also provide that upon request the facility may be drawn in a currency other than US Dollar. At 31 December 2019 $50.0 million (2018: $50.0 million) was utilised by way of Letter of Credit to support the Funds at Lloyd's requirement and no cash drawings were outstanding (2018: $nil).

(c) Hiscox Insurance Company Limited has arranged a Letter of Credit of £50,000 (2018: £50,000) with NatWest Bank plc to support its consortium activities with Lloyd's; the arrangement is collateralised with cash of £50,000 (2018: £50,000).

(d) The Council of Lloyd's has the discretion to call a contribution of up to 3% of capacity if required from the managed Syndicates.

(e) As Hiscox Insurance Company (Bermuda) Limited (Hiscox Bermuda) is not an admitted insurer or reinsurer in the USA, the terms of certain US insurance and reinsurance contracts require Hiscox Bermuda to provide Letters of Credit or other terms of collateral to clients. Hiscox Bermuda has in place a Letter of Credit Reimbursement and Pledge Agreement with Citibank for the provision of a Letter of Credit facility in favour of USA ceding companies and other jurisdictions, and also Letter of Credit facility agreements with National Australia Bank and Commerzbank AG. The agreements combined are a three-year secured facility that allowed Hiscox Bermuda to request the issuance of up to $470.0 million in Letters of Credit (2018: $600.0 million).

30 Contingencies and guarantees continued

Letters of Credit issued under these facilities are collateralised by cash, US government and corporate securities of Hiscox Bermuda. Letters of Credit under these facilities totalling $150.8 million were issued with an effective date of 31 December 2019 (2018: $130.0 million on a $600 million facility) and these were collateralised by US government and corporate securities with a fair value of $172.9 million (2018: $152.8 million). In addition, Hiscox Bermuda maintained assets in trust accounts to collateralise obligations under various reinsurance agreements. At 31 December 2019 total cash and marketable securities with a carrying value of approximately $9.3 million (2018: $10.7 million) was held in external trusts. Cash and marketable securities with an approximate market value of $476.3 million (2018: $611.6 million) were held in trust in respect of internal quota share arrangements. Additionally, in 2019, $35.9 million (2018: $24.8 million) was maintained in a trust account for credit enhancement purposes.

(f) Hiscox SA has arranged bank guarantees with respect to their various office deposits for a total of €412,000 (2018: €249,000). These guarantees are held with ING Bank (Belgium) €23,000 (2018:€14,000), ABN Amro (Holland) €45,000 (2018: €33,000), HypoVereinsbank – UniCredit (Germany) €135,000 (2018: €160,000) ING Bank (Luxembourg) $42,000 (2018: €42,000) and HSBC (Spain) €167,000 (2018: nil). As a consequence of the cross-border merger with Hiscox Europe Underwriting Limited effective 1 January 2019, Hiscox SA have the obligations under guarantees that were previously held by Hiscox Europe Underwriting Limited during 2018.

(g) See note 25 for a tax-related contingent liability.

31 Capital commitments and income from subleasing

Capital commitments

The Group's capital expenditure contracted for at the balance sheet date but not yet incurred for property, plant, equipment and software development was $0.7 million (2018: $1.4 million). In addition, please refer to note 27 related to the Groups' funding contributions commitment to the defined benefit scheme.

Income from subleasing

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

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

	2019 $m	2018 $m
No later than one year	**0.7**	0.7
Later than one year and no later than five years	**0.4**	1.1
	1.1	1.8

32 Principal subsidiary companies of Hiscox Ltd at 31 December 2019

Company	Nature of business	Country
Hiscox plc*	Holding company	Great Britain
Hiscox Insurance Company Limited	General insurance	Great Britain
Hiscox Insurance Company (Guernsey) Limited*	General insurance	Guernsey
Hiscox Holdings Inc.	Holding company	USA (Delaware)
ALTOHA, Inc.	Insurance holding company	USA (Delaware)
Hiscox Insurance Company Inc.	General insurance	USA (Illinois)
Hiscox Inc.	Insurance intermediary	USA (Delaware)
Hiscox Insurance Company (Bermuda) Limited*	General insurance and reinsurance	Bermuda
Hiscox Dedicated Corporate Member Limited	Lloyd's corporate Name	Great Britain
Hiscox Holdings Limited**	Insurance holding company	Great Britain
Hiscox Syndicates Limited	Lloyd's managing agent	Great Britain
Hiscox ASM Ltd.	Insurance intermediary	Great Britain
Hiscox Underwriting Group Services Limited	Service company	Great Britain
Hiscox Capital Ltd*	Reinsurance	Bermuda
Hiscox Underwriting Ltd	Underwriting agent	Great Britain
Hiscox Société Anonyme*	General insurance	Luxembourg
Hiscox Assure SAS	Insurance intermediary	France
Direct Asia Insurance (Holdings) Pte Ltd	Holding company	Singapore
Direct Asia Insurance (Singapore) Pte Limited	General insurance	Singapore

*Held directly.
**Hiscox Holdings Limited held 38,030 shares in Hiscox Ltd at 31 December 2019 (2018: 38,030).

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

33 Related-party transactions

Details of the remuneration of the Group's key personnel, presented in Sterling, are shown in the annual report on remuneration 2019 on pages 68 to 81. A number of the Group's key personnel hold insurance contracts with the Group, all of which are on normal commercial terms and are not material in nature.

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

(a) Syndicate 33 at Lloyd's

Related-party balances between Group companies and Syndicate 33 reflect the 27.4% interest (2018: 27.4%) that the Group does not own, and are as follows.

	Transactions in the income statement for the year ended		Balances outstanding (payable) at	
	31 December 2019 $m	31 December 2018 (restated)* $m	**31 December 2019 $m**	31 December 2018 $m
Hiscox Syndicates Limited	**3.3**	9.6	**0.5**	6.4
Hiscox Group insurance carriers	**(34.6)**	(14.3)	**(130.5)**	(67.4)
Hiscox Group insurance intermediaries	**5.8**	3.5	**(6.7)**	(6.9)
Other Hiscox Group companies	**31.1**	31.6	**0.4**	10.5
	5.6	30.4	**(136.3)**	(57.4)

*Following a review, the 2018 comparatives for transactions in the income statement have been restated to include Hiscox Underwriting Group Services Limited, under other Hiscox Group companies. There is no impact on the reported Group's balance sheet, income statement and cash flow statement.

(b) Transactions with associates

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

	2019 $m	2018 $m
Gross premium income achieved through associates	**13.7**	1.5
Commission expense charged by associates	**3.6**	5.1
Amounts payable to associates at 31 December	**–**	–
Amounts receivable through associates at 31 December	**51.5**	41.1

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

(c) Internal reinsurance arrangements

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

34 Post balance sheet event

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

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 International Financial Reporting Standards (IFRS). The Group believes that these measures provide useful information to enhance the understanding of its financial performance. These APMs are: premium growth in local currency, combined claims and expense ratios, return on equity, net asset value per share and net tangible asset value per share and prior-year developments. These are common measures used across the industry, and allow the reader of 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 IFRS.

Following the change in the functional currency at the beginning of 2018, which has significantly reduced the impact of foreign exchange movements to the Group's profit or loss, the Directors decided to stop disclosing the profit excluding foreign exchange gains/(losses) key performance measure. This APM is deemed as no longer providing meaningful information.

Premium growth in local currency

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

Combined claims and expense ratios

The combined claims and expense ratios are common measures enabling comparability across the insurance industry that measure the relevant underwriting profitability of the business by reference to its costs as a proportion of its net earned premium. The Group calculates the combined ratio as if the Group owned all of the business, including the proportion of Syndicate 33 that the Group does not own (Group controlled income). The Group does this to enable comparability from period to period as the business mix may change in a segment between insurance carriers, and this enables the Group to measure all of its underwriting businesses on an equal measure. The calculation is discussed further in note 4, operating segments. The combined ratio excluding foreign exchange gains 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 shared-based payment structures. The ROE is shown in note 6, along with an explanation of the calculation.

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

The Group uses NAV per share as one of its key performance metrics, including using the movement of NAV per share in the calculation of the options vesting of awards granted under Performance Share Plans (PSP) from 2018 onwards. This is a widely used key measure for management and also for users of the financial statements to provide comparability across peers in the market. Net tangible asset value comprises total equity excluding intangible assets. NAV per share and net tangible asset value per share are shown in note 5, along with an explanation of the calculation.

Prior-year developments

Prior-year developments are a measure of favourable or adverse development that existed at the prior balance sheet date. It enables the users of the financial statements to compare and contrast the Group's performance relative to peer companies. The Group maintains a prudent approach to reserving, to help mitigate the uncertainty within the reserve estimates. The prior-year development is calculated as the positive or negative movement in ultimate losses on prior accident years between the current and prior-year balance sheet date, as shown in note 23.

Five-year summary

	2019 $m	2018 (restated)* $m	2017 (restated)* $m	2016 (restated)* $m	2015 (restated)* $m
Results					
Gross premiums written	**4,030.7**	3,778.3	3,286.0	3,257.9	2,972.7
Net premiums written	**2,678.8**	2,581.5	2,403.0	2,424.5	2,403.3
Net premiums earned	**2,635.6**	2,573.6	2,416.2	2,271.3	2,194.1
Profit before tax	**53.1**	135.6	37.8	480.0	329.3
Profit for the year after tax	**48.9**	117.9	22.7	447.2	312.5
Assets employed					
Intangible assets	**278.0**	204.6	186.0	153.4	185.5
Financial assets carried at fair value	**5,539.0**	5,029.7	5,139.6	4,702.1	4,294.7
Cash and cash equivalents	**1,115.9**	1,288.8	867.8	824.4	1,070.0
Insurance liabilities and reinsurance assets	**(4,707.6)**	(4,244.9)	(4,174.4)	(3,778.7)	(3,689.0)
Other net assets	**(35.6)**	(19.2)	298.2	316.2	354.8
Net assets	**2,189.7**	2,259.0	2,317.2	2,217.4	2,216.0
Net asset value per share (¢)	**768.2**	798.6	817.1	792.5	790.0
Key statistics					
Basic earnings per share (¢)	**17.2**	41.6	8.1	159.0	108.5
Basic earnings per share (p)	**13.5**	31.2	9.3	119.8	72.8
Diluted earnings per share (¢)	**16.9**	40.8	11.6	157.3	107.8
Diluted earnings per share (p)	**13.3**	30.6	9.0	116.0	70.5
Combined ratio (%)	**105.7**	94.9	99.9	84.2	85.0
Return on equity (%)	**2.2**	5.3	1.0	22.5	15.6
Dividends per share (¢)	**43.4**	41.9	39.8	35.0	36.1
Dividends per share (p)	**33.5**	32.8	29.0	27.5	24.0
Share price – high† (p)	**1,777.0**	1,711.0	1,470.0	1,097.0	1,059.0
Share price – low† (p)	**1,213.0**	1,332.0	997.5	900.5	707.5

*See note 2.2 for further details.
†Closing mid-market prices.

The five-year summary is unaudited.

Designed by Em-Project Limited
www.em-project.com

Printed by Pureprint
www.pureprint.com

Illustrations by Adam Nickel
www.synergyart.co.uk

Photography by
Elizabeth Trujillo, BlushPix Photography
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